

ENZO BIOCHEM INC  
Form 10-Q  
June 09, 2010

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
  
**FORM 10-Q**

Mark one

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

For the quarterly period ended April 30, 2010

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 001-09974

**ENZO BIOCHEM, INC.**

(Exact name of registrant as specified in its charter)

New York

13-2866202

(State or Other Jurisdiction  
of Incorporation or Organization)

(IRS. Employer  
Identification No.)

527 Madison Ave, New York, New York

10022

(Address of Principal Executive office)

(Zip Code)

212-583-0100

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant has required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 45 of Regulation S-T (§232.405 of that chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files).

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Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐  
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.)

Yes ☐ No ☒

As of June 1, 2010 the Registrant had approximately 38,150,800 shares of common stock outstanding.

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ENZO BIOCHEM, INC.  
FORM 10-Q  
April 30, 2010

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**Part 1** Financial Information**Item 1** Financial Statements

**ENZO BIOCHEM, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share data)

|                                                                                                                                          | April 30,<br>2010<br>(unaudited) | July 31,<br>2009<br>(audited) |
|------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|-------------------------------|
| <b>ASSETS</b>                                                                                                                            |                                  |                               |
| Current assets:                                                                                                                          |                                  |                               |
| Cash and cash equivalents                                                                                                                | \$ 8,597                         | \$ 6,929                      |
| Short term investments                                                                                                                   | 25,805                           | 43,306                        |
| Accounts receivable, net of allowances                                                                                                   | 12,038                           | 12,480                        |
| Inventories                                                                                                                              | 10,191                           | 9,264                         |
| Prepaid expenses and other                                                                                                               | 2,101                            | 2,482                         |
| Total current assets                                                                                                                     | 58,732                           | 74,461                        |
| Property, plant and equipment, net                                                                                                       | 11,927                           | 11,323                        |
| Goodwill                                                                                                                                 | 24,773                           | 24,896                        |
| Intangible assets, net                                                                                                                   | 20,664                           | 22,009                        |
| Other                                                                                                                                    | 392                              | 439                           |
| Total assets                                                                                                                             | \$ 116,488                       | \$ 133,128                    |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                              |                                  |                               |
| Current liabilities:                                                                                                                     |                                  |                               |
| Accounts payable - trade                                                                                                                 | \$ 4,531                         | \$ 4,242                      |
| Accrued liabilities                                                                                                                      | 6,526                            | 8,426                         |
| Other current liabilities                                                                                                                | 1,048                            | 1,062                         |
| Deferred taxes                                                                                                                           | 195                              | 213                           |
| Total current liabilities                                                                                                                | 12,300                           | 13,943                        |
| Deferred revenue                                                                                                                         |                                  | 38                            |
| Deferred taxes                                                                                                                           | 2,148                            | 2,366                         |
| Commitments and contingencies                                                                                                            |                                  |                               |
| Stockholders' equity:                                                                                                                    |                                  |                               |
| Preferred Stock, \$.01 par value; authorized 25,000,000 shares; no shares issued or outstanding                                          |                                  |                               |
| Common Stock, \$.01 par value; authorized 75,000,000 shares; shares issued: 38,774,611 at April 30, 2010 and 38,589,880 at July 31, 2009 | 388                              | 386                           |
| Additional paid-in capital                                                                                                               | 306,242                          | 306,280                       |
| Less treasury stock at cost: 623,848 shares at April 30, 2010 and 735,554 at July 31, 2009                                               | (8,854)                          | (10,440)                      |
| Accumulated deficit                                                                                                                      | (196,441)                        | (179,721)                     |
| Accumulated other comprehensive income                                                                                                   | 705                              | 276                           |
| Total stockholders' equity                                                                                                               | 102,040                          | 116,781                       |
| Total liabilities and stockholders' equity                                                                                               | \$ 116,488                       | \$ 133,128                    |

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



**ENZO BIOCHEM, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(UNAUDITED)**  
(in thousands, except per share data)

|                                                 | Three Months Ended<br>April 30, |                   | Nine Months Ended<br>April 30, |                    |
|-------------------------------------------------|---------------------------------|-------------------|--------------------------------|--------------------|
|                                                 | 2010                            | 2009              | 2010                           | 2009               |
| Revenues:                                       |                                 |                   |                                |                    |
| Product revenues                                | \$ 11,089                       | \$ 10,479         | \$ 32,599                      | \$ 29,952          |
| Royalty and license fee income                  | 1,894                           | 1,963             | 7,044                          | 6,783              |
| Clinical laboratory services                    | 10,805                          | 10,619            | 32,494                         | 28,306             |
|                                                 | <u>23,788</u>                   | <u>23,061</u>     | <u>72,137</u>                  | <u>65,041</u>      |
| Operating expenses:                             |                                 |                   |                                |                    |
| Cost of product revenues                        | 5,394                           | 6,812             | 15,771                         | 20,208             |
| Cost of clinical laboratory services            | 7,588                           | 6,543             | 21,623                         | 19,115             |
| Research and development                        | 2,479                           | 2,425             | 7,273                          | 6,645              |
| Selling, general, and administrative            | 12,070                          | 10,026            | 36,841                         | 29,633             |
| Provision for uncollectible accounts receivable | 650                             | 715               | 2,073                          | 3,949              |
| Legal                                           | (127)                           | 859               | 1,030                          | 3,356              |
| Litigation settlement and related legal costs   |                                 |                   | 3,698                          |                    |
|                                                 | <u>28,054</u>                   | <u>27,380</u>     | <u>88,309</u>                  | <u>82,906</u>      |
| Total operating expenses                        |                                 |                   |                                |                    |
|                                                 | <u>28,054</u>                   | <u>27,380</u>     | <u>88,309</u>                  | <u>82,906</u>      |
| Operating loss                                  | (4,266)                         | (4,319)           | (16,172)                       | (17,865)           |
| Other income (expense):                         |                                 |                   |                                |                    |
| Interest                                        | (1)                             | 17                | 13                             | 569                |
| Other                                           | 84                              | (43)              | 39                             | 108                |
| Foreign currency (loss) gain                    | (216)                           | 119               | (384)                          | (837)              |
|                                                 | <u>(4,399)</u>                  | <u>(4,226)</u>    | <u>(16,504)</u>                | <u>(18,025)</u>    |
| Loss before income taxes                        | (4,399)                         | (4,226)           | (16,504)                       | (18,025)           |
| Provision for income taxes                      | (177)                           | (16)              | (216)                          | (260)              |
|                                                 | <u>(4,576)</u>                  | <u>(4,242)</u>    | <u>(16,720)</u>                | <u>(18,285)</u>    |
| Net loss                                        | <u>\$ (4,576)</u>               | <u>\$ (4,242)</u> | <u>\$ (16,720)</u>             | <u>\$ (18,285)</u> |
| Net loss per common share:                      |                                 |                   |                                |                    |
| Basic and Diluted                               | <u>\$ (0.12)</u>                | <u>\$ (0.11)</u>  | <u>\$ (0.44)</u>               | <u>\$ (0.49)</u>   |
| Weighted average common shares outstanding:     |                                 |                   |                                |                    |
| Basic and Diluted                               | <u>38,095</u>                   | <u>37,484</u>     | <u>37,950</u>                  | <u>37,423</u>      |

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

**ENZO BIOCHEM, INC**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
**AND COMPREHENSIVE LOSS**  
**Nine months ended April 30, 2010**  
**(UNAUDITED)**  
**(In thousands, except share data)**

|                                                           | <b>Common<br/>Stock<br/>Shares</b> | <b>Treasury<br/>Stock<br/>Shares</b> | <b>Common<br/>Stock<br/>Amount</b> | <b>Additional<br/>Paid-in<br/>Capital</b> | <b>Treasury<br/>Stock<br/>Amount</b> | <b>Accumulated<br/>Deficit</b> | <b>Accumulated<br/>Other<br/>Comprehensive<br/>Income</b> | <b>Total<br/>Stockholders'<br/>Equity</b> | <b>Comprehensive<br/>Loss</b> |
|-----------------------------------------------------------|------------------------------------|--------------------------------------|------------------------------------|-------------------------------------------|--------------------------------------|--------------------------------|-----------------------------------------------------------|-------------------------------------------|-------------------------------|
| Balance at July 31, 2009                                  | 38,589,880                         | 735,554                              | \$ 386                             | \$ 306,280                                | \$ (10,440)                          | \$ (179,721)                   | \$ 276                                                    | \$ 116,781                                |                               |
| Net loss for the period ended April 30, 2010              |                                    |                                      |                                    |                                           |                                      | (16,720)                       |                                                           | (16,720)                                  | \$ (16,720)                   |
| Vesting of restricted stock                               | 184,731                            |                                      | 2                                  |                                           |                                      |                                |                                                           | 2                                         |                               |
| Stock based compensation charges                          |                                    |                                      |                                    | 851                                       |                                      |                                |                                                           | 851                                       |                               |
| Issuance of treasury stock for employee 401(k) plan match |                                    | (111,706)                            |                                    | (889)                                     | 1,586                                |                                |                                                           | 697                                       |                               |
| Foreign currency translation adjustments                  |                                    |                                      |                                    |                                           |                                      |                                | 429                                                       | 429                                       | 429                           |
| Comprehensive loss                                        |                                    |                                      |                                    |                                           |                                      |                                |                                                           |                                           | \$ (16,291)                   |
| Balance at April 30, 2010                                 | 38,774,611                         | 623,848                              | \$ 388                             | \$ 306,242                                | \$ (8,854)                           | \$ (196,441)                   | \$ 705                                                    | \$ 102,040                                |                               |

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

**ENZO BIOCHEM, INC**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**  
**(in thousands)**

|                                                                             | <b>Nine Months Ended<br/>April 30,</b> |             |
|-----------------------------------------------------------------------------|----------------------------------------|-------------|
|                                                                             | <b>2010</b>                            | <b>2009</b> |
| Cash flows from operating activities:                                       |                                        |             |
| Net loss                                                                    | \$ (16,720)                            | \$ (18,285) |
| Adjustments to reconcile net loss to net cash used in operating activities: |                                        |             |
| Depreciation and amortization of property, plant and equipment              | 2,050                                  | 1,533       |
| Amortization of intangible assets                                           | 1,174                                  | 818         |
| Provision for uncollectible accounts receivable                             | 2,073                                  | 3,949       |
| Write off and/or reserve taken for obsolete inventory                       | (9)                                    | 175         |
| Deferred income tax benefit                                                 | (136)                                  | (237)       |
| Share based compensation charges                                            | 851                                    | 1,016       |
| Deferred revenue recognized                                                 | (337)                                  | (358)       |
| Foreign currency loss on intercompany loan                                  | 237                                    | 813         |
| Issuance of treasury stock for 401(k) employer match                        | 697                                    | 582         |
| Changes in operating assets and liabilities:                                |                                        |             |
| Accounts receivable                                                         | (1,574)                                | (2)         |
| Inventories                                                                 | (798)                                  | 1,649       |
| Prepaid expenses                                                            | 388                                    | 721         |
| Accounts payable trade                                                      | 336                                    | (1,836)     |
| Accrued liabilities                                                         | (1,759)                                | 883         |
| Other current liabilities                                                   | 286                                    | (158)       |
| Total adjustments                                                           | 3,479                                  | 9,548       |
| Net cash used in operating activities                                       | (13,241)                               | (8,737)     |
| Cash flows from investing activities:                                       |                                        |             |
| Purchases of short term investments                                         | (177,028)                              | (273,956)   |
| Maturities of short term investments                                        | 194,529                                | 226,253     |
| Capital expenditures                                                        | (2,569)                                | (2,156)     |
| Decrease in security deposits and other assets                              | 25                                     | 368         |
| Acquisition, including costs paid                                           |                                        | (12,738)    |
| Net cash provided by (used in) investing activities                         | 14,957                                 | (62,229)    |
| Cash flows from financing activities:                                       |                                        |             |
| Proceeds from the exercise of stock options                                 |                                        | 348         |
| Net cash provided by financing activities                                   |                                        | 348         |
| Effect of exchange rate changes on cash and cash equivalents                | (48)                                   | (150)       |
| Increase (decrease) in cash and cash equivalents                            | 1,668                                  | (70,768)    |
| Cash and cash equivalents - beginning of period                             | 6,929                                  | 78,322      |
| Cash and cash equivalents - end of period                                   | \$ 8,597                               | \$ 7,554    |



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

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### ENZO BIOCHEM, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of April 30, 2010  
and for the nine month period ended  
April 30, 2010 and 2009  
(Unaudited)

#### Note 1 Basis of Presentation

The accompanying consolidated financial statements include the accounts of Enzo Biochem, Inc. and its wholly-owned subsidiaries, Enzo Clinical Labs, Enzo Life Sciences, Enzo Therapeutics and Enzo Realty LLC, collectively referred to as the Company or Companies. The consolidated balance sheet as of April 30, 2010, the consolidated statement of stockholders' equity and comprehensive loss for the nine months ended April 30, 2010, the consolidated statements of cash flows for the nine months ended April 30, 2010 and 2009, and the consolidated statements of operations for the three and nine months ended April 30, 2010 and 2009, are unaudited. In the opinion of management, all adjustments (which include normal recurring adjustments) necessary to present fairly the financial position and operating results for the interim periods have been made. Certain information and footnote disclosure, normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States, have been condensed or omitted. The consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended July 31, 2009 and notes thereto contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission. The consolidated balance sheet at July 31, 2009 has been derived from the audited financial statements at that date. The results of operations for the three and nine months ended April 30, 2010 are not necessarily indicative of the results that may be expected for the fiscal year ending July 31, 2010.

#### *Recent Accounting Pronouncements*

Effective August 1, 2009, the Company adopted The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC or Codification) of Generally Accepted Accounting Principles Overall. The Codification established one source for all U.S. GAAP and became the source of authoritative accounting principles for nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification is not intended to change existing GAAP and as such did not have an impact on the consolidated financial statements of the Company.

The adoption of the following accounting standards and updates during the first nine months of fiscal 2010 did not result in a significant impact to our consolidated financial statements.

Effective August 1, 2009, we adopted the revised accounting standard relating to business combinations, including assets acquired and liabilities assumed arising from contingencies. This standard requires the use of the acquisition method of accounting, defines the acquirer, establishes the acquisition date and applies to all transactions and other events in which one entity obtains control over one or more other businesses. Upon our adoption of this standard, we will be required to expense certain transaction costs and related fees associated with business combinations that were previously capitalized. In addition, with the adoption of this standard, changes to valuation allowances for acquired deferred income tax assets and adjustments to unrecognized tax benefits acquired generally are to be recognized as adjustments to income tax expense rather than goodwill.

Effective August 1, 2009, we adopted the accounting standard regarding the determination of the useful life of intangible assets that removes the requirement to consider whether an intangible asset can be renewed without substantial cost or material modifications to the existing terms and conditions, and replaces it with a requirement that an entity consider its own historical experience in renewing similar arrangements, or a consideration of market participant assumptions in the absence of historical experience. This standard also requires entities to disclose information that enables users of financial statements to assess the extent to which the expected future cash flows associated with the asset are affected by the entity's intent and/or ability to renew or extend the arrangements.

*Reclassifications*

Certain amounts in fiscal 2009 have been reclassified to conform to current year presentation. In fiscal 2009, the Company reclassified certain payroll taxes and employee benefits included in selling, general and administrative expense to cost of sales. The payroll taxes and benefits reclassified were approximately \$401,000 and \$1,162,000, respectively for the three and nine months ended April 30, 2009.

Note 2 Short-term Investments

At April 30, 2010 and July 31, 2009, the Company's short-term investments, whose fair value approximates cost, are in U.S. Government Treasury bills, which are purchased at discounts with remaining maturities of less than ninety days.

The Company has adopted the accounting pronouncement that establishes a common definition for fair value to be applied to existing GAAP that require the use of fair value measurements, establishes a framework for measuring fair value and expands disclosure about such fair value measurements. The adoption of the pronouncement did not have an impact on the Company's financial position or operating results, but did expand certain disclosures.

The pronouncement defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Additionally, the pronouncement requires the use of valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized below:

*Level 1:* Observable inputs such as quoted market prices in active markets for identical assets or liabilities.

*Level 2:* Observable market-based inputs or unobservable inputs that are corroborated by market data.

*Level 3:* Unobservable inputs for which there is little or no market data, which require the use of the reporting entity's own assumptions.

At April 30, 2010 and July 31, 2009, the Company's short-term investments are classified as Level 1 assets.

Note 3 Acquisitions

**Assay Designs, Inc.**

On March 12, 2009, Enzo Life Sciences, Inc. and Enzo Life Sciences Acquisition, Inc., a newly formed wholly owned subsidiary of Enzo Life Sciences, Inc. ( "Acquisition Sub" ), entered into an asset purchase agreement ( "Purchase Agreement" ) with Assay Designs, Inc. ( "Assay Designs" ). Assay Designs, a privately owned company with annual sales of approximately \$11 million, was engaged in researching, developing, manufacturing, distributing, marketing and selling specialty immunological and biochemical protein detection kits, assays, reagents, antibodies, recombinant proteins and related products and providing related services for use in the biotechnology, pharmaceutical and life sciences research industries ( "Business" ). Under the terms of the Purchase Agreement, Acquisition Sub purchased from Assay Designs substantially all of its assets, including trade accounts receivable, inventory, fixed assets, and intellectual property, used in or related to the Business and assumed certain of Assay Designs' liabilities, including trade accounts payable, capital lease obligations and certain other current liabilities.

The execution of the Purchase Agreement and the closing of the transaction occurred simultaneously on March 12, 2009. The purchase price consisted of \$12,228,000 in cash, exclusive of acquisition costs of approximately \$540,000, and was subject to an upward or downward post-closing purchase price adjustment based on Assay Designs' working capital as of the closing date, \$100,000 of which was held in escrow for approximately 60-90 days to secure the payment of any downward post-closing purchase price adjustment and \$750,000 of which was held in escrow for 12 months to secure the payment of any indemnification obligations of Assay Designs under the Purchase Agreement. The \$100,000 and \$750,000 were released by the escrow agent in June 2009 and March 2010, respectively. Subsequent to the acquisition date, the Company paid \$270,000 in additional purchase price in connection with the working capital adjustment and released the escrow amounts. The cost of the acquisition included costs to consolidate a leased facility and the involuntary termination of certain employees, which occurred during the measurement period. The Assay Designs Acquisition strengthened the Company's position as a global provider of life sciences reagents by broadening our product offerings and manufacturing capabilities.

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The acquisition was funded with the Company's cash. Effective March 12, 2009, Assay Designs became a wholly-owned subsidiary of Enzo Life Sciences. The consolidated financial statements include the results of operations for Assay Designs from the date of acquisition.

The following table presents the fair values of the assets acquired and liabilities assumed (in thousands):

|                           |           |
|---------------------------|-----------|
| Current assets            | \$ 4,235  |
| Property and equipment    | 1,747     |
| Other assets              | 11        |
| Intangible assets         | 6,360     |
| Goodwill                  | 1,823     |
|                           | <hr/>     |
| Total assets acquired     | 14,176    |
|                           | <hr/>     |
| Less:                     |           |
| Current liabilities       | 1,115     |
|                           | <hr/>     |
| Total liabilities assumed | 1,115     |
|                           | <hr/>     |
| Net assets acquired       | \$ 13,061 |
|                           | <hr/>     |

The purchase price allocation is based on a valuation of acquired tangible and intangible assets based on the final valuation completed in fiscal 2010. The Company determined the fair value of the identifiable intangible assets based on various factors including: cost, discounted cash flow and relief from royalty approaches in determining the purchase price allocation. The excess of the total purchase price over the fair value of the net assets acquired, including the estimated fair value of the identifiable intangible assets, has been allocated to goodwill.

### **Biomol International, L.P.**

On May 8, 2008, Enzo Life Sciences, Inc. acquired substantially all of the U.S. based assets and certain liabilities of Biomol International, LP (Biomol LP) through a newly formed US subsidiary Biomol International, Inc. and all of the stock of Biomol's wholly-owned United Kingdom subsidiary, Affinity Limited, through Axxora UK, a wholly-owned subsidiary of Enzo Life Sciences, collectively referred to as Biomol for approximately \$18.1 million in cash and stock, subject to adjustment, exclusive of acquisition costs of approximately \$800,000 and two contingent earn-out payments accounted for as additional purchase consideration if and when the contingencies are resolved beyond a reasonable doubt. At closing, the purchase price was satisfied as follows: \$12.9 million in cash was paid to Biomol LP, issuance of 352,000 shares of Enzo common stock, at fair market value, to Biomol LP, \$1.5 million in cash was paid to an escrow agent for the two-year period following the closing to satisfy any indemnification obligations of the sellers under the Agreement and \$550,000 was paid to an escrow agent, for the 60 day period following the closing to satisfy any specified purchase price adjustments. The \$550,000 and \$1.5 million were released by the escrow agent in August 2008 and May 2010, respectively. The earn-outs of \$2.5 million on each of the next two anniversaries of the acquisition date will be based on attaining certain revenue and EBITDA targets, as defined. The Agreement provides for the delivery of the earn-out statement within 75 days of the respective anniversary dates. Biomol was a privately owned, closely held global manufacturer and marketer of specialty life sciences research products. Effective May 8, 2008, Biomol became a wholly-owned subsidiary of Enzo Life Sciences. The acquisition was financed with the Company's cash and cash equivalents and Enzo common stock. The consolidated financial statements include the results of operations for Biomol from the date of acquisition. Effective February 2, 2009, the names of Biomol International, Inc. and Affinity Limited were changed to Enzo Life Sciences International, Inc. and Enzo Life Sciences (UK) Ltd., respectively.

In June 2009, the conditions for the first annual earn-out of \$2.5 million were met and the Company recorded \$2.5 million of additional goodwill. The Company issued 202,196 shares of Enzo common stock at fair value and paid \$1.5 million in cash to satisfy the \$2.5 million earn-out liability. As of June 9, 2010, the calculation of the second and final earn-out has not been finalized.

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The following table presents the fair values of the assets acquired and liabilities assumed (in thousands):

|                           |           |
|---------------------------|-----------|
| Current assets            | \$ 5,167  |
| Property and equipment    | 939       |
| Other assets              | 18        |
| Intangible assets         | 7,660     |
| Goodwill                  | 9,226     |
|                           | <hr/>     |
| Total assets acquired     | 23,010    |
|                           | <hr/>     |
| Less:                     |           |
| Current liabilities       | 1,100     |
| Deferred tax liabilities  | 609       |
|                           | <hr/>     |
| Total liabilities assumed | 1,709     |
|                           | <hr/>     |
| Net assets acquired       | \$ 21,301 |
|                           | <hr/>     |

The purchase price allocation is based on a valuation of acquired tangible and intangible assets based on the final valuation completed in fiscal 2009. The Company determined the fair value of the identifiable intangible assets based on various factors including: cost, discounted cash flow and relief from royalty approaches in determining the purchase price allocation. The excess of the total purchase price over the fair value of the net assets acquired, including the estimated fair value of the identifiable intangible assets, has been allocated to goodwill.

For financial reporting purposes, useful lives for the intangibles acquired in the acquisitions have been assigned as follows:

|                        |            |
|------------------------|------------|
| Customer relationships | 8-15 years |
| Trademarks             | Indefinite |
| Other intangibles      | 4-5 years  |

The following unaudited pro forma financial information presents the combined results of operations of the Company and the acquisition completed in fiscal 2009 as if the acquisition had occurred as of August 1, 2008. The pro forma financial information reflects appropriate adjustments primarily for amortization of intangible assets and interest expense. The pro forma financial information presented is not necessarily indicative of either the actual consolidated operating results had the acquisitions been completed at the beginning of each period or future operating results of the consolidated entities.

| In thousands (except per share amounts)     | Three months<br>ended<br>April 30, 2009 | Nine months<br>ended<br>April 30, 2009 |
|---------------------------------------------|-----------------------------------------|----------------------------------------|
| Net revenues                                | \$ 24,444                               | \$ 73,079                              |
| Net loss                                    | (4,258)                                 | (18,752)                               |
|                                             | <hr/>                                   | <hr/>                                  |
| Net loss per common share basic and diluted | \$ (0.11)                               | \$ (0.50)                              |
|                                             | <hr/>                                   | <hr/>                                  |

### Note 4 Net loss per share

Basic net income (loss) per share represents net income (loss) divided by the weighted average number of common shares outstanding during the period. The dilutive effect of potential common shares, consisting of outstanding stock options and unvested restricted stock, is determined using the treasury stock method. Diluted weighted average shares outstanding for the three and nine months ended April 30, 2010 and 2009 do not include the potential common shares from stock options and unvested restricted stock because to do so would have been antidilutive. Accordingly, basic and diluted net loss per share is the same during these periods.

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The following table summarizes the potential number of shares issued from exercise of in the money stock options, net of shares repurchased with the option exercise proceeds and potential shares from restricted stock awards, which are excluded from the computation of diluted net loss per share.

| (In thousands)                                                                                                                                                                   | Three months ended<br>April 30, |      | Nine months ended<br>April 30, |      |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|------|--------------------------------|------|
|                                                                                                                                                                                  | 2010                            | 2009 | 2010                           | 2009 |
| Potential net shares, issued from exercise of in the money employee and director stock options and restricted stock awards, excluded from diluted net loss per share calculation |                                 |      |                                | 39   |

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The following table summarizes the number of out of the money options excluded from the computation of diluted net loss per share because the effect of their potential exercise is anti-dilutive.

| (In thousands)                                       | Three months ended<br>April 30, |       | Nine months ended<br>April 30, |       |
|------------------------------------------------------|---------------------------------|-------|--------------------------------|-------|
|                                                      | 2010                            | 2009  | 2010                           | 2009  |
| Out of the money employee and director stock options | 1,132                           | 1,785 | 1,163                          | 1,743 |

### Note 5 Share-based compensation

The following table sets forth the amount of expense related to share-based payment arrangements included in specific line items in the accompanying statements of operations:

| In thousands                         | Three months ended<br>April 30, |               | Nine months ended<br>April 30, |                 |
|--------------------------------------|---------------------------------|---------------|--------------------------------|-----------------|
|                                      | 2010                            | 2009          | 2010                           | 2009            |
| Cost of clinical laboratory services | \$ 3                            | \$            | \$ 9                           | \$ 3            |
| Research and development             | 4                               | 2             | 10                             | 30              |
| Selling, general and administrative  | 264                             | 299           | 832                            | 983             |
|                                      | <u>\$ 271</u>                   | <u>\$ 301</u> | <u>\$ 851</u>                  | <u>\$ 1,016</u> |

No excess tax benefits were recognized during the three and nine month periods ended April 30, 2010 and 2009.

### *Stock option plans*

A summary of the activity relating to the Company's stock option plans for the nine month period ended April 30, 2010 is as follows:

|                                              | Options          | Weighted<br>Average<br>Exercise Price | Aggregate<br>Intrinsic<br>Value |
|----------------------------------------------|------------------|---------------------------------------|---------------------------------|
| Outstanding at August 1, 2009                | 1,191,519        | \$ 14.41                              | \$                              |
| Exercised                                    |                  | \$                                    |                                 |
| Cancelled                                    | (59,069)         | \$ 16.14                              |                                 |
| Outstanding and exercisable at end of period | <u>1,132,450</u> | <u>\$ 14.32</u>                       | <u>\$</u>                       |

As of April 30, 2010, there was no unrecognized compensation cost related to unvested stock option-based compensation.

During the nine months ended April 30, 2009, the Company received cash proceeds of approximately \$348,000 from the exercise of 44,586 stock options. The aggregate intrinsic value of stock options exercised during the nine months ended April 30, 2009, including the non-cash transactions (Note 6) was approximately \$1.4 million.

### *Restricted Stock Awards*

A summary of the activity pursuant to the Company's restricted stock awards for the nine months ended April 30, 2010 is as follows:

|               |                             |
|---------------|-----------------------------|
| <b>Awards</b> | <b>Weighted<br/>Average</b> |
|---------------|-----------------------------|

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|                            |           | <b>Award Price</b> |
|----------------------------|-----------|--------------------|
| Unvested at August 1, 2009 | 377,400   | \$ 6.05            |
| Awarded                    | 220,110   | \$ 5.60            |
| Vested                     | (184,731) | \$ (6.25)          |
| Forfeited                  | (5,100)   | \$ (11.64)         |
| Unvested at end of period  | 407,679   | \$ 5.65            |

The fair value of a restricted stock award is determined based on the closing stock price on the award date. As of April 30, 2010, there was approximately \$2.0 million of total unrecognized compensation cost related to unvested restricted stock-based compensation to be recognized over a weighted average remaining period of twenty two months.

The total number of shares available for grant as stock options or award as restricted stock is approximately 186,700 as of April 30, 2010.



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Note 6 Supplemental disclosure for statement of cash flows

Supplemental information with respect to the Company's consolidated statements of cash flows is as follows (In thousands):

|                  | <b>Nine months ended<br/>April 30,</b> |             |
|------------------|----------------------------------------|-------------|
|                  | <b>2010</b>                            | <b>2009</b> |
| Taxes paid - net | \$ 162                                 | \$ 181      |

During the nine months ended April 30, 2009, certain officers of the Company exercised 206,576 stock options in a non-cash transaction. The officers surrendered 99,985 shares of previously acquired common stock to exercise the stock options. The Company recorded approximately \$1.1 million, the market value of the surrendered shares, as treasury stock. There were no stock options exercises during the nine months ended April 30, 2010.

Note 7 Comprehensive loss and Accumulated Other Comprehensive Income

During the three months ended April 30, 2010 and 2009, total comprehensive loss was approximately \$4.4 million and \$4.0 million, respectively. During the nine months ended April 30, 2010 and 2009, total comprehensive loss was approximately \$16.3 million and \$20.1 million, respectively.

Note 8- Inventories

At April 30, 2010 and July 31, 2009 inventories, net of reserves of \$1.0 million consist of:

| <b>In<br/>thousands</b> | <b>April 30,<br/>2010</b> | <b>July 31,<br/>2009</b> |
|-------------------------|---------------------------|--------------------------|
| Raw materials           | \$ 840                    | \$ 499                   |
| Work in process         | 2,174                     | 1,801                    |
| Finished products       | 7,177                     | 6,964                    |
|                         | <b>\$ 10,191</b>          | <b>\$ 9,264</b>          |

Note 9 Goodwill and intangible assets

The Company's change in the net carrying amount of goodwill by business segment is as follows (in thousands):

|                              | <b>Enzo Life<br/>Sciences</b> | <b>Enzo<br/>Clinical<br/>Labs</b> | <b>Total</b>     |
|------------------------------|-------------------------------|-----------------------------------|------------------|
| Balance August 1, 2009       | \$ 17,444                     | \$ 7,452                          | \$ 24,896        |
| Other                        | 20                            |                                   | 20               |
| Foreign currency translation | (143)                         |                                   | (143)            |
| Balance April 30, 2010       | <b>\$ 17,321</b>              | <b>\$ 7,452</b>                   | <b>\$ 24,773</b> |

Intangible assets, all of which are included in the Life Sciences segment, consist of the following (in thousands):

| <b>April 30, 2010</b> |            | <b>July 31, 2009</b> |            |
|-----------------------|------------|----------------------|------------|
| <b>Gross</b>          | <b>Net</b> | <b>Gross</b>         | <b>Net</b> |

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|                                       |           | Accumulated<br>Amortization |           |           | Accumulated<br>Amortization |           |
|---------------------------------------|-----------|-----------------------------|-----------|-----------|-----------------------------|-----------|
| Finite-lived intangible assets:       |           |                             |           |           |                             |           |
| Patents                               | \$ 11,027 | \$ (10,122)                 | \$ 905    | \$ 11,027 | (10,030)                    | \$ 997    |
| Customer relationships                | 12,019    | (1,920)                     | 10,099    | 12,125    | (1,190)                     | 10,935    |
| Non-compete and employment agreements | 469       | (365)                       | 104       | 469       | (280)                       | 189       |
| Website and acquired content          | 1,001     | (442)                       | 559       | 1,005     | (303)                       | 702       |
| Licensed technology and other         | 617       | (256)                       | 361       | 588       | (83)                        | 505       |
| Indefinitely-lived intangible assets: |           |                             |           |           |                             |           |
| Trademarks                            | 8,636     |                             | 8,636     | 8,681     |                             | 8,681     |
| Total                                 | \$ 33,769 | \$ (13,105)                 | \$ 20,664 | \$ 33,895 | \$ (11,886)                 | \$ 22,009 |

At April 30, 2010, the weighted average useful life of finite-lived intangible assets was approximately nine and a half years.

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## Note 10 Accrued Liabilities and Other Current Liabilities

At April 30, 2010 and July 31, 2009, accrued liabilities consist of:

| <b>In<br/>thousands</b>            | <b>April 30,<br/>2010</b> | <b>July 31,<br/>2009</b> |
|------------------------------------|---------------------------|--------------------------|
| Legal                              | \$ 394                    | \$ 1,095                 |
| Payroll, benefits, and commissions | 2,429                     | 2,737                    |
| Research and development           | 702                       | 656                      |
| Professional fees                  | 1,868                     | 1,752                    |
| Other                              | 1,133                     | 2,186                    |
|                                    | <b>\$ 6,526</b>           | <b>\$ 8,426</b>          |

At April 30, 2010 and July 31, 2009, other current liabilities consist of:

| <b>In<br/>thousands</b>               | <b>April 30,<br/>2010</b> | <b>July 31,<br/>2009</b> |
|---------------------------------------|---------------------------|--------------------------|
| Deferred revenue                      | 550                       | 850                      |
| State and local taxes, tax on capital | 330                       |                          |
| Other                                 | 168                       | 212                      |
|                                       | <b>\$ 1,048</b>           | <b>\$ 1,062</b>          |

Self-Insured Medical Plan - In an attempt to help offset the cost of rising health care expenses, beginning in February 2010, the Company began self-funding medical insurance coverage for certain of its U.S. based employees. The risk to the Company is being limited through the use of individual and aggregate stop loss insurance. As of April 30, 2010, the Company has established a reserve of \$0.4 million, which is included in accrued liabilities, for claims that have been reported but not paid and incurred but not reported. The reserve is based upon the Company's historical claim experience and will be adjusted based on actual claim settlements and reported claims.

## Note 11 - Income taxes

At the end of each interim reporting period, the Company estimates its effective income tax rate expected to be applicable for the full year. This estimate is used to determine the income tax provision or benefit on a year-to-date basis and may change in subsequent interim periods.

The Company's effective tax rate provision for the three months ended April 30, 2010 was 4.0% compared to 0.4% during the three months ended April 30, 2009. The tax provision for the three months ended April 30, 2010 and 2009 was based on state and local taxes, domestic and foreign tax for tax deductible goodwill and indefinite lived intangibles, and book to tax differences for acquired inventory.

The Company's effective tax rate provision for the nine months ended April 30, 2010 was 1.3% compared to 1.4% during the nine months ended April 30, 2009. The tax provision for the nine months ended April 30, 2010 and 2009 was based on state and local taxes, domestic and foreign tax for tax deductible goodwill and indefinite lived intangibles, and book to tax differences for acquired inventory.

The Company's effective tax rate for both periods differed from the expected net operating loss carryforward benefit at the U.S. federal statutory rate of 34% primarily due to the inability to recognize such benefit. The carryforward benefit cannot be recognized because of uncertainties relating to future taxable income in terms of both its timing and its sufficiency, which would enable the Company to realize the federal carryforward benefit.

The Company files a consolidated Federal income tax return. The Company files a combined California, and New York State and City return with certain subsidiaries. Other subsidiaries file separate state and foreign tax returns. With few exceptions, the periods that remain subject to examination are fiscal years ended July 31, 2007 through 2009. In connection with a business combination,

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the Company recorded as of May 31, 2007 approximately \$300,000 for an uncertain tax position, including accrued interest of \$39,000, with respect to a deemed dividend. During the nine months ended April 30, 2010, the Company reduced the balance of this liability by approximately \$106,000 and recognized a corresponding tax benefit as a result of the expiration of the statute of limitations. The Company's policy is to recognize interest and penalties accrued on any uncertain tax positions as a component of income tax expense.

### Note 12 Royalty and licensing income

In fiscal 2005, the Company as plaintiff finalized and executed a settlement and license agreement with Digene Corporation to settle a patent litigation lawsuit (the Agreement). Digene Corporation was acquired by QIAGEN. The license agreement with the Company was assigned to QIAGEN Gaithersburg Inc. (Qiagen).

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The Agreement provides for the Company to receive quarterly running royalties on the net sales of Qiagen products subject to the license until the expiration of the patent in April 2018. During the three months ended April 30, 2010 and 2009, the Company recorded royalties from the Agreement of approximately \$1.1 million and \$1.3 million, respectively, and during both nine month periods ended April 30, 2010 and 2009 recorded approximately \$4.8 million.

During both three months periods ended April 30, 2010 and 2009, the Company recorded \$0.7 million of royalties and license fee income under a licensing agreement with Abbott Molecular, Inc. ( Abbott ) entered into in fiscal 2007. During the nine months ended April 30, 2010 and 2009, the Company recorded \$2.2 million and \$2.0 million in royalties and license fee income respectively, from this agreement.

### Note 13 Segment reporting

The Company has three reportable segments: Life Sciences, Therapeutics, and Clinical Labs. The Company's Life Sciences segment develops, manufactures, and markets products to research and pharmaceutical customers. The Company's Therapeutic segment conducts research and development activities for therapeutic drug candidates. The Clinical Labs segment provides diagnostic services to the health care community. The Company evaluates segment performance based on segment income (loss) before taxes. Costs excluded from segment income (loss) before taxes and reported as Other, consist of corporate general and administrative costs which are not allocable to the three reportable segments.

Management of the Company assesses assets on a consolidated basis only and, therefore, assets by reportable segment have not been included in the reportable segments below. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies.

The following financial information (in thousands) represents the operating results of the reportable segments of the Company:

### **Three months ended April 30, 2010**

|                                                 | <u>Life<br/>Sciences</u> | <u>Therapeutics</u> | <u>Clinical<br/>Labs</u> | <u>Other</u>   | <u>Consolidated</u> |
|-------------------------------------------------|--------------------------|---------------------|--------------------------|----------------|---------------------|
| <b><u>Revenues:</u></b>                         |                          |                     |                          |                |                     |
| Product revenues                                | \$ 11,089                |                     |                          |                | \$ 11,089           |
| Royalty and license fee income                  | 1,894                    |                     |                          |                | 1,894               |
| Clinical laboratory services                    |                          |                     | \$ 10,805                |                | 10,805              |
|                                                 | <u>12,983</u>            |                     | <u>10,805</u>            |                | <u>23,788</u>       |
| <b><u>Operating expenses:</u></b>               |                          |                     |                          |                |                     |
| Cost of product revenues                        | 5,394                    |                     |                          |                | 5,394               |
| Cost of clinical laboratory services            |                          |                     | 7,588                    |                | 7,588               |
| Research and development                        | 1,858                    | \$ 621              |                          |                | 2,479               |
| Provision for uncollectible accounts receivable |                          |                     | 650                      |                | 650                 |
| Selling, general and administrative and legal   | 5,054                    |                     | 4,801                    | \$ 2,088       | 11,943              |
|                                                 | <u>12,306</u>            | <u>621</u>          | <u>13,039</u>            | <u>2,088</u>   | <u>28,054</u>       |
| Total operating expenses                        |                          |                     |                          |                |                     |
|                                                 | <u>12,306</u>            | <u>621</u>          | <u>13,039</u>            | <u>2,088</u>   | <u>28,054</u>       |
| Operating income (loss)                         | 677                      | (621)               | (2,234)                  | (2,088)        | (4,266)             |
| <b><u>Other income (expense)</u></b>            |                          |                     |                          |                |                     |
| Interest                                        | (2)                      |                     |                          | 1              | (1)                 |
| Other                                           | 77                       |                     | 7                        |                | 84                  |
| Foreign exchange loss                           | (216)                    |                     |                          |                | (216)               |
|                                                 | <u>536</u>               | <u>(621)</u>        | <u>(2,227)</u>           | <u>(2,087)</u> | <u>(4,399)</u>      |
| Income (loss) before income taxes               | \$ 536                   | \$ (621)            | \$ (2,227)               | \$ (2,087)     | \$ (4,399)          |
| Depreciation and amortization included above    | \$ 744                   | \$ 12               | \$ 249                   | \$ 33          | \$ 1,037            |

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Share-based compensation included in above:

|                                               |    |     |    |     |        |
|-----------------------------------------------|----|-----|----|-----|--------|
| Cost of clinical laboratory services          | \$ |     | 3  | \$  | 3      |
| Research and development                      |    | 4   | \$ |     | 4      |
| Selling, general and administrative and legal |    | 16  | \$ | 21  | \$ 227 |
|                                               |    |     |    |     | 264    |
| Total                                         | \$ | 20  | \$ | 24  | \$ 227 |
|                                               |    |     |    |     | 271    |
| Capital expenditures                          | \$ | 257 | \$ | 268 | \$ 525 |

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Three months ended April 30, 2009

|                                                    | Life<br>Sciences | Therapeutics | Clinical<br>Labs | Other      | Consolidated |
|----------------------------------------------------|------------------|--------------|------------------|------------|--------------|
| <u>Revenues:</u>                                   |                  |              |                  |            |              |
| Product revenues                                   | \$ 10,479        |              |                  |            | \$ 10,479    |
| Royalty and license fee income                     | 1,963            |              |                  |            | 1,963        |
| Clinical laboratory services                       |                  |              | \$ 10,619        |            | 10,619       |
|                                                    | 12,442           |              | 10,619           |            | 23,061       |
| <u>Operating expenses:</u>                         |                  |              |                  |            |              |
| Cost of product revenues                           | 6,812            |              |                  |            | 6,812        |
| Cost of clinical laboratory services               |                  |              | 6,543            |            | 6,543        |
| Research and development                           | 1,572            | \$ 853       |                  |            | 2,425        |
| Provision for uncollectible accounts receivable    |                  |              | 715              |            | 715          |
| Selling, general, and administrative and legal     | 3,909            |              | 3,781            | \$ 3,195   | 10,885       |
| Total operating expenses                           | 12,293           | 853          | 11,039           | 3,195      | 27,380       |
| Operating income (loss)                            | 149              | (853)        | (420)            | (3,195)    | (4,319)      |
| <u>Other income (expense):</u>                     |                  |              |                  |            |              |
| Interest                                           |                  |              |                  | 17         | 17           |
| Other                                              | (54)             |              | 11               |            | (43)         |
| Foreign exchange gain                              | 119              |              |                  |            | 119          |
| Income (loss) before income taxes                  | \$ 214           | \$ (853)     | \$ (409)         | \$ (3,178) | \$ (4,226)   |
| Depreciation and amortization included above       | \$ 548           | \$ 13        | \$ 230           | \$ 38      | \$ 829       |
| <u>Share-based compensation included in above:</u> |                  |              |                  |            |              |
| Cost of clinical laboratory services               | \$               | \$           | \$               | \$         | \$           |
| Research and development                           |                  | 2            |                  |            | 2            |
| Selling, general and administrative and legal      | 22               | 8            | 26               | 243        | 299          |
| Total                                              | \$ 22            | \$ 10        | \$ 26            | \$ 243     | \$ 301       |
| Capital expenditures                               | \$ 504           | \$ 1         | \$ 79            | \$ 14      | \$ 598       |

## Nine months ended April 30, 2010

|                                                    | Life<br>Sciences | Therapeutics | Clinical<br>Labs | Other       | Consolidated |
|----------------------------------------------------|------------------|--------------|------------------|-------------|--------------|
| <u>Revenues:</u>                                   |                  |              |                  |             |              |
| Product revenues                                   | \$ 32,599        |              |                  |             | \$ 32,599    |
| Royalty and license fee income                     | 7,044            |              |                  |             | 7,044        |
| Clinical laboratory services                       |                  |              | \$ 32,494        |             | 32,494       |
|                                                    | 39,643           |              | 32,494           |             | 72,137       |
| <u>Operating expenses:</u>                         |                  |              |                  |             |              |
| Cost of product revenues                           | 15,771           |              |                  |             | 15,771       |
| Cost of clinical laboratory services               |                  |              | 21,623           |             | 21,623       |
| Research and development                           | 5,348            | \$ 1,925     |                  |             | 7,273        |
| Provision for uncollectible accounts receivable    |                  |              | 2,073            |             | 2,073        |
| Selling, general, and administrative and legal     | 15,254           |              | 13,859           | \$ 8,758    | 37,871       |
| Litigation settlement and related legal costs      |                  |              |                  | 3,698       | 3,698        |
| Total operating expenses                           | 36,373           | 1,925        | 37,555           | 12,456      | 88,309       |
| Operating income (loss)                            | 3,270            | (1,925)      | (5,061)          | (12,456)    | (16,172)     |
| <u>Other income (expense):</u>                     |                  |              |                  |             |              |
| Interest                                           |                  |              |                  | 13          | 13           |
| Other                                              |                  |              | 39               |             | 39           |
| Foreign exchange loss                              | (384)            |              |                  |             | (384)        |
| Income (loss) before income taxes                  | \$ 2,886         | \$ (1,925)   | \$ (5,022)       | \$ (12,443) | \$ (16,504)  |
| Depreciation and amortization included above       | \$ 2,352         | \$ 39        | \$ 739           | \$ 94       | \$ 3,224     |
| <u>Share-based compensation included in above:</u> |                  |              |                  |             |              |
| Cost of clinical laboratory services               | \$               | \$           | \$ 9             | \$          | \$ 9         |
| Research and development                           | 10               |              |                  |             | 10           |
| Selling, general and administrative and legal      | 82               |              | 62               | 688         | 832          |
| Total                                              | \$ 92            | \$           | \$ 71            | \$ 688      | \$ 851       |
| Capital expenditures                               | \$ 1,082         | \$           | \$ 1,425         | \$ 62       | \$ 2,569     |



Nine months ended April 30, 2009

|                                                    | Life<br>Sciences | Therapeutics | Clinical<br>Labs | Other       | Consolidated |
|----------------------------------------------------|------------------|--------------|------------------|-------------|--------------|
| <u>Revenues:</u>                                   |                  |              |                  |             |              |
| Product revenues                                   | \$ 29,952        |              |                  |             | \$ 29,952    |
| Royalty and license fee income                     | 6,783            |              |                  |             | 6,783        |
| Clinical laboratory services                       |                  |              | \$ 28,306        |             | 28,306       |
|                                                    | 36,735           |              | 28,306           |             | 65,041       |
| <u>Operating expenses:</u>                         |                  |              |                  |             |              |
| Cost of product revenues                           | 20,208           |              |                  |             | 20,208       |
| Cost of clinical laboratory services               |                  |              | 19,115           |             | 19,115       |
| Research and development                           | 4,006            | \$ 2,639     |                  |             | 6,645        |
| Provision for uncollectible accounts receivable    |                  |              | 3,949            |             | 3,949        |
| Selling, general, and administrative and legal     | 10,286           |              | 11,399           | \$ 11,304   | 32,989       |
| Total operating expenses                           | 34,500           | 2,639        | 34,463           | 11,304      | 82,906       |
| Operating income (loss)                            | 2,235            | (2,639)      | (6,157)          | (11,304)    | (17,865)     |
| <u>Other income (expense):</u>                     |                  |              |                  |             |              |
| Interest                                           |                  |              | 57               | 512         | 569          |
| Other                                              | 76               |              | 32               |             | 108          |
| Foreign exchange loss                              | (837)            |              |                  |             | (837)        |
| Income (loss) before income taxes                  | \$ 1,474         | \$ (2,639)   | \$ (6,068)       | \$ (10,792) | \$ (18,025)  |
| Depreciation and amortization included above       | \$ 1,503         | \$ 36        | \$ 714           | \$ 98       | \$ 2,351     |
| <u>Share-based compensation included in above:</u> |                  |              |                  |             |              |
| Cost of clinical laboratory services               | \$               | \$           | \$ 3             | \$          | \$ 3         |
| Research and development                           | 13               | 17           |                  |             | 30           |
| Selling, general and administrative and legal      | 86               | 24           | 120              | 753         | 983          |
| Total                                              | \$ 99            | \$ 41        | \$ 123           | \$ 753      | \$ 1,016     |
| Capital expenditures                               | \$ 1,073         | \$ 78        | \$ 973           | \$ 32       | \$ 2,156     |

Note 14 Contingencies

1. On April 30, 2009, Shahram K. Rabbani ( Mr. Rabbani ), former Secretary, Treasurer and member of the board of directors of the Company and the former President of Enzo Clinical Labs, Inc., in connection with the termination of his employment, submitted a demand for arbitration and related statement of claim to the American Arbitration Association. The statement of claim named the Company, Dr. Elazar Rabbani, the Chairman of the Board and Chief Executive Officer of the Company, and Barry W. Weiner, the President, Chief Financial Officer of the Company and a member of the Board, as respondents and alleged, among other things, claims relating to the termination of Mr. Rabbani's employment as President of Clinical Labs. The statement of claim purported to allege claims for breach of contract against the Company, unlawful retaliation under the Sarbanes-Oxley's whistleblower statute (the "Claims") against the Company, Dr. Rabbani and Mr. Weiner, and tortious interference with contract against Dr. Rabbani and Mr. Weiner. Mr. Rabbani sought damages of no less than \$10 million consisting of contractually prescribed severance payments (approximately \$2.5 million), plus additional base salary and bonus going forward for several years, compensatory damages, and punitive damages, including attorneys' fees and costs in connection with these proceedings. Subsequent to April 30, 2009, the

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Company conducted a review, as directed by a special committee of the Board of Directors, relating to the aforementioned Claims pertaining to Enzo Clinical Labs. The review concluded that the purported Claims were unsubstantiated.

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On January 28, 2010, the Company reached an agreement with Mr. Rabbani, to settle all of the Claims as well as all of his claims against Dr. Rabbani and Mr. Weiner. Under the terms of the agreement, Mr. Rabbani discontinued all actions he commenced against the Company, Dr. Rabbani and Mr. Weiner. In exchange, the Company agreed to pay Mr. Rabbani a lump sum payment of \$2.7 million. The parties also agreed to execute mutual general releases. On February 7, 2010 the parties executed the mutual general releases and the Company paid the aforementioned settlement of \$2.7 million. During the three months ended January 31, 2010 and nine months ended April 30, 2010, the Company recorded a settlement expense of approximately \$3.7 million, consisting of the lump sum payment of \$2.7 million and approximately \$1.0 million of legal expenses incurred in connection with the Claims.

2. On January 8, 2010, Mr. Rabbani commenced, as plaintiff, an action (the Action) in the Supreme Court of the State of New York, County of New York, seeking a temporary restraining order and a preliminary and permanent injunction to enjoin the Company from convening the Annual Meeting on January 29, 2010. On January 11, 2010, the Company petitioned to remove the Action to the U.S. District Court for the Southern District of New York (the Court), which petition was granted. A hearing on the matter was held on January 12, 2010. On January 27, 2010, the Court entered an order denying Mr. Rabbani's motion for a preliminary injunction to enjoin the Company from convening the Annual Meeting on January 29, 2010.

3. In connection with the suit filed by the Company and Enzo Life Sciences, Inc., in the United States District Court for the District of Connecticut on June 6, 2004 against Applera Corporation and its wholly-owned subsidiary Tropix, Inc. for alleged infringement of certain patents in which the Company was seeking an appeal, on March 26, 2010, the Federal Circuit issued an order concluding that the claims of U.S. Patent Nos. 5,328,824 and 5,449,767 were not indefinite and that there were genuine issues of material fact as to anticipation. The Court reversed the district court's summary judgment of invalidity of those two patents and remanded the case back to the Connecticut Court. Applera and Tropix then filed a combined petition for panel rehearing and rehearing en banc. On May 26, 2010, the Federal Circuit issued an order denying both petitions. (See Note 16 to the Form 10-K for the fiscal year ended July 31, 2009.)

4. There have been no other material developments with respect to other previously reported legal proceedings discussed in the annual report on Form 10-K for the fiscal year ended July 31, 2009 filed with the Securities and Exchange Commission.

### Note 15 Subsequent Events

The Company has evaluated events and transactions subsequent to April 30, 2010. No subsequent events require recognition in the consolidated financial statements or in the notes to the consolidated financial statements by the Company.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes and other information included elsewhere in this Quarterly Report on Form 10-Q.

### Forward-Looking Statements

Our disclosure and analysis in this report, including but not limited to the information discussed in this Item 2, contain forward-looking information about our Company's financial results and estimates, business prospects and products in research that involve substantial risks and uncertainties. From time to time, we also may provide oral or written forward-looking statements in other materials we release to the public. Forward-looking statements give our current expectations or forecasts of future events. You can identify these statements by the fact that they do not relate strictly to historic or current facts. They use words such as anticipate, estimate, expect, project, intend, plan, believe, will, and other words and terms of similar meaning in connection with any discussion of future operations or financial performance. In particular, these include statements relating to future actions, prospective products or product approvals, future performance or results of current and anticipated products, sales efforts, expenses, interest rates, foreign exchange rates, intellectual property matters, the outcome of contingencies, such as legal proceedings, and financial results.

We cannot guarantee that any forward-looking statement will be realized, although we believe we have been prudent in our plans and assumptions. Achievement of future results is subject to risks, uncertainties and inaccurate assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from past results and those anticipated, estimated or projected. As a result, investors are cautioned not to place undue reliance on any of our forward-looking statements. Investors should bear this in mind as they consider forward-looking statements.

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We do not assume any obligation to update or revise any forward-looking statement that we make, even if new information becomes available or other events occur in the future. We are also affected by other factors that may be identified from time to time in our filings with the Securities and Exchange Commission, some of which are set forth in Item 1A - Risk Factors in our Form 10-K filing for the 2009 fiscal year. You are advised to consult any further disclosures we make on related subjects in our Forms 10-Q, 8-K and 10-K reports to the Securities and Exchange Commission. Although we have attempted to provide a list of important factors which may affect our business, investors are cautioned that other factors may prove to be important in the future and could affect our operating results. You should understand that it is not possible to predict or identify all such factors or to assess the impact of each factor or combination of factors on our business. Consequently, you should not consider any such list to be a complete set of all potential risks or uncertainties.

### Overview

The Company is a life sciences and biotechnology company focused on harnessing genetic processes to develop research tools and therapeutics and the provision of diagnostic services to the medical community. Since its founding in 1976, Enzo's strategic focus has been on the development, for commercial purposes, of enabling technologies in the life sciences field. Enzo's pioneering work in genomic analysis coupled with its extensive patent estate and enabling platforms have strategically positioned Enzo to play a crucially important role in the rapidly growing life sciences and molecular medicine marketplaces.

We are comprised of three operating companies that have evolved out of our core competence: the use of nucleic acids as informational molecules and the use of compounds for immune modulation. These wholly owned operating companies conduct their operations through three reportable segments. Below are brief descriptions of each of the three operating segments (see Note 13 in the notes to consolidated financial statements):

**Enzo Life Sciences** is a company that manufactures, develops and markets functional biology and cellular biochemistry products and tools to research and pharmaceutical customers world-wide and has amassed a large patent and technology portfolio. The company's sources of revenues are from the direct sales of products consisting of labeling and detection reagents for the genomics and sequencing markets and royalty and licensing fee income. The pioneering platforms developed by Enzo Life Sciences enable the development of a wide range of products in the research products marketplace.

The division is internationally recognized and acknowledged as a leader in manufacturing, in-licensing, and commercialization of over 12,000 innovative high quality research reagents in the primary key research areas of epigenetics, live cell analysis, protein degradation pathways and metabolism. The division is an established source for a comprehensive panel of products to scientific experts in the fields of Antibiotics, Autophagy, Cancer, Cell Cycle, Cell Death, Cell Signaling, Cell trafficking, Genomics/Molecular Biology, Immunology, Inflammation, Lipid Signaling, Neurobiology, Protein Degradation, ROS/RNS and Stress/Heat Shock.

**Enzo Clinical Labs** is a regional clinical laboratory serving the greater New York and New Jersey medical community. The Company believes having clinical diagnostic services allows us to capitalize firsthand on our extensive advanced molecular and cytogenetic capabilities and the broader trends in predictive and personalized diagnostics. We offer a menu of routine and esoteric clinical laboratory tests or procedures used in general patient care by physicians to establish or support a diagnosis, monitor treatment or medication, or search for an otherwise undiagnosed condition. We operate a full-service clinical laboratory in Farmingdale, New York, a network of 30 patient service centers throughout greater New York and New Jersey, a stand alone stat or rapid response laboratory in New York City, and a full-service phlebotomy department. Payments for clinical laboratory testing services are made by the Medicare program, healthcare insurers and patients.

**Enzo Therapeutics** is a biopharmaceutical company that has developed multiple novel approaches in the areas of gastrointestinal, infectious, ophthalmic and metabolic diseases, many of which are derived from the pioneering work of Enzo Life Sciences. The Company has focused its efforts on developing treatment regimens for diseases and conditions in which current treatment options are ineffective, costly, and/or cause unwanted side effects. This focus has generated a clinical and preclinical pipeline, as well as more than 40 patents and patent applications.

## Recent Developments

### Assay Designs, Inc.

On March 12, 2009, Enzo Life Sciences, Inc. and Enzo Life Sciences Acquisition, Inc., a wholly owned subsidiary of Enzo Life Sciences, Inc. ( Acquisition Sub ), entered into an asset purchase agreement ( Purchase Agreement ) with Assay Designs, Inc. ( Assay Designs or ADI ). Assay Designs, a privately owned company with annual sales of approximately \$11 million, was engaged in researching, developing, manufacturing, distributing, marketing and selling specialty immunological and biochemical protein detection kits, assays, reagents, antibodies, recombinant proteins and related products and providing related services for use in the biotechnology, pharmaceutical and life sciences research industries ( Business ). Under the terms of the Purchase Agreement, Acquisition Sub purchased from Assay Designs substantially all of its assets, including trade accounts receivable, inventory, fixed assets, intellectual property and goodwill, used in or related to the Business and assumed certain of Assay Designs liabilities, including trade accounts payable, capital lease obligations and certain other accrued and other current liabilities.

The execution of the Purchase Agreement and the closing of the transaction occurred simultaneously on March 12, 2009. The purchase price consisted of \$12,228,000 in cash exclusive of acquisition costs of approximately \$540,000, subject to an upward or downward post-closing purchase price adjustment based on Assay Designs working capital as of the closing date, \$100,000 of which was held in escrow for approximately 60-90 days to secure the payment of any downward post-closing purchase price adjustment and \$750,000 of which was held in escrow for 12 months to secure the payment of any indemnification obligations of Assay Designs under the Purchase Agreement. Subsequent to the acquisition date, the Company paid \$270,000 in additional purchase price in connection with the working capital adjustment and released the escrow amounts. The \$100,000 and \$750,000 were released by the escrow agent in June 2009 and March 2010, respectively. The cost of the acquisition included the cost to consolidate a leased facility and the involuntary termination of certain employees, which occurred during the measurement period.

The Assay Designs acquisition strengthens the Company s position as a global provider of life sciences reagents by broadening our product offerings and manufacturing capabilities. Effective March 12, 2009, Assay Designs became a wholly-owned subsidiary of Enzo Life Sciences. The acquisition was funded with the Company s cash. The consolidated financial statements include the results of operations for Assay Designs from the date of acquisition.

### Biomol International L.P.

On May 8, 2008, Enzo Life Sciences, Inc. acquired substantially all of the U.S. based assets and certain liabilities of Biomol International, LP ( Biomol LP ) through a newly formed US subsidiary Biomol International, Inc. and all of the stock of Biomol s wholly-owned United Kingdom subsidiary, Affinity Limited, through Axxora UK, a wholly-owned subsidiary of Enzo Life Sciences, collectively referred to as Biomol for approximately \$18.1 million in cash and stock, subject to adjustment, exclusive of acquisition costs of approximately \$800,000 and two contingent earn-out payments which will be accounted for as additional purchase consideration over the next two years if and when the contingencies are resolved beyond a reasonable doubt. At closing, the purchase price was satisfied as follows: \$12.9 million in cash was paid to Biomol LP, issuance of 352,000 shares of Enzo common stock, at fair market value, to Biomol LP, \$1.5 million in cash was paid to an escrow agent for the two-year period following the closing to satisfy any indemnification obligations of the sellers under the Agreement and \$550,000 was paid to an escrow agent, for the 60 day period following the closing to satisfy any specified purchase price adjustments. The \$550,000 and \$1.5 million were released by the escrow agent in August 2008 and May 2010, respectively. The earn-outs of \$2.5 million on each of the first two anniversaries of the acquisition date will be based on attaining certain revenue and EBITDA targets, as defined.

In June 2009, the conditions for the first annual earn-out of \$2.5 million were met and the Company recorded \$2.5 million of additional goodwill. The Company issued 202,196 shares of Enzo common stock at fair value and paid \$1.5 million in cash to satisfy the \$2.5 million earn-out liability. As of June 9, 2010, the calculation of the second and final earn-out has not been finalized.

**Results of Operations**  
**Three months ended April 30, 2010 as compared to April 30, 2009**

Comparative Financial Data for the Three Months Ended April 30.

(In thousands)

|                                                 | 2010              | 2009              | Increase<br>(Decrease) | %<br>Change |
|-------------------------------------------------|-------------------|-------------------|------------------------|-------------|
| <b>Revenues:</b>                                |                   |                   |                        |             |
| Product revenues                                | \$ 11,089         | \$ 10,479         | \$ 610                 | 6%          |
| Royalty and license fee income                  | 1,894             | 1,963             | (69)                   | (4)         |
| Clinical laboratory services                    | 10,805            | 10,619            | 186                    | 2           |
| <b>Total revenues</b>                           | <b>23,788</b>     | <b>23,061</b>     | <b>727</b>             | <b>3</b>    |
| <b>Operating expenses:</b>                      |                   |                   |                        |             |
| Cost of product revenues                        | 5,394             | 6,812             | (1,418)                | (21)        |
| Cost of clinical laboratory services            | 7,588             | 6,543             | 1,045                  | 16          |
| Research and development                        | 2,479             | 2,425             | 54                     | 2           |
| Selling, general, and administrative            | 12,070            | 10,026            | 2,044                  | 20          |
| Provision for uncollectible accounts receivable | 650               | 715               | (65)                   | (9)         |
| Legal                                           | (127)             | 859               | (986)                  | (115)       |
| <b>Total operating expenses</b>                 | <b>28,054</b>     | <b>27,380</b>     | <b>674</b>             | <b>2</b>    |
| <b>Operating loss</b>                           | <b>(4,266)</b>    | <b>(4,319)</b>    | <b>53</b>              | <b>(1)</b>  |
| <b>Other income (expense):</b>                  |                   |                   |                        |             |
| Interest                                        | (1)               | 17                | (18)                   | (106)       |
| Other                                           | 84                | (43)              | 127                    | (295)       |
| Foreign currency                                | (216)             | 119               | (335)                  | (282)       |
| <b>Loss before income taxes</b>                 | <b>\$ (4,399)</b> | <b>\$ (4,226)</b> | <b>\$ (173)</b>        | <b>(4)</b>  |

**Consolidated Results:**

The 2010 period and the 2009 period refer to the three months ended April 30, 2010 and 2009, respectively. The 2010 period includes the three months results of ADI which was acquired on March 12, 2009. The 2009 period includes the results of ADI from March 12, 2009 to April 30, 2009.

Product revenues increased overall by \$0.6 million or 6% in 2010 to \$11.1 million as compared to the 2009 period. Acquisition growth from the recently acquired ADI business was \$1.2 million or 11% which was partially offset by an organic decline of \$0.8 million or 7% due to a decline in low margin, third-party distribution business. Foreign currency fluctuation positively affected revenues by \$0.2 million or 2%.

Royalty and license fee income during the 2010 period was \$1.9 million compared to \$2.0 million in the 2009 period, a decrease of \$0.1 million or 4%. Royalties are primarily earned from the reported net sales of Qiagen products subject to a license agreement and from a license agreement with Abbott. During the 2010 period, the Company recognized royalties of approximately \$1.1 million from Qiagen and royalties and license fees under the Abbott License Agreement of approximately \$0.8 million. There are no direct expenses relating to royalty and license fee income.

Clinical laboratory revenues during the 2010 period were \$10.8 million compared to \$10.6 million in the 2009 period. The 2010 period's increase over the 2009 period was \$0.2 million or 2%. During the 2010 period revenue increased due to higher priced esoteric testing volume, despite being adversely affected by severe winter weather in the Northeast in February affecting service volume by approximately 5%, a general slowdown in physician office visits impacting service volume by approximately 4% and a

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1.9% decrease in Medicare reimbursement rates effective January 1, 2010.

The cost of product revenues during the 2010 period was \$5.4 million compared to \$6.8 million in the 2009 period, a decrease of \$1.4 million or 21%. The decrease is primarily due to the impact of \$0.7 million in lower costs from low margin third party distribution business, reduced fair value accounting adjustments of \$0.8 million in accordance with purchase accounting rules and reclassification of \$0.8 million in costs relating to the realignment of manufacturing facilities and personnel. Such amounts in 2010 were partially offset by product cost increases relating to ADI of \$0.6 million.

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We believe that cost of product revenues for future periods will be affected by, among other things, the further integration of acquired businesses in addition to sales volumes, competitive conditions and foreign currency rates.

The cost of clinical laboratory services during the 2010 period was \$7.5 million as compared to \$6.5 million in the 2009 period, an increase of \$1.0 million or 16%. Increases occurred in reagent costs and supplies of \$0.5 million, and laboratory personnel costs of \$0.5 million. Laboratory personnel and related benefit costs increased primarily due to additional headcounts in phlebotomists to expand patient collection sites and other personnel to manage expanded operations and the development of esoteric and gene-based test capabilities.

Research and development expenses were approximately \$2.5 million during the 2010 period, compared to \$2.4 million in the 2009 period, an increase of \$0.1 million or 2%. The increase was principally attributed to higher costs of \$0.3 million at Enzo Life Sciences primarily from the acquired ADI offset by \$0.2 million in lower clinical trial and related activities at the Therapeutics segment.

Selling, general and administrative expenses were approximately \$12.0 million during the 2010 period as compared to \$10.0 million in the 2009 period, an increase of \$2.0 million or 20%. The increase was primarily due to the net increase at the Enzo Life Sciences segment of \$1.1 million in the 2010 period which included approximately \$0.2 million of selling, general and administrative expenses related to ADI operations, the impact of realigning manufacturing facilities and certain personnel of \$0.5 million and additional payroll and benefit costs of \$0.3 million. The Clinical Lab segment's selling general and administrative increased \$1.0 million primarily due to increased payroll and related benefits attributed to increases in headcounts in our sales force and management personnel partially related to the marketing and development of esoteric and gene based testing capabilities.

The provision for uncollectible accounts receivable, primarily relating to the Clinical Labs segment was \$0.6 million for the 2010 period as compared to \$0.7 million in the 2009 period, a decrease of \$0.1 million or 9% due to improved collections.

Legal expense was a credit of \$0.1 million during the 2010 period compared to an expense of \$0.8 million in the 2009 period, a decrease of \$0.9 million, due to reduction in legal services provided relating to certain patent litigation and general matters and decreases in fees recorded due to negotiated fee settlements and other adjustments of \$0.5 million.

Interest expense was \$1,000 during the 2010 period as compared to \$17,000 interest income during the 2009 period. The low level of interest during both periods is attributed to the decline in interest rates in response to monetary policy actions taken by the U.S. Federal Reserve. Furthermore, the Company had higher average invested balances during the 2009 period. The Company earns interest by investing primarily in short term US treasury bills, and money market accounts.

The loss on foreign currency was \$0.2 million during the 2010 period was primarily due to a non-cash loss on an intercompany term loan denominated in British pounds sterling and the fluctuations of other foreign currencies relative to the US dollar during the period and the impact that had on settled transactions during the period. During the 2009 period, the gain on foreign currency transactions was \$0.1 million primarily due to a non-cash gain on the intercompany term loan denominated in British pounds sterling. The British currency appreciated against the US dollar during the 2009 period and depreciated during the 2010 period.

The Company's effective income tax rate provision for the 2010 period was 4.0% compared to 0.4% during the 2009 period. The tax provisions for the 2010 and 2009 periods were based on state and local taxes, domestic and foreign tax for tax deductible goodwill and indefinite lived intangibles, and book to tax differences for acquired inventory and differed from the expected net operating loss carry forward benefit at the U.S. federal statutory rate of 34% primarily due to the inability to recognize such benefit. The carry forward benefit cannot be recognized because of uncertainties relating to future taxable income, in terms of both its timing and its sufficiency.



## Segment Results

The Life Sciences segment's income before taxes was \$0.5 million for the 2010 period as compared to \$0.2 million for the 2009 period. Product revenues increased by \$0.6 million in the 2010 period primarily due to the full period's contribution of product revenues from the March 2009 acquisition of Assay Designs which replaced low margin, high volume distribution product revenues principally to one customer offset by an organic decline in core products. Royalty and license fee income decreased \$0.1 million from the Qiagen agreement. The segment's gross profit increased to \$7.6 million from \$5.6 million. Gross profit margins increased to 58% from 45% due to favorable impact from ADI's higher margin, which replaced lower margin revenue in 2009, lower inventory fair value adjustments and realignment of personnel from manufacturing to trading activity. The segment's other operating expenses, including selling, general and administrative, legal and research and development, increased by \$1.4 million during the 2010 period primarily due to the inclusion of Assay Designs expenses and the impact of the aforementioned realignment of personnel. The segment experienced a non-cash foreign currency loss of \$0.2 million during the 2010 period resulting from the slight strengthening foreign currencies had on settled transactions and on an intercompany loan denominated in pounds sterling. In aggregate, the inventory fair value adjustment and amortization of intangibles negatively impacted the segment operating results in the 2010 period by \$0.4 million.

The Clinical Laboratory segment's loss before taxes was \$2.2 million for the 2010 period as compared to a loss of \$0.4 million in the 2009 period. The revenue from laboratory services increased in the 2010 period by \$0.2 million due to increased service volume in higher priced testing despite being adversely affected by severe winter weather in the Northeast in February, a general slowdown in physician office visits and a decrease in Medicare reimbursement rates. The gross profit of \$3.2 million, which decreased by \$0.8 million in 2010, was impacted by the increase in the cost of laboratory services of \$1.0 million. In the 2010 period, selling, general and administrative costs increased by approximately \$1.0 million due to increases in payroll and payroll related costs primarily due to increased headcount in sales and lab administration partially attributed to development and marketing of esoteric and gene-based testing capabilities. The provision for uncollectible accounts receivable decreased by \$0.1 million as compared to the 2009 period.

The Therapeutics segment's loss before income taxes was approximately \$0.6 million for the 2010 period as compared to a loss of \$0.9 million for the 2009 period. The decrease in the segment loss of \$0.3 million was primarily due to decreases in clinical trial activities.

The Other segment's loss before taxes for the 2010 period was approximately \$2.1 million as compared to \$3.2 million in the 2009 period, a decrease of \$1.1 million. The Other segment's 2010 period loss reflects the decrease in legal expenses of \$1.0 million due to reduced services provided relating to certain patent litigation activity and general matters and negotiated fee settlements and other adjustments recorded.

**Results of Operations**  
**Nine months ended April 30, 2010 as compared to April 30, 2009**

Comparative Financial Data for the Nine Months Ended April 30,

(in thousands)

|                                                 | <u>2010</u> | <u>2009</u> | <u>Increase<br/>(Decrease)</u> | <u>% Change</u> |
|-------------------------------------------------|-------------|-------------|--------------------------------|-----------------|
| <b>Revenues:</b>                                |             |             |                                |                 |
| Product revenues                                | \$ 32,599   | \$ 29,952   | \$ 2,647                       | 9%              |
| Royalty and license fee income                  | 7,044       | 6,783       | 261                            | 4               |
| Clinical laboratory services                    | 32,494      | 28,306      | 4,188                          | 15              |
| Total revenues                                  | 72,137      | 65,041      | 7,096                          | 11              |
| <b>Operating expenses:</b>                      |             |             |                                |                 |
| Cost of product revenues                        | 15,771      | 20,208      | (4,437)                        | (22)            |
| Cost of clinical laboratory services            | 21,623      | 19,115      | 2,508                          | 13              |
| Research and development                        | 7,273       | 6,645       | 628                            | 9               |
| Selling, general, and administrative            | 36,841      | 29,633      | 7,208                          | 24              |
| Provision for uncollectible accounts receivable | 2,073       | 3,949       | (1,876)                        | (48)            |
| Legal                                           | 1,030       | 3,356       | (2,326)                        | (69)            |
| Litigation settlement and related legal costs   | 3,698       |             | 3,698                          |                 |
| Total operating expenses                        | 88,309      | 82,906      | 5,403                          | 7               |
| Operating loss                                  | (16,172)    | (17,865)    | 1,693                          | (9)             |
| <b>Other income (expense):</b>                  |             |             |                                |                 |
| Interest                                        | 13          | 569         | (556)                          | (98)            |
| Other                                           | 39          | 108         | (69)                           | (64)            |
| Foreign currency                                | (384)       | (837)       | 453                            | (54)            |
| Loss before income taxes                        | \$ (16,504) | \$ (18,025) | \$ 1,521                       | (8)             |

**Consolidated Results:**

The 2010 period and the 2009 period refer to the nine months ended April 30, 2010 and 2009, respectively. The 2010 period includes the nine months results of ADI which was acquired on March 12, 2009. The 2009 period includes the results of ADI from March 12, 2009 to April 30, 2009.

Product revenues increased overall by \$2.6 million in 2010 to \$32.6 million as compared to the 2009 period. Acquisition growth from the recently acquired ADI business was \$6.4 million or 22% which was partially offset by a net organic decline of \$4.4 million or 15% due to a \$4.9 million decline in low margin, third-party distribution business. Our core product revenues demonstrated organic growth of \$0.5 million or 2%. Foreign currency fluctuation positively affected revenues by \$0.6 million or 2%.

Royalty and license fee income during the 2010 period was \$7.0 million compared to \$6.8 million in the 2009 period, an increase of \$0.2 million or 4%. Royalties are primarily earned from the reported net sales of Qiagen products subject to a license agreement and from a license agreement with Abbott. During the 2010 and 2009 period, the Company recognized royalties of approximately \$4.8 million from Qiagen, and royalties and license fees under the Abbott License Agreement of approximately \$2.2 million, an increase of \$0.2 million over the 2009 period. There are no direct expenses relating to royalty and license fee income.

Clinical laboratory revenues during the 2010 period were \$32.5 million compared to \$28.3 million in the 2009 period. The 2010 period's increase over the 2009 period was \$4.2 million or 15%. During the 2010 period revenue increased due to increased service volume including higher priced testing volume despite being adversely affected by severe winter weather in the Northeast in

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February and a general slowdown in physician office visits in the fiscal third quarter and a 1.9% decrease in Medicare reimbursement rates effective January 1, 2010. During the 2009 period, revenues were negatively affected by contractual adjustments of \$2.3 million. These immaterial contractual adjustments in 2009 related to computational errors that affected the calculated expected reimbursement rate in fiscal 2008, 2007 and 2006 and for periods prior to August 1, 2005 for the majority of payers and credits issued which were not accrued for timely.

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The cost of product revenues during the 2010 period was \$15.8 million compared to \$20.2 million in the 2009 period, a decrease of \$4.4 million or 22%. The decrease is primarily due to the impact of \$4.4 million in lower costs from low margin third-party distribution business, reduced fair value accounting adjustments of \$1.5 million in accordance with purchase accounting rules and reclassification of \$1.2 million in costs relating to the realignment of manufacturing facilities and personnel. Such amounts in 2010 were partially offset by product cost relating to ADI of \$2.9 million and by the cost of sales from organic growth. We believe that cost of product revenues for future periods will be affected by, among other things, the further integration of acquired businesses in addition to sales volumes, competitive conditions and foreign currency rates.

The cost of clinical laboratory services during the 2010 period was \$21.6 million as compared to \$19.1 million in the 2009 period, an increase of \$2.5 million or 13%. The Company incurred increased costs partially due to increased reagent costs and supplies of \$1.0 million, laboratory personnel and related costs of \$1.1 million and outside reference lab costs of \$0.4 million. Laboratory personnel and related costs increased primarily due to additional headcounts in phlebotomists to expand patient collection sites and other personnel to manage expanded operations and the development of esoteric and gene-based test capabilities.

Research and development expenses were approximately \$7.3 million during the 2010 period, compared to \$6.7 million in the 2009 period, an increase of \$0.6 million or 9%. The increase was principally attributed to higher costs of \$1.3 million at Enzo Life Sciences primarily related to Assay Designs offset by \$0.7 million in lower clinical trial and related activities and payroll costs at the Therapeutics segment.

Selling, general and administrative expenses were approximately \$36.8 million during the 2010 period as compared to \$29.6 million in the 2009 period, an increase of \$7.2 million or 24%. The increase was primarily due to the net increase at the Enzo Life Sciences segment of \$4.5 million in the 2010 period which included approximately \$2.0 million of selling, general and administrative expenses related to Assay Designs operations, the impact of realigning manufacturing facilities and certain personnel of \$1.2 million, \$0.7 million in payroll and benefit costs and increased depreciation and amortization of \$0.4 million. The Clinical Lab segment's selling general and administrative increased \$2.3 million primarily due to increased payroll and related benefits of \$1.6 million primarily due to increased payroll and related benefits attributed to increases in headcounts in our sales force and management personnel partially related to increased service volume and the marketing and development of esoteric and gene based testing capabilities, information technology costs of \$0.2 million, and other overhead expenses of \$0.5 million. These increases were offset by a decrease in the Other segment's selling general and administrative of approximately \$0.3 million, primarily due to decreases in payroll and payroll related costs of \$0.1 million.

The provision for uncollectible accounts receivable, primarily relating to the Clinical Labs segment was \$2.0 million for the 2010 period as compared to \$3.9 million in the 2009 period, a decrease of \$1.9 million or 48%. The decrease is attributed to a charge in 2009 attributed to increased provisions for the Clinical Labs legacy billing system, which was replaced in August 2008, due to reduced collection efforts relating to the legacy billing system, the correction of an immaterial error relating to fiscal 2008, and increased provisions required based on changes in payer mix, offset by a reduced requirement under the new billing system.

Legal expense was \$1.0 million during the 2010 period compared to \$3.3 million in the 2009 period, a decrease of \$2.3 million, due to overall reduction in legal services provided relating to certain patent litigation matters and general matters, the reimbursement of \$0.5 million in legal costs under our insurance policy, reductions in fees recorded due to negotiated fee settlements and other adjustments of \$0.5 million offset by approximately \$0.6 million in incremental legal costs incurred for proxy related costs for the January 2010 annual meeting.

In connection with the litigation settlement with Mr. Shahram K. Rabbani to settle all of his claims against the Company, and certain of its executive officers, the Company agreed to pay a lump sum payment of \$2.7 million. The Company recorded a settlement expense of approximately \$3.7 million in the fiscal quarter ending January 31, 2010, consisting of the lump sum payment of \$2.7 million and approximately \$1.0 million of legal expenses incurred in connection with the claims (See Note 14 in notes to consolidated financial statements).

Interest income was \$13,000 during the 2010 period as compared to \$0.6 million during the 2009 period. The interest income decrease during the 2010 period is attributed to the decline in interest rates in response to monetary policy actions taken by the U.S. Federal Reserve. Furthermore, the Company had higher average invested balances during the 2009 period. The Company earns interest by investing primarily in short term US treasury bills and money market accounts.

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The loss on foreign currency was \$0.4 million during the 2010 period, due to a \$0.2 million non-cash loss on an intercompany term loan denominated in British pounds sterling and the fluctuations of other foreign currencies relative to the US dollar during the period and the impact that had on settled transactions during the period. During the 2009 period, the loss on foreign currency transactions was \$0.8 million primarily due to a non-cash loss on the intercompany term loan denominated in British pounds sterling. The British currency depreciated more significantly against the US dollar during the 2009 period than in the 2010 period.

The Company's effective income tax rate for the 2010 period was 1.3% compared to 1.4% during the 2009 period. The tax provision for the 2010 and 2009 periods were based on state and local taxes, domestic and foreign tax for tax deductible goodwill and indefinite lived intangibles, and book to tax differences for acquired inventory and differed from the expected net operating loss carry forward benefit at the U.S. federal statutory rate of 34% primarily due to the inability to recognize such benefit. The carry forward benefit cannot be recognized because of uncertainties relating to future taxable income, in terms of both its timing and its sufficiency. In the 2010 period, the Company recognized a benefit of \$0.1 million primarily as a result of the expiration of the statute of limitations for an uncertain tax position.

### Segment Results

The Life Sciences segment's income before taxes was \$2.9 million for the 2010 period as compared to \$1.5 million for the 2009 period. Product revenues increased by \$2.6 million in the 2010 period primarily due to the contribution of product revenues from the March 2009 acquisition of Assay Designs and organic growth from our core products which replaced low margin, high volume distribution product revenues principally to one customer. Royalty and license fee income increased \$0.3 million from the Qiagen agreement and the Abbott license agreement. The segment's gross margin of \$23.9 million increased by \$7.3 million in 2010. Gross profit margins increased to 60% from 45% due to favorable impact from ADI's higher margin, which replaced lower margin revenue in 2009, lower inventory fair value adjustments and realignment of personnel from manufacturing to trading activity. The segment's other operating expenses, including selling, general and administrative, legal and research and development, increased by approximately \$6.2 million during the 2010 period primarily due to the inclusion of Assay Designs expenses of \$2.9 million, the impact of the aforementioned realignment of personnel of payroll and related costs of \$1.2 million, increased payroll and related costs of \$0.7 million and depreciation and amortization of \$0.5 million. The segment experienced a non-cash foreign currency loss of \$0.4 million during the 2010 period resulting from the impact that fluctuations in foreign currencies had on settled transactions and on an intercompany loan denominated in pounds sterling. In aggregate, the inventory fair value adjustment and amortization of intangibles negatively impacted the segment operating results in the 2010 period by \$1.5 million.

The Clinical Laboratory segment's loss before taxes was \$5.0 million for the 2010 period as compared to a loss of \$6.0 million in the 2009 period. The revenue from laboratory services increased in the 2010 period by \$4.2 million due to increased service volume despite being adversely affected by severe winter weather in the Northeast in February, a general slowdown in physician office visits in the fiscal third quarter, a decrease in Medicare reimbursement rates effective January 1, 2010 and during the 2009 period revenues were negatively impacted by contractual adjustments of \$2.3 million. The 2010 period gross profit of \$10.9 million increased \$1.7 million over the 2009 period due to service volume increases, increased headcount and other costs to perform increased testing, and the impact the aforementioned \$2.3 million contractual adjustment had on the 2009 period gross profit. In the 2010 period, the selling, general and administrative costs increased by approximately \$2.3 million primarily due to increases in payroll and payroll related costs of \$1.6 million attributed to increases in headcounts in our sales force and management personnel partially related to increased service volume and the marketing and development of esoteric and gene-based testing capabilities, information technology costs of \$0.2 million, and other operating costs of \$0.5 million. The provision for uncollectible accounts receivables decreased by \$1.9 million as compared to the 2009 period. During the 2009 period, the Company recorded a charge attributed to increased provisions for the Clinical Labs legacy billing system, which was replaced in August 2008, due to reduced collection efforts relating to the legacy billing system, the correction of an immaterial error relating to fiscal 2008, and increased provisions required based on changes in payer mix, offset by a reduced requirement under the new billing system.

The Therapeutics segment's loss before income taxes was approximately \$1.9 million for the 2010 period as compared to a loss of \$2.6 million for the 2009 period. The decrease in the segment loss of \$0.7 million was primarily due to decreases in clinical trial activities of \$0.6 million and decreases in salaries and related costs of \$0.1 million.

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The Other segment's loss before taxes for the 2010 period was approximately \$12.4 million as compared to \$10.8 million in the 2009 period, an increase of \$1.6 million. The Other segment's 2010 period loss reflects the litigation settlement of \$3.7 million and an increase in professional fees, consulting costs and public relations of \$0.1 million, offset by decreases in payroll and payroll related costs of \$0.1 million, and \$0.3 million in other costs. Legal expenses decreased \$2.2 million due to the reimbursement of \$0.5 million in legal fees; reduced services provided relating to certain patent litigation activity and general matters and reductions in fees recorded due to negotiated fee settlements and other adjustments of \$0.5 million, offset by incremental legal costs incurred for proxy related matters in 2010. Interest income declined \$0.5 million due to the decline in interest rates. The Company earns interest by investing primarily in short term US treasury bills, and money market accounts.

### Liquidity and Capital Resources

At April 30, 2010, the Company had cash and cash equivalents of \$8.6 million and short-term investments of \$25.8 million, or \$34.4 million in aggregate as compared to \$50.2 million at July 31, 2009. Short term investments are in US treasury bills. The Company had working capital of \$46.4 million at April 30, 2010 compared to \$60.5 million at July 31, 2009. The decrease in working capital was primarily the result of the 2010 period net loss which included the litigation settlement to a former officer and related legal costs of \$3.7 million and funding capital expenditures.

Net cash used in operating activities for the nine months ended April 30, 2010 was approximately \$13.2 million as compared to \$8.7 million for the nine months ended April 30, 2009. The increase in net cash used in operating activities in the 2010 period over the 2009 period of approximately \$4.5 million was primarily due to changes in operating assets and liabilities of \$4.4 million and the effect of lower non-cash adjustments in the 2010 period over the 2009 period aggregating \$1.7 million, partially offset by the decrease in the period net loss of \$1.6 million.

Net cash provided by investing activities was approximately \$15.0 million as compared to a use of cash of \$62.2 million in the year ago period. The change from 2009 to 2010 of \$77.2 million is primarily due to the net increase in short term investments in US treasury bills of \$47.7 million and cash used in acquisitions of \$12.7 million in the 2009 period and the net maturities of short-term investments of \$17.5 million in 2010. In the 2010 and the 2009 period cash used for capital expenditures was \$2.6 million and \$2.2 million, respectively.

There were no financing activities in 2010. Net cash provided by financing activities was approximately \$0.3 million in the 2009 period, attributed primarily to stock option exercise proceeds. There were no stock option exercises in the 2010 period.

### Biomol International L.P.

On May 8, 2008, the Company's wholly-owned subsidiary, Enzo Life Sciences, acquired substantially all of the U.S. based assets of Biomol International, L.P. ( "Biomol" ) through Enzo Life Sciences' newly-formed subsidiary, Biomol International, Inc., and all of the outstanding capital stock of Biomol's two wholly owned United Kingdom subsidiaries through Enzo Life Sciences' wholly owned subsidiary, Axxora (UK) Ltd. (the "Biomol Acquisition" ), for a purchase price of \$18 million, comprised of \$15 million in cash, subject to downward adjustment based on net asset value on the closing date, and \$3 million of unregistered common stock of the Company. In addition, Biomol may be entitled to receive a maximum of \$5 million in earn-out payments over the next two years, payable in two installments of \$2.5 million on each of the next two anniversaries of the closing date, if certain revenues and EBITDA targets for the acquired business are attained. The earn-out payments, if any, will be payable in a combination of cash and shares of the Company's common stock, provided no more than 50% of the earn-out payments will be paid in stock.

In June 2009, the conditions for the first annual earn-out of \$2.5 million were met and the Company recorded \$2.5 million of additional goodwill. The Company issued 202,196 shares of Enzo common stock at fair value and paid \$1.5 million in cash to satisfy the \$2.5 million earn-out liability. As of June 9, 2010, the calculation of the second and final earn-out has not been finalized.

The Company believes that its current cash position is sufficient for its foreseeable liquidity and capital resource needs over the next 12 months, including the earn-out payment if determined to be due the sellers, although there can be no assurance that future events will not alter such view.

### Contractual Obligations

There have been no material changes to our Contractual Obligations reported in our Form 10-K for the fiscal year ended July 31, 2009, except for the increase in future minimum lease obligations relating to our corporate office. In connection with a lease amendment and extension executed in February 2010, our minimum lease commitments increased \$5.6 million reflective of both a lease extension and an increase in square feet. The increase in the presentation periods (in thousands) based on the July 31, 2009 fiscal year end is: less than 1 year: \$0; 1-3 years: \$0.5 million; 4-5 years: \$0.7 million; and over 5 years: \$4.4 million. We are currently seeking to sublease the additional space, which aggregates \$2.7 million in future rental costs, until such time it is needed by the Company. The Company has entered into a six month sublease for the additional space effective May 31, 2010 and is continuing to secure a longer term sublease. The minimum sublease rentals aggregate \$0.1 million.

Management is not aware of any material claims, disputes or settled matters concerning third party reimbursement that would have a material effect on our financial statements.

### Off-Balance Sheet Arrangements

The Company does not have any off balance sheet arrangements as such term is defined in Item 303(a)(4) of Regulation S-K.

### Critical Accounting Policies

The Company's discussion and analysis of its financial condition and results of operations are based upon Enzo Biochem, Inc.'s consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses; these estimates and judgments also affect related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to contractual adjustments, allowance for uncollectible accounts, inventory, intangible assets and income taxes. The Company bases its estimates on experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

#### Product revenues

Revenues from product sales are recognized when the products are shipped and title transfers, the sales price is fixed or determinable and collectibility is reasonably assured. During the three and nine months ended April 30, 2009, one customer in the Life Science segment represented \$1.2 million and \$5.6 million respectively of total product revenues.

#### Royalties

Royalty revenues are recorded in the period earned. Royalties received in advance of being earned are recorded as deferred revenues.

#### License fees and multiple element arrangements

When evaluating multiple element arrangements, the Company considers whether the components of the arrangement represent separate units of accounting, which requires subjective determinations and requires management to make judgments about the fair value of the individual elements and whether such elements are separable from the other aspects of the contractual relationship.

#### Revenues - Clinical laboratory services

Revenues from the clinical laboratory are recognized upon completion of the testing process for a specific patient and reported to the ordering physician. These revenues and the associated accounts receivable are based on gross amounts billed or billable for services rendered, net of a contractual adjustment, which is the difference between amounts billed to payers and the expected approved reimbursable settlements from such payers.

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The following are tables of the Clinical Labs segment's net revenues and percentages by revenue category for the three and nine months ended April 30, 2010 and 2009:

### Clinical Labs net revenues

#### Net revenues

|                         | Three months ended<br>April 30, 2010 |        | Three months ended<br>April 30, 2009 |        |
|-------------------------|--------------------------------------|--------|--------------------------------------|--------|
|                         | (In<br>thousands)                    | (in %) | (In<br>thousands)                    | (in %) |
| <b>Revenue category</b> |                                      |        |                                      |        |
| Medicare                | \$ 2,711                             | 25     | \$ 2,137                             | 20     |
| Third-party payer       | 4,714                                | 44     | 5,445                                | 51     |
| Patient self-pay        | 2,247                                | 21     | 1,729                                | 17     |
| HMO s                   | 1,133                                | 10     | 1,278                                | 12     |
| Total                   | \$ 10,805                            | 100%   | \$ 10,619                            | 100%   |

#### Net revenues

|                         | Nine months ended<br>April 30, 2010 |        | Nine months ended<br>April 30, 2009 |        |
|-------------------------|-------------------------------------|--------|-------------------------------------|--------|
|                         | (In<br>thousands)                   | (in %) | (In<br>thousands)                   | (in %) |
| <b>Revenue category</b> |                                     |        |                                     |        |
| Medicare                | \$ 8,279                            | 25     | \$ 6,738                            | 24     |
| Third-party payer       | 14,274                              | 44     | 14,010                              | 49     |
| Patient self-pay        | 6,402                               | 20     | 4,544                               | 16     |
| HMO s                   | 3,538                               | 11     | 3,014                               | 11     |
| Total                   | \$ 32,494                           | 100%   | \$ 28,306                           | 100%   |

The Company provides services to certain patients covered by various third-party payers, including the Federal Medicare program. Laws and regulations governing Medicare are complex and subject to interpretation for which action for noncompliance includes fines, penalties and exclusion from the Medicare programs. The Company believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing.

Other than the Medicare program, one provider whose programs are included in the Third-party payer and Health Maintenance Organizations (HMO s) categories represented 25% of the Clinical Labs services net revenues for the three months ended April 30, 2010 and 2009 and 25% for the nine months ended April 30, 2010 and 2009.

#### Contractual Adjustment

The Company's estimate of contractual adjustment is based on significant assumptions and judgments, such as its interpretation of payer reimbursement policies, and bears the risk of change. The estimation process is based on the experience of amounts approved as reimbursable and ultimately settled by payers, versus the corresponding gross amount billed to the respective payers. The contractual adjustment is an estimate that reduces gross revenue, based on gross billing rates, to amounts expected to be approved and reimbursed. Gross billings are based on a standard fee schedule we set for all third party payers, including Medicare, HMO s and managed care. The Company adjusts the contractual adjustment estimate quarterly, based on its evaluation of current and historical settlement experience with payers, industry reimbursement trends, and other relevant factors. The other relevant factors that affect our contractual adjustment include the monthly and quarterly review of: 1) current gross billings and receivables and reimbursement by payer, 2) current changes in third party arrangements, 3) the growth of in-network provider arrangements and managed care plans specific to our Company.



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Our clinical laboratory business is primarily dependent upon reimbursement from third-party payers, such as Medicare (which principally serves patients 65 and older) and insurers. We are subject to variances in reimbursement rates among different third-party payers, as well as constant changes of reimbursement rates. Changes that decrease reimbursement rates or coverage would negatively impact our revenues.

The number of individuals covered under managed care contracts or other similar arrangements has grown over the past several years and may continue to grow in the future. In addition, Medicare and other government healthcare programs continue to shift to managed care. These trends may negatively affect our revenues per test.

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During the three months ended April 30, 2010 and 2009, the contractual adjustment percentages, determined using current and historical reimbursement statistics, were 83.1% and 83.0%, respectively, of gross billings. During the nine months ended April 30, 2010 and 2009, the contractual adjustment percentages, determined using current and historical reimbursement statistics, were 82.9%, and 79.9%, respectively, of gross billings. During the nine months ended April 30, 2009, the Company also made a \$2.3 million adjustment increasing the contractual allowance to correct immaterial errors in the computation of the contractual allowance percentages affecting the periods August 1, 2005 through July 31, 2008 and periods prior to August 1, 2005, and credits not recorded correctly. The adjustment increased the 2009 period's loss before income tax by \$2.3 million or \$0.06 per share.

The Company believes the negative impact on revenues from the decline in reimbursement rates or the shift to managed care, other primary third party payers, or similar arrangements may be offset by the positive impact of the number of tests we perform. However, there can be no assurance that we can increase the number of tests we perform or that if we do increase the number of tests we perform, that we can maintain that higher number of tests performed, or that an increase in the number of tests we perform would result in increased revenue.

The Company estimates (by using a sensitivity analysis) that each 1% point change in the contractual adjustment percentage could result in a change in clinical laboratory services revenues of approximately \$1,901,000, and \$1,389,000 for the nine months ended April 30, 2010 and 2009, respectively, and a change in the net accounts receivable of approximately \$301,000 as of April 30, 2010.

Our clinical laboratory financial billing system records gross billings using a standard fee schedule for all payers and does not record contractual adjustment by payer at the time of billing. Adjustments to our standard fee schedule will impact the contractual adjustment recorded. Therefore, we are unable to quantify the effect of contractual adjustment recorded during the current period that relates to revenue recorded in a previous period. However, we can reasonably estimate our contractual adjustment to revenue on a timely basis based on our quarterly review process, which includes:

- an analysis of industry reimbursement trends;

- an evaluation of third-party reimbursement rates changes and changes in reimbursement arrangements with third-party payers;

- a variance reimbursement analysis of current and historical claim settlement and reimbursement experience with payers;

- an analysis of current gross billings and receivables by payer.

### Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are reported at realizable value, net of allowances for doubtful accounts, which is estimated and recorded in the period of the related revenue.

The following is a table of the Company's net accounts receivable by segment. The clinical laboratory segment's net receivables are detailed by billing category and as a percent to its total net receivables. At April 30, 2010 and July 31, 2009, approximately 46% and 40%, respectively, of the Company's net accounts receivable relates to its clinical laboratory business, which operates in the New York and New Jersey Metropolitan areas.

The Life Sciences segment's accounts receivable, of which \$2.0 million or 31% and \$2.1 million or 28% represents foreign receivables as of April 30, 2010 and July 31, 2009 respectively, includes royalty receivables of \$1.7 million and \$2.5 million, as of April 30, 2010 and July 31, 2009, respectively, of which approximately \$1.1 million and \$1.9 million, respectively is from Qiagen Corporation (Note 12).

Net accounts receivable

| Billing category   | As of<br>April 30, 2010 |        | As of<br>July 31, 2009 |        |
|--------------------|-------------------------|--------|------------------------|--------|
|                    | (In 000 \$)             | (in %) | (In 000 \$)            | (in %) |
| Clinical Labs      |                         |        |                        |        |
| Medicare           | \$ 933                  | 17     | \$ 1,113               | 22     |
| Third party payers | 2,308                   | 42     | 2,003                  | 40     |
| Patient self-pay   | 1,990                   | 36     | 1,635                  | 32     |

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|                           |                   |                   |                   |                   |
|---------------------------|-------------------|-------------------|-------------------|-------------------|
| HMO s                     | 269               | 5                 | 303               | 6                 |
|                           | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Total clinical labs       | \$ 5,500          | 100%              | \$ 5,054          | 100%              |
|                           |                   | <u>          </u> |                   | <u>          </u> |
| Total life sciences       | 6,538             |                   | 7,426             |                   |
|                           | <u>          </u> |                   | <u>          </u> |                   |
| Total accounts receivable | \$ 12,038         |                   | \$ 12,480         |                   |
|                           | <u>          </u> |                   | <u>          </u> |                   |

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Changes in the Company's allowance for doubtful accounts are as follows:

| In 000's                        | April 30,<br>2010 | July 31,<br>2009 |
|---------------------------------|-------------------|------------------|
| Beginning balance               | \$ 4,786          | \$ 886           |
| Provision for doubtful accounts | 2,073             | 5,189            |
| Write-offs, net                 | (4,717)           | (1,289)          |
| Ending balance                  | \$ 2,142          | \$ 4,786         |

For the Clinical Labs segment, the allowance for doubtful accounts represents amounts that the Company does not expect to collect after the Company has exhausted its collection procedures. The Company estimates its allowance for doubtful accounts in the period the related services are billed and adjusts the estimate in future accounting periods as necessary. It bases the estimate for the allowance on the evaluation of historical collection experience, the aging profile of accounts receivable, the historical doubtful account write-off percentages, payer mix, and other relevant factors.

The allowance for doubtful accounts includes the balances, after receipt of the approved settlements from third party payers for the insufficient diagnosis information received from the ordering physician, which result in denials of payment and the uncollectible portion of receivables from self payers, including deductibles and copayments, which are subject to credit risk and patients' ability to pay. During the three and nine months ended April 30, 2010 and 2009, the Company determined an allowance for doubtful accounts less than 210 days and wrote off 100% of accounts receivable over 210 days, as it assumed those accounts are uncollectible, except for certain fully reserved balances, principally related to Medicare. These accounts have not been written off because the payer's filing date deadline has not occurred or the collection process has not been exhausted. The Company's collection experience on Medicare receivables beyond 210 days has been insignificant. The Company adjusts the historical collection analysis for recoveries, if any, on an ongoing basis.

The Company's ability to collect outstanding receivables from third party payers is critical to its operating performance and cash flows. The primary collection risk lies with uninsured patients or patients for whom primary insurance has paid but a patient portion remains outstanding. The Company also assesses the current state of its billing functions in order to identify any known collection or reimbursement issues in order to assess the impact, if any, on the allowance estimates, which involves judgment. The Company believes that the collectibility of its receivables is directly linked to the quality of its billing processes, most notably, those related to obtaining the correct information in order to bill effectively for the services provided.

Should circumstances change (e.g. shift in payer mix, decline in economic conditions or deterioration in aging of receivables), our estimates of net realizable value of receivables could be reduced by a material amount. During the nine month periods ended April 30, 2010 versus 2009, our bad debt expense decreased by \$1.9 million. During the nine month period ended April 30, 2009, the Company recorded a charge of \$2.6 million, attributed to increased provisions for the Clinical Labs legacy billing system, which was replaced in August 2008, due to reduced collection efforts relating to the legacy billing system, increased provisions required based on changes in payer mix, and the correction of an immaterial error in the allowance for doubtful accounts relating to fiscal 2008. During the quarter ended April 30, 2010 the Company completed all collection efforts for legacy billing system receivables, and wrote off the fully reserved receivables totaling \$2.3 million. Billing for laboratory services is complicated because of many factors, especially: the differences between our standard gross fee schedule for all payers and the reimbursement rates of the various payers we deal with, disparity of coverage and information requirements among the various payers, and disputes with payers as to which party is responsible for reimbursement.

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The following table indicates the Clinical Labs aged gross receivables by payer group (in thousands), which is prior to adjustment to gross receivables for: 1) contractual adjustment, 2) fully reserved balances not yet written off, and 3) other revenue adjustments.

| As of April 30, 2010   | Total Amount | %    | Medicare Amount | %    | Third Party Payers Amount | %    | Self-pay Amount | %    | HMO s Amount | %    |
|------------------------|--------------|------|-----------------|------|---------------------------|------|-----------------|------|--------------|------|
| 1-30 days              | \$ 18,605    | 64%  | \$ 3,018        | 60%  | \$ 8,907                  | 60%  | \$ 3,625        | 58%  | \$ 3,055     | 98%  |
| 31-60 days             | 4,327        | 15%  | 404             | 8%   | 2,724                     | 18%  | 1,175           | 19%  | 24           | 1%   |
| 61-90 days             | 2,162        | 7%   | 201             | 4%   | 1,203                     | 8%   | 745             | 12%  | 13           | %    |
| 91-120 days            | 1,625        | 6%   | 172             | 3%   | 832                       | 6%   | 603             | 10%  | 18           | 1%   |
| 121-150 days           | 659          | 2%   | 199             | 4%   | 451                       | 3%   | 0               | 0%   | 9            | %    |
| Greater than 150 days* | 1,719        | 6%   | 1,022           | 20%  | 636                       | 4%   | 58              | 1%   | 3            | %    |
| Totals                 | \$ 29,097    | 100% | \$ 5,016        | 100% | \$ 14,753                 | 100% | \$ 6,206        | 100% | \$ 3,122     | 100% |

| As of July 31, 2009     | Total Amount | %    | Medicare Amount | %    | Third Party Payers Amount | %    | Self-pay Amount | %    | HMO s Amount | %    |
|-------------------------|--------------|------|-----------------|------|---------------------------|------|-----------------|------|--------------|------|
| 1-30 days               | \$ 19,251    | 70%  | \$ 3,193        | 61%  | \$ 9,695                  | 73%  | \$ 2,882        | 51%  | \$ 3,481     | 99%  |
| 31-60 days              | 4,508        | 17%  | 894             | 16%  | 1,957                     | 15%  | 1,635           | 29%  | 22           | 1%   |
| 61-90 days              | 1,783        | 6%   | 256             | 5%   | 680                       | 5%   | 836             | 15%  | 11           | %    |
| 91-120 days             | 1,019        | 4%   | 249             | 5%   | 483                       | 4%   | 280             | 5%   | 7            | %    |
| 121-150 days            | 340          | 1%   | 134             | 3%   | 202                       | 2%   |                 | %    | 4            | %    |
| Greater than 150 days** | 636          | 2%   | 536             | 10%  | 100                       | 1%   |                 | %    |              | %    |
| Totals                  | \$ 27,537    | 100% | \$ 5,262        | 100% | \$ 13,117                 | 100% | \$ 5,633        | 100% | \$ 3,525     | 100% |

\* Total includes \$748 fully reserved over 210 days as of April 30, 2010.

\*\* Total includes \$340 fully reserved over 210 days as of July 31, 2009.

### Income Taxes

The Company accounts for income taxes under the liability method of accounting for income taxes. Under the liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The liability method requires that any tax benefits recognized for net operating loss carry forwards and other items be reduced by a valuation allowance where it is not more likely than not the benefits will be realized in the foreseeable future.

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 the liability method, 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.

In fiscal 2008, the Company adopted the accounting pronouncement that prescribes a more-likely-than-not threshold for the recognition and derecognition of tax positions, provides guidance on the accounting for interest and penalties relating to tax positions and requires that the cumulative effect of applying the provisions of the pronouncement be reported as an adjustment to the opening balance of retained earnings or other appropriate components of equity or net assets in the statement of financial position. The Company did not have any significant unrecognized tax positions and there was no material effect on our financial condition or results of operations as a result of implementing the pronouncement.

Inventory

The Company values inventory at the lower of cost (first-in, first-out) or market. Work-in-process and finished goods inventories consist of material, labor, and manufacturing overhead. On a quarterly basis, we review inventory quantities on hand and analyze the provision for excess and obsolete inventory based on our estimate of sales forecasts based on sales history and anticipated future demand. Our estimate of future product demand may not be accurate and we may understate or overstate the provision for excess and obsolete inventory. Accordingly, unanticipated changes in demand could have a significant impact on the value of our inventory and results of operations. At April 30, 2010 and July 31, 2009, our reserve for excess and obsolete inventory was \$1.0 million.

Goodwill and Indefinite-Lived Intangibles

Goodwill, representing the cost of acquired businesses in excess of the fair value of net assets acquired, and indefinite-lived intangibles are not amortized, but are evaluated annually for impairment. The Company performs its annual impairment test as of the first day of its fiscal fourth quarter or if indicators of potential impairment exist. Goodwill is considered impaired if the carrying amount of the reporting unit exceeds its estimated fair value. In assessing the recoverability of goodwill, the Company reviews both quantitative as well as qualitative factors to support its assumptions with regard to fair value. The fair value of a reporting unit, which is based on geographic region, is estimated using both a discounted cash flow model and a weighted average multiple of earnings before interest and taxes from comparable companies. To date, there have been no impairment charges recorded. As of May 1, 2009, one of the Company's reporting unit's fair value exceeded its carrying value by 10%. This reporting unit's goodwill was \$5.3 million at the date of our annual impairment test. In determining fair value, the Company makes certain judgments, including the identification of reporting units and the selection of comparable companies. If these estimates or their related assumptions change in the future as a result of changes in strategy and/or market conditions, the Company may be required to record an impairment charge.

Intangible Assets

Intangible assets (exclusive of patents), arose primarily from acquisitions and primarily consist of customer relationships, trademarks, licenses, employment and non-compete agreements, and website and database content. Finite-lived intangible assets are amortized according to their estimated useful lives, which range from 4 to 15 years. The Company has capitalized certain legal costs directly incurred in pursuing patent applications as patent costs. When such applications result in an issued patent, the related costs are amortized over a ten year period or the life of the patent, whichever is shorter, using the straight-line method. The Company reviews its issued patents and pending patent applications, and if it determines to abandon a patent application or that an issued patent no longer has economic value, the unamortized balance in deferred patent costs relating to that patent is immediately expensed.

Recent Accounting Pronouncements

Effective August 1, 2009, the Company adopted The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC or Codification) of Generally Accepted Accounting Principles Overall. The Codification established one source for all U.S. GAAP and became the source of authoritative accounting principles for nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification is not intended to change existing GAAP and as such did not have an impact on the consolidated financial statements of the Company.

The adoption of the following accounting standards and updates during the first three months of fiscal 2010 did not result in a significant impact to our consolidated financial statements.

Effective August 1, 2009, we adopted the revised accounting standard relating to business combinations, including assets acquired and liabilities assumed arising from contingencies. This standard requires the use of the acquisition method of accounting, defines the acquirer, establishes the acquisition date and applies to all transactions and other events in which one entity obtains control over one or more other businesses. Upon our adoption of this standard, we will be required to expense certain transaction costs and related fees associated with business combinations that were previously capitalized. In addition, with the adoption of this standard, changes to valuation allowances for acquired deferred income tax assets and adjustments to unrecognized tax benefits acquired generally are to be recognized as adjustments to income tax expense rather than goodwill.

Effective August 1, 2009, we adopted the accounting standard regarding the determination of the useful life of intangible assets that removes the requirement to consider whether an intangible asset can be renewed without substantial cost or material modifications to the existing terms and conditions, and replaces it with a requirement that an entity consider its own historical experience in renewing similar arrangements, or a consideration of market participant assumptions in the absence of historical experience. This standard also requires entities to disclose information that enables users of financial statements to assess the extent to which the expected future cash flows associated with the asset are affected by the entity's intent and/or ability to renew or extend the arrangements.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk from changes in foreign currency exchange rates and, to a much lesser extent, interest rates on investments in short-term instruments, which could impact our results of operations and financial position. We do not currently engage in any hedging or market risk management tools. There have been no material changes with respect to market risk previously disclosed in our Annual Report on Form 10-K for our 2009 fiscal year.

#### *Foreign Currency Exchange Rate Risk*

The financial reporting of our non-U.S. subsidiaries is denominated in currencies other than the U.S. dollar. Since the functional currency of our non-U.S. subsidiaries is the local currency, foreign currency translation adjustments are accumulated as a component of accumulated other comprehensive income in stockholders' equity. Assuming a hypothetical aggregate change of 10% in the exchange rates of foreign currencies against the U.S. dollar at April 30, 2010, our assets and liabilities would increase or decrease by \$2.0 million and \$0.8 million, respectively, and our net sales and net (loss) or earnings would increase or decrease by \$1.4 million and \$0.1 million, respectively, on an annual basis.

We also maintain intercompany balances and loans receivable with subsidiaries with different local currencies. These amounts are at risk of foreign exchange losses if exchange rates fluctuate. Assuming a hypothetical aggregate change of 10% in the exchange rates of foreign currencies against the U.S. dollar at April 30, 2010, our pre-tax earnings would be favorably or unfavorably impacted by approximately \$0.4 million, on an annual basis.

#### *Interest Rate Risk*

Our excess cash is invested in highly liquid short term money market funds and short term investments in US Government agency discount notes with high credit ratings. Changes in interest rates may affect the investment income we earn on money market funds and short term investments and therefore affect our cash flows and results of operations. As of April 30, 2010, we were exposed to interest rate change market risk with respect to our money market accounts and short term investments totaling \$28.8 million. The money market accounts and short-term investments yield or bear interest rates ranging from 0% to 0.5%. Each 100 basis point (or 1%) fluctuation in interest rates will increase or decrease interest income on the money market funds and short-term investments by approximately \$0.3 million on an annual basis.

As of April 30, 2010, we did not maintain any fixed or variable interest rate financing.

### Item 4. Controls and Procedures

#### (a) Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, the Company's management conducted an evaluation (as required under Rules 13a-15(b) and 15d-15(b) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) of the Company's disclosure controls and procedures (as such term is defined under the Exchange Act), under the supervision and with the participation of the principal executive officer and the principal financial officer. Based on this evaluation, the principal executive officer and the principal financial officer concluded that the Company's disclosure controls and procedures are effective as of the end of the period covered by this report, and that information required to be disclosed in the reports that we file under the Exchange Act is recorded, processed, summarized and reported in a timely manner and is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Notwithstanding the foregoing, a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that it will detect or uncover failures within the Company to disclose material information otherwise required to be set forth in the Company's periodic reports.

#### (b) Changes in Internal Controls over Financial Reporting

There was no change in the Company's internal controls over financial reporting during the fiscal quarter covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



**PART II OTHER INFORMATION**

Item 1. Legal Proceedings

As previously reported in Item 1 in the Form 10-Q for the quarterly period ended January 31, 2010 filed on March 12, 2010, Mr. Shahram Rabbani, the former president of the Clinical Labs segment, commenced on January 8, 2010, as plaintiff, an action (the Action ) in the Supreme Court of the State of New York, County of New York, seeking a temporary restraining order and a preliminary and permanent injunction to enjoin the Company from convening the Annual Meeting on January 29, 2010. On January 11, 2010, the Company petitioned to remove the Action to the U.S. District Court for the Southern District of New York (the Court ), which petition was granted. A hearing on the matter was held on January 12, 2010. On January 27, 2010, the Court entered an order denying Mr. Rabbani s motion for a preliminary injunction to enjoin the Company from convening the Annual Meeting on January 29, 2010.

On January 28, 2010, the Company and Mr. Rabbani reached a settlement in the arbitration lawsuit brought by Mr. Rabbani in connection with the termination of Mr. Rabbani s employment, as previously disclosed in the Company s Annual Report on Form 10-K for the year ended July 31, 2009. For a full description regarding this settlement, please see Note 14 in notes to consolidated financial statements in Part 1, Item 1 of this Form 10-Q.

In connection with the suit filed by the Company and Enzo Life Sciences, Inc., in the United States District Court for the District of Connecticut on June 6, 2004 against Applera Corporation and its wholly-owned subsidiary Tropix, Inc. for alleged infringement of certain patents in which the Company was seeking an appeal, on March 26, 2010, the Federal Circuit issued an order concluding that the claims of U.S. Patent Nos. 5,328,824 and 5,449,767 were not indefinite and that there were genuine issues of material fact as to anticipation. The Court reversed the district court s summary judgment of invalidity of those two patents and remanded the case back to the Connecticut Court. Applera and Tropix then filed a combined petition for panel rehearing and rehearing en banc. On May 26, 2010, the Federal Circuit issued an order denying both petitions. (See Note 16 to the Form 10-K for the fiscal year ended July 31, 2009)

There have been no material developments with respect to previously reported legal proceedings discussed in the annual report on Form 10-K for the fiscal year ended July 31, 2009 filed with the Securities and Exchange Commission.

Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in Part 1, Item 1, of the Company s Annual Report on Form 10-K for the fiscal year ended July 31, 2009.

**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.

ENZO BIOCHEM,  
INC.

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(Registrant)

Date: June 9, 2010

by: /s/ Barry Weiner

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Chief Financial Officer, Principal Accounting Officer, Treasurer  
and Director

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