ENZO BIOCHEM INC
Form 10-Q
June 09, 2008

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

FORM 10-Q

Mark one

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

For the quarterly period ended April 30, 2008

or

o 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 (State or Other Jurisdiction of Incorporation or Organization)	13-2866202 (IRS. Employer Identification No.)
527 Madison Ave, New York, New York (Address of Principal Executive office)	10022 (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 x No o

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 o Accelerated filer x Non-accelerated filer o Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.)

Yes o No x

As of June 1, 2008 the Registrant had approximately 37,205,100 shares of common stock outstanding.

ENZO BIOCHEM, INC.
FORM 10-Q
April 30, 2008

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PART I - FINANCIAL INFORMATION

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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, 2008 (unaudited)	July 3 20 (audite
ASSETS		
Current assets:		
Cash and cash equivalents	$ 96,503	$ 105,14
Accounts receivable, net of allowances	14,123	14,35
Inventories	6,461	7,02
Prepaid expenses	1,510	1,76
Total current assets	118,597	128,29
Property, plant, and equipment, net	7,191	6,62
Goodwill	14,270	13,67
Intangible assets, net	8,976	9,33
Other	1,780	1,07
Total assets	$ 150,814	$ 159,00
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable - trade	$ 3,486	$ 4,11
Accrued liabilities	6,298	8,44
Other current liabilities	1,239	1,28
Deferred taxes	278	59
Total current liabilities	11,301	14,44
Deferred revenue	600	93
Deferred taxes	1,920	1,72
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: 37,630,708 at April 30, 2008 and 37,280,723 at July 31, 2007	376	37
Additional paid-in capital	300,328	295,89
Less treasury stock at cost: 777,719 shares at April 30, 2008 and 596,456 shares at July 31, 2007	(11,331)	(8,91
Accumulated deficit	(152,898)	(145,50
Accumulated other comprehensive income	518	4
Total stockholders' equity	136,993	141,89
Total liabilities and stockholders' equity	$ 150,814	$ 159,00

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 April 30,		Nine Months Ended April 30,	
	2008	2007	2008	200
Revenues:				
Product revenues	$ 6,995	$ 883	$ 18,885	$ 2,69
Royalty and license fee income	1,642	1,547	5,458	3,75
Clinical laboratory services	10,312	11,530	32,276	28,54
	18,949	13,960	56,619	34,99
Costs and expenses and other (income):				
Cost of product revenues	4,434	831	13,078	1,85
Cost of clinical laboratory services	5,178	5,253	15,278	12,81
Research and development expense	1,999	2,614	6,150	6,93
Selling, general, and administrative expense	8,343	6,177	25,350	18,86
Provision for uncollectible accounts receivable	927	1,338	3,050	3,43
Legal expense	782	3,049	4,458	7,15
Interest income	(712)	(1,548)	(3,257)	(3,62
Other income	(62)	-	(188)	(2,69
	20,889	17,714	63,919	44,72
Loss before income taxes	(1,940)	(3,754)	(7,300)	(9,73
Provision for income taxes	168	79	94	19
Net loss	($ 2,108)	($ 3,833)	($ 7,394)	($ 9,93
Net loss per common share:				
Basic	($ 0.06)	($ 0.10)	($ 0.20)	($ 0.2
Diluted	($ 0.06)	($ 0.10)	($ 0.20)	($ 0.2
Weighted average common shares outstanding:				
Basic	36,834	36,630	36,771	34,46
Diluted	36,834	36,630	36,771	34,46

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, 2008
(UNAUDITED)
(In thousands, except share data)

	Common Stock Shares	*Treasury Stock Shares*	Common Stock Amount	Additional Paid-in Capital	Treasury Stock Amount	Accumu	A Cu Defi
Balance at July 31, 2007	*37,280,723*	*596,456*	$ 372	$ 295,899	($ 8,915)	($ 145,50	
Net loss for the nine months ended April 30, 2008							(7,39
Purchase of treasury stock		*181,263*			(2,416)		
Exercise of stock options	*255,797*		3	2,808			
Vesting of restricted stock	*57,638*		1				
Stock-based compensation charges				1,152			
Issuance of stock for 401(k) employer match	*36,550*			481			
Common stock issuance cost adjustment				(12)			
Foreign currency translation adjustments							
Comprehensive loss							
Balance at April 30, 2008	*37,630,708*	*777,719*	$ 376	$ 300,328	($ 11,331)	($ 152,89	

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

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

	Nine Months Ended April 30,	
	2008	**2007**
Cash flows from operating activities:		
Net loss	($ 7,394)	($ 9,930)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization of property, plant and equipment	1,025	736
Amortization of intangible assets	362	59
Provision for uncollectible accounts receivable	3,050	3,433
Write off and/or reserve taken for obsolete inventory	154	365
Deferred income tax benefit	(370)	—
Share-based compensation charges	1,152	1,182
Deferred revenue recognized	(338)	—
Issuance of common stock for 401(k) employer match	481	419
Other	3	8
Changes in operating assets and liabilities:		
Accounts receivable	(2,822)	(4,765)
Other receivables	—	(1,500)
Inventories	463	(85)
Prepaid expenses	268	726
Recoverable and prepaid income taxes	—	166
Accounts payable - trade	(344)	291
Accrued liabilities	(2,627)	1,098
Other current liabilities	(48)	794
Deferred revenue	—	1,050
Total Adjustments	409	3,977
Net cash used in operating activities	(6,985)	(5,953)
Cash flows from investing activities:		
Capital expenditures	(1,596)	(1,069)
Increase in cash surrender value	(47)	(88)
Increase in other assets	(169)	(10)
Acquisition, net of cash acquired	(229)	—
Acquisition costs paid	(51)	—
Net cash used in investing activities	(2,092)	(1,167)
Cash flows from financing activities:		
Net proceeds (issuance costs) from the issuance of common stock	(12)	56,997
Proceeds from the exercise of stock options	395	293
Net cash provided by financing activities	383	57,290
Effect of exchange rate changes on cash and cash equivalents	48	—

(Decrease) increase in cash and cash equivalents	(8,646)	50,170
Cash and cash equivalents - beginning of period	105,149	69,854
Cash and cash equivalents - end of period	$ 96,503	$ 120,024

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

ENZO BIOCHEM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of April 30, 2008
and for the three and nine month periods ended
April 30, 2008 and 2007
(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". Effective May 31, 2007, Enzo Life Sciences, Inc. completed the acquisition of all of the outstanding capital stock of Axxora Life Sciences, Inc ("Axxora"). The consolidated balance sheet as of April 30, 2008, statement of stockholders' equity and comprehensive loss for the nine months ended April 30, 2008, the statements of cash flows for the nine months ended April 30, 2008 and 2007, and the consolidated statements of operations for the three and nine months ended April 30, 2008 and 2007 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, 2007 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, 2007 has been derived from the audited financial statements at that date. The results of operations for the three and nine months ended April 30, 2008 are not necessarily indicative of the results that may be expected for the fiscal year ending July 31, 2008.

Recent Accounting Pronouncements

On August 1, 2007, the Company adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" (FIN 48). FIN 48 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 FIN 48 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 adopting FIN 48. See Note 10, "Income Taxes," for additional information relating to the Company's adoption of FIN 48.

In December 2007, the FASB issued Statement No. 141(R), *Business Combinations* ("Statement 141 (R)"), a replacement of FASB Statement No. 141. Statement 141(R) is effective for fiscal years beginning on or after December 15, 2008 and applies to all business combinations. Statement 141(R) provides that, upon initially obtaining control, an acquirer shall recognize 100 percent of the fair values of acquired assets, including goodwill, and assumed liabilities, with only limited exceptions, even if the acquirer has not acquired 100 percent of its target. As a consequence, the current step acquisition model will be eliminated. Additionally, Statement 141(R) changes current practice, in part, as follows: (1) contingent consideration arrangements will be fair valued at the acquisition date and included on that basis in the purchase price consideration; (2) transaction costs will be expensed as incurred, rather than capitalized as part of the purchase price; (3) pre-acquisition contingencies, such as legal issues, will generally have to be accounted for in purchase accounting at fair value; and (4) in order to accrue for a restructuring plan in purchase accounting, the requirements in FASB Statement No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, would have to be met at the acquisition date. While there is no expected impact to our consolidated financial statements on the accounting for acquisitions completed prior to July 31, 2009, the adoption of Statement 141(R) on August 1, 2009 could materially change the accounting for business combinations consummated subsequent to that date.

In September 2006, the FASB issued Statement 157, *Fair Value Measurement* ("Statement 157"). Statement 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and establishes a hierarchy that categorizes and prioritizes the sources to be used to estimate fair value. Statement 157 also expands financial statement disclosures about fair value measurements.

On February 6, 2008, the FASB issued FASB Staff Position (FSP) 157-2 which delays the effective date of Statement 157 for one year for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Statement 157 and FSP 157-2 are effective for financial statements issued for fiscal years beginning after November 15, 2007.

When required to adopt Statement 157, the Company expects to elect a partial deferral of Statement 157 as provided for under the provisions of FSP 157-2. The Company does not believe that the impact of partially adopting Statement 157 effective August 1, 2008 will have a material effect on the Company's consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115." SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective of SFAS No. 159 is to provide opportunities to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply hedge accounting provisions. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company has not completed the assessment as to whether the impact of the adoption of SFAS No. 159 will have a material impact on its financial condition or results of operations.

Reclassifications

Certain amounts in prior year periods have been reclassified to conform to current year presentation. In the fourth quarter of Fiscal 2007, the Company reclassified shipping and handling costs previously included in selling expense to cost of sales. The shipping and handling costs reclassed were approximately $58,000 and $154,000, respectively, for the three and nine months ended April 30, 2007.

Note 2 - Acquisitions

On May 29, 2007, Enzo Life Sciences, Inc. ("Enzo Life Sciences"), a wholly owned subsidiary of the Company, entered into a Stock Purchase Agreement (the "Agreement"), by and among Enzo Life Sciences, Axxora Life Sciences, Inc. ("Axxora") and the stockholders, option holders and warrant holders of Axxora who owned all of the issued and outstanding capital stock, options and warrants, respectively, of Axxora (collectively, the "Security holders"). Pursuant to the Agreement, Enzo Life Sciences purchased all of the issued and outstanding capital stock of Axxora from the Security holders for an aggregate purchase price of $16,322,000, exclusive of acquisition costs of $1,023,000 and assumed debt of $475,000. The Company acquired $881,000 in cash which is included in the current assets below. At closing $14,992,000 was paid to the Security holders, $1,280,000 was paid to an escrow agent for a one-year period following the closing to satisfy any indemnification obligations of the Security holders under the Agreement during that period and $50,000 was paid to an escrow agent, for a one-year period following the closing to pay certain out-of-pocket expenses of the representatives of the Security holders in connection with the transaction. Upon consummation of the acquisition on June 3, 2007 with an effective date of May 31, 2007, ("date of acquisition"), Axxora became a wholly-owned subsidiary of Enzo Life Sciences. The acquisition was financed with the Company's cash and cash equivalents.

The following table presents the preliminary estimated fair values of the assets acquired and liabilities assumed on the date of acquisition (in thousands):

Current assets	$	9,033
Property and equipment		360
Other assets		82
Other intangible assets		8,220
Goodwill		6,470
Total assets acquired		24,165
Less:		
Current liabilities		4,394
Deferred tax liabilities		2,426
Total liabilities assumed		6,820

Net assets acquired	$	17,345

The purchase accounting is based on a preliminary valuation of acquired intangible assets and will be adjusted based on the final valuation report to be completed in fiscal 2008. The Company has engaged an independent third-party valuation firm to determine the fair value of the identifiable intangible assets. The excess of the total purchase price over the fair value of the net assets acquired, including the fair value of the identifiable intangible assets, has been allocated to goodwill. The fair values of the identifiable intangible assets are based on various factors including: cost, discounted cash flow, and relief from royalty approaches in determining the preliminary purchase price allocation and are subject to change. For financial reporting purposes, useful lives have been assigned as follows:

Customer relationships	15 years
Trade names and trademarks	Indefinite
Other intangibles	4-5 years

The following unaudited pro forma financial information presents the combined results of operations of the Company and Axxora as if the acquisition had occurred at the beginning of the fiscal 2007 period presented. The pro forma financial information reflects appropriate adjustments for amortization of intangible assets and a decrease for interest expense. The pro forma financial information presented is not necessarily indicative of either the actual consolidated operating results had the acquisition been completed at the beginning of the period or future operating results of the consolidated entities.

(In thousands except per share amounts)		**Three months ended April 30, 2007**		**Nine months ended April 30, 2007**
Net revenues	$	18,562	$	47,894
Net loss		(3,865)		(9,792)
Net loss per common share – basic and diluted:	($	0.11)	($	0.28)

On March 7, 2008, Axxora acquired 100% of the outstanding stock of a distributor of life science products in Belgium for a total consideration of approximately $229,000 in cash, net of cash acquired, including transaction costs. Liabilities assumed aggregated $369,000. Prior to the acquisition, the acquired company was a distributor of Enzo Life Science’s products as well as other unrelated manufacturers. The Company recorded goodwill of $348,000 related to this acquisition. The consolidated financial statements presented herein include the results of operation for the acquired company from the date of acquisition.

Note 3 – Net loss per share

Basic net loss per common share is computed using the weighted average number of common shares outstanding during the three and nine months ended April 30, 2008 and 2007. Diluted net loss per common shares is computed using the weighted average number of shares outstanding during the three and nine months ended April 30, 2008 and 2007, and excludes the effect of dilutive potential common shares (consisting of employee stock options and unvested restricted stock awards) as their inclusion would be antidilutive. Accordingly, basic and diluted net loss per share is the same during these periods.

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.

	Three months ended April 30,		**Nine months ended April 30,**	
(In thousands)	**2008**	**2007**	**2008**	**2007**
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	142	733	259	621

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.

	Three months ended April 30,		Nine months ended April 30,	
(In thousands)	**2008**	**2007**	**2008**	**2007**
“Out of the money” employee and director stock options	1,739	905	1,739	905

Note 4 – Share-based compensation

The Company adopted SFAS No. 123(R), “Share-Based Payment” (“SFAS 123(R)”) and related interpretations effective August 1, 2005. Compensation costs recognized in the three and nine month periods ended April 30, 2008 and 2007 include compensation costs for all share-based payments granted prior to, but not yet vested as of July 31, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, and compensation costs for all share-based payments granted subsequent to August 1, 2005, based on the grant fair value estimated in accordance with the provisions of SFAS 123(R).

The following table sets forth the amount of share-based compensation expense upon vesting and per share data related to share-based payment arrangements included in the accompanying statements of operations:

In thousands, except per share data	Three months ended April 30,		Nine months ended April 30,	
	2008	**2007**	**2008**	**2007**
Stock options	$ 63	$ 91	$ 205	$ 767
Restricted stock awards	346	221	947	415
Total	$ 409	$ 312	$ 1,152	$ 1,182
Impact on basic and diluted net loss per common share	$ 0.01	$ 0.01	$ 0.03	$ 0.03
As included in the statements of operations				
Cost of product revenues	$ 7	$ 4	$ 13	$ 10
Research and development	35	50	76	148
Selling, general and administrative	367	258	1,063	1,024
	$ 409	$ 312	$ 1,152	$ 1,182

No excess tax benefits were recognized during the three or nine month periods ended April 30, 2008 and 2007.

Stock option plans

A summary of the activity relating to the Company’s stock option plans for the nine month period ended April 30, 2008 is as follows:

	Options	**Weighted Average Exercise Price**	**Aggregate Intrinsic Value**
Outstanding at August 1, 2007	2,700,457	$ 13.32	$ 4,262,000
Exercised	(255,797)	$ 11.00	
Cancelled	(153,169)	$ 20.64	
Outstanding at end of period	2,291,491	$ 13.10	$ 671,000
Exercisable at end of period	2,265,771	$ 13.09	$ 671,000
Available for grant at April 30, 2008	584,240		

As of April 30, 2008, there was approximately $89,000 of total unrecognized compensation cost related to unvested stock option-based compensation, which will be recognized over a weighted average remaining period of approximately a half a year.

During the nine months ended April 30, 2008 and 2007, the Company received cash proceeds of approximately $395,000 and $293,000, respectively, from the exercise of 35,639 and 28,548 stock options, respectively. The aggregate intrinsic value of stock options exercised during the nine months ended April 30, 2008 and 2007, including the non-cash transactions (Note 5) was approximately $0.7 million and $0.4 million, respectively.

Restricted Stock Awards

A summary of the activity pursuant to the Company's restricted stock awards for the nine months ended April 30, 2008 is as follows:

	Awards	Weighted Average Award Price
Unvested at beginning of period	141,062	$ 14.15
Granted	149,240	$ 10.89
Vested	(57,638)	$ (13.59)
Forfeited	(7,000)	$ 14.07
Unvested at end of period	225,664	$ 12.14

The fair value of a restricted stock award is determined based on the closing stock price on the grant date. As of April 30, 2008, there was approximately $2,130,000 of total unrecognized compensation cost related to unvested restricted stock-based compensation to be recognized over a weighted average remaining period of twenty months.

Note 5 – 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):

	Nine months ended April 30,	
	2008	2007
Taxes paid	$ 204	$ 26

During the nine months ended April 30, 2008, certain officers and a director of the Company exercised 220,158 stock options in non-cash transactions. The individuals surrendered 181,263 shares of previously acquired common stock to exercise the stock options. The Company recorded approximately $2.4 million, the market value of the surrendered shares, as treasury stock.

During the nine months ended April 30, 2007, certain officers of the Company exercised 43,112 stock options in non-cash transactions. The officers surrendered 26,697 shares of previously acquired common stock to exercise the stock options. The Company recorded approximately $0.4 million, the market value of the surrendered shares, as treasury stock.

Note 6 – Comprehensive loss

During the three months ended April 30, 2008 and 2007, total comprehensive loss was approximately $1.9 million and $3.8 million, respectively. During the nine months ended April 30, 2008 and 2007, total comprehensive loss was approximately $6.9 million and $9.9 million, respectively.

At April 30, 2008 and July 31, 2007, the accumulated other comprehensive income relates to cumulative translation adjustments.

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Note 7 - Inventories

Inventories, net of reserves of $533,000 and $379,000, respectively, consist of the following, as of:

(In thousands)	April 30, 2008	July 31, 2007
Raw materials	$ 25	$ 34
Work in process	1,114	1,221
Finished products	5,322	5,767
	$ 6,461	$ 7,022

Note 8 – Goodwill and intangible assets

The Company's goodwill, net of amortization, as of April 30, 2008 is as follows:

In thousands	
Balance – July 31, 2007	$ 13,676
Additional purchase price adjustments arising from fiscal 2007 business combination in Life Science segment (Note 2)	246
Goodwill arising from fiscal 2008 business combination in Life Science segment (Note 2)	348
Balance – April 30, 2008	$ 14,270

Intangible assets consist of licenses, trade names, customer relationships and product designs acquired pursuant to acquisitions and patents. Intangible assets, all of which are included in the Life Science segment, consist of the following (in thousands):

	April 30, 2008			July 31, 2007		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Finite-lived intangible assets:						
Patents	$ 11,027	$ (9,908)	$ 1,119	$ 11,027	$ (9,849)	$ 1,178
Customer relationships	3,890	(231)	3,659	3,890	(36)	3,854
Non-compete and employment agreements	360	(83)	277	360	(15)	345
Website and acquired content	270	(49)	221	270	(9)	261
Indefinitely-lived intangible assets:						
Trademarks	3,700	—	3,700	3,700	—	3,700
Total	$ 19,247	$ (10,271)	$ 8,976	$ 19,247	$ (9,909)	$ 9,338

Note 9 – Accrued liabilities and other current liabilities

Accrued liabilities consist of:

(In thousands)	April 30, 2008	July 31, 2007

Legal	$	1,068	$	4,542
Payroll, benefits, and commissions		1,744		1,417
Research and development		725		344
Professional fees		678		986
Outside reference lab testing		275		276
Other		1,808		881
	$	6,298	$	8,446

Other current liabilities consist of:

(In thousands)	April 30, 2008	July 31, 2007
Deferred revenue	$ 830	$ 770
Other	409	517
	$ 1,239	$ 1,287

Note 10 - 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, 2008 was 8.6% compared to 2.1% during the three months ended April 30, 2007. The tax provision for the three months ended April 30, 2008 was based on state and local taxes, taxes and interest from a local tax audit, and book to tax differences for acquired inventory. The Company's effective tax rate for the three months ended April 30, 2007 was based on state and local taxes. 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's effective tax rate provision for the nine months ended April 30, 2008 was 1.3% compared to 2.0% during the nine months ended April 30, 2007. The tax provision for the nine months ended April 30, 2008 was based on state and local taxes, taxes and interest from a local tax audit, and book to tax differences for acquired inventory. The Company's effective tax rate for the nine months ended April 30, 2007 was based on state and local taxes. 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 adopted the provisions of FIN 48 on August 1, 2007. The Company did not have any significant unrecognized tax positions and there was no material effect on its financial condition or results of operations as a result of adopting FIN 48. The Company does not believe there will be any material changes in its unrecognized tax positions over the next twelve months.

The Company files a consolidated Federal income tax return. The Company files a combined New York State and City return with certain subsidiaries. Other subsidiaries file separate state and foreign tax returns.

The tax years that remain subject to Federal examination are fiscal years ended July 31, 2005 through 2007. The tax years that remain subject to state examination are fiscal years ended July 31, 2005 through 2007. The tax years that remain open for local examination are fiscal years ended July 31, 2005 through 2007. The tax years that remain subject to foreign examination are the years ended December 31, 2003 through 2007.

In connection with an audit of the Company's New York City tax returns for the fiscal years ended July 31, 2002, 2003 and 2004, the Company accrued a liability of $60,000 for tax and $32,000 for interest during the three and nine months ended April 30, 2008. In connection with a business combination, 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 three and nine months ended April 30, 2008, the Company accrued $4,000 and $20,000, respectively, in interest with respect to the uncertain tax position. The Company's policy is to recognize interest and penalties accrued on any uncertain tax positions as a component of income tax expense.

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Note 11 – Other income

The Company as plaintiff and Sigma Aldrich ("Sigma") entered into a Settlement Agreement and Release effective September 15, 2006 (the "Settlement"). Pursuant to the Settlement, the Company's litigation with Sigma was dismissed and the Company recognized a $2.0 million gain on patent litigation settlement in the accompanying consolidated statement of operations for the nine months ended April 30, 2007. During the nine months ended April 30, 2007, the Company received a payment of approximately $699,000 from Perkin Elmer Inc. ("Perkin Elmer") for amounts due under a Distribution Agreement (the "Distribution Agreement") which terminated December 31, 2004. The Distribution Agreement is presently subject to a lawsuit for breach of contract, patent infringement, unfair competition under state law, unfair competition under federal law, tortuous interference with business relations, and fraud in the inducement of contract. Perkin Elmer advised in a letter to the Company that the payment was owed under the Distribution Agreement and was delayed because of changes to their accounting system and personnel changes and that it was always their intent to comply with the Distribution Agreement. The Company advised Perkin Elmer that the payment did not represent all amounts owed under the Distribution Agreement. Accordingly, the payment was included in "Other income" in the accompanying consolidated statements of operations for the nine months ended April 30, 2007.

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"). Subsequent to the settlement, the Agreement provides for the Company to receive quarterly running royalties on the net sales of Digene products subject to the license until the expiration of the patent in April 2018. During the three months ended April 30, 2008 and 2007, the Company recorded approximately $1.0 million in royalties from the Agreement and during the nine months ended April 30, 2008 and 2007, recorded approximately $3.9 million and $3.2 million, respectively. Digene was acquired by QIAGEN N.V. in July 2007.

During the three and nine months ended April 30, 2008, the Company recorded approximately $0.6 million and $1.5 million, respectively, in royalties and license fee income under a licensing agreement with Abbott Molecular, Inc. ("Abbott") entered into in the third quarter of fiscal 2007. During the three and nine months ended April 30, 2007, the Company recorded approximately $0.6 million in royalties under the licensing agreement for royalty payments effective from September 1, 2006, the initial license period.

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, 2008

	Life Sciences	Therapeutics	Clinical Labs	Other
Revenues:				
Product revenues	$ 6,995	—	—	—
Royalty and license fee income	1,642	—	—	—
Clinical laboratory services	—	—	$ 10,312	—
	8,637	—	10,312	—
Costs and expenses and other (income):				
Cost of product revenues	4,434	—	—	—
Cost of clinical laboratory services	—	—	5,178	—
Research and development	776	1,223	—	—
Provision for uncollectible accounts receivable	—	—	927	—
Selling, general and administrative and legal	2,404	—	3,864	$ 2,857
Interest income	—	—	(53)	(659)
Other income	(62)	—	—	—
Income (loss) before income taxes	$ 1,085	$ (1,223)	$ 396	$ (2,198)
Depreciation and amortization included above	$ 222	$ 10	$ 206	$ 39
Share-based compensation included in above:				
Cost of product revenues	$ 2	—	5	—
Research and development	10	$ 25	—	—
Selling, general and administrative and legal	36	—	$ 65	$ 266
Total	$ 48	25	$ 70	$ 266
Capital expenditures	$ 201	$ —	$ 364	$ 12

Three months ended April 30, 2007

	Life Sciences	Therapeutics	Clinical Labs	Other
Revenues:				
Product revenues	$ 883	—	—	—
Royalty and license fee income	1,547			
Clinical laboratory services	—	—	$ 11,530	—
	2,430	—	11,530	—
Costs and expenses and other (income):				
Cost of product revenues	831	—	—	—
Cost of clinical laboratory services	—	—	5,253	—
Research and development	749	$ 1,865	—	—
Provision for uncollectible accounts receivable	—	—	1,338	—
Selling, general and administrative and legal	413	—	3,575	$ 5,238
Interest income	—	—	—	(1,548)
Other income	—	—	—	—

Income (loss) before income taxes	$ 437	$ (1,865)	$ 1,364	$ (3,690)
Depreciation and amortization included above	$ 43	$ 4	$ 212	$ 8
Share-based compensation included in above:				
Cost of product revenues	$ 4	—	—	—
Research and development	17	$ 33	—	—
Selling, general and administrative and legal	8	—	$ 65	$ 185
Total	$ 29	$ 33	$ 65	$ 185
Capital expenditures	$ 365	$ 9	$ 385	$ —

Nine months ended April 30, 2008

	Life Sciences	Therapeutics	Clinical Labs	Other	
Revenues:					
Product revenues	$ 18,885	—	—	—	$
Royalty and license fee income	5,458	—	—	—	
Clinical laboratory services	—	—	$ 32,276	—	
	24,343	—	32,276	—	
Costs and expenses and other (income):					
Cost of product revenues	13,078	—	—	—	
Cost of clinical laboratory services	—	—	15,278	—	
Research and development	2,573	$ 3,577	—	—	
Provision for uncollectible accounts receivable	—	—	3,050	—	
Selling, general and administrative and legal	6,458	—	11,707	$ 11,643	
Interest income	—	—	(196)	(3,061)	
Other income	(88)	(100)	—	—	
Income (loss) before income taxes	$ 2,322	$ (3,477)	$ 2,437	$ (8,582)	$
Depreciation and amortization included above	$ 622	$ 25	$ 624	$ 116	$
Share-based compensation included in above:					
Cost of product revenues	$ 8	—	5	—	
Research and development	39	$ 37	—	—	$
Selling, general and administrative and legal	96	—	$ 183	$ 784	
Total	$ 143	37	$ 188	$ 784	$
Capital expenditures	$ 860	$ 64	$ 627	$ 45	$

Nine months ended April 30, 2007

	Life Sciences	Therapeutics	Clinical Labs	Other	
Revenues:					
Product revenues	$ 2,699	—	—	—	$
Royalty and license fee income	3,756				
Clinical laboratory services	—	—	$ 28,543	—	
	6,455	—	28,543	—	
Costs and expenses and other (income):					
Cost of product revenues	1,852	—	—	—	
Cost of clinical laboratory services	—	—	12,815	—	
Research and development	2,481	$ 4,454	—	—	
Provision for uncollectible accounts receivable	—	—	3,433	—	
Selling, general and administrative and legal	1,325	—	10,658	$ 14,037	
Interest income	—	—	—	(3,627)	
Other income	(2,699)	—	—	—	
Income (loss) before income taxes	$ 3,496	$ (4,454)	$ 1,637	$ (10,410)	$

Depreciation and amortization included above	$ 135	$ 11	$ 623	$ 26	$
Share-based compensation included in above:					
Cost of product revenues	$ 10	—	—	—	$
Research and development	53	$ 95	—	—	
Selling, general and administrative and legal	23	—	$ 303	$ 698	
Total	$ 86	$ 95	$ 303	$ 698	$
Capital expenditures	$ 426	$ 16	$ 627	$ —	$

Note 14- Subsequent Event

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 thresholds 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. Biomol was a privately owned global manufacturer and marketer of specialty life sciences research products, with consolidated revenues of approximately $11.5 million for its fiscal year ended December 31, 2007. The Biomol Acquisition strengthens the Company's position as a global provider of life sciences reagents by broadening our product offerings and manufacturing capabilities.

At April 30, 2008, the Company has recorded approximately $488,000 in acquisition costs which are included in "Other assets" in the accompanying balance sheet.

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.

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 2007 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

We are a life sciences and biotechnology company focused on harnessing genetic processes to develop research tools, diagnostics and therapeutics and on serving as a provider of diagnostic services to the medical community. Since our founding in 1976, our strategic focus has been on the development of enabling technologies in the life sciences field. Our pioneering work in genomic analysis coupled with our extensive patent estate and enabling platforms have strategically positioned us to play an important role in the rapidly growing life sciences and molecular medicine marketplaces.

We are comprised of three operating segments, of which the Therapeutics and Life Sciences segments have evolved out of our core competencies: the use of nucleic acids as informational molecules and the use of compounds for immune modulation. 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 biomedical research products and tools to research and pharmaceutical customers world-wide and has amassed a large patent and technology portfolio. The pioneering platforms developed by Enzo Life Sciences enable the development of a wide range of products in the research products marketplace. We are internationally recognized and acknowledged as a leader in manufacturing, in-licensing, and commercialization of over 25,000 innovative high quality research reagents in key research areas. The division is an established source for a comprehensive panel of products to scientific experts in the fields of gene expression, non-radioactive labeling and detection, adipokines & obesity, apoptosis, cell cycle, cytoskeletal research, DNA damage & repair, immunology & cancer research, inflammation, neurobiology, nitric oxide & oxidative stress, and signal transduction.

Enzo Clinical Labs is a regional clinical laboratory to the New York Metropolitan and New Jersey areas. The Company believes this allows us to capitalize firsthand on our extensive advanced molecular and cytogenetic capabilities and the broader trends in predictive diagnostics. Enzo Clinical Labs offers 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, and search for an otherwise undiagnosed condition. We operate a full-service clinical laboratory in Farmingdale, New York, a network of 20 patient service centers, a stand alone “stat” or rapid response laboratory in New York City, and a full-service phlebotomy department.

The Company’s sources of revenue have been from the direct sales of products consisting of labeling and detection reagents for the genomics and sequencing markets, as well as through non-exclusive distribution agreements with other companies, and royalty and license fee income.

Another source of revenue has been from the clinical laboratory service market. Payments for clinical laboratory testing services are made by the Medicare program, healthcare insurers and patients. Fees billed to patients, Medicare, and third-party payers are billed on the Clinical Lab’s standard gross fee schedule, subject to any limitations on fees negotiated with the third-party payers or with the ordering physicians on behalf of their patients.

The Company incurs additional costs as a result of our participation in the Medicare programs, as billing and reimbursement for clinical laboratory testing is subject to considerable and complex federal regulations. Compliance with applicable laws and regulations, as well as internal compliance policies and procedures, adds further complexity and costs to our operations. Government payers such as Medicare, as well as healthcare insurers have taken steps and may continue to take steps to control the costs, utilizations and delivery of healthcare services, including clinical laboratory services. Principally as a result of reimbursement reductions and measures adopted by the Centers for Medicare & Medicaid Services, or CMS, which establishes procedures and continuously evaluates and implements changes in the reimbursement process to control utilization. Despite the added cost and complexity of participating in the Medicare program, we continue to participate because we believe that our other business may depend, in part, on continued participation in Medicare since we believe certain ordering physicians may want a single laboratory capable of performing all of their clinical laboratory testing services, regardless of who pays for such services.

Information systems are used extensively in virtually all aspects of the clinical laboratory operations, including testing, billing, customer service, logistics, and management of medical data. Our success depends, in part, on the continued and uninterrupted performance of our information technology systems. Through maintenance, staffing, and investments in our information technology system, we expect to limit the risk associated with our heavy reliance on these systems.

The clinical laboratory is subject to seasonal fluctuations in operating results and cash flows. Typically, testing volume declines during the summer months, year end holiday periods and other major holidays, reducing net revenues and operating cash flows. Testing volume is also subject to declines in winter months due to inclement weather, which varies in severity from year to year.

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. Enzo Therapeutics has focused its efforts on developing treatment regimens for diseases and conditions for 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

Biomol International, L.P. Acquisition

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 thresholds 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. Biomol was a privately owned global manufacturer and marketer of specialty life sciences research products, with consolidated revenues of approximately $11.5 million for its fiscal year ended December 31, 2007. The Biomol Acquisition strengthens the Company's position as a global provider of life sciences reagents by broadening the Company's product offerings and manufacturing capabilities.

Axxora Life Science, Inc. Acquisition

Effective May 31, 2007, Enzo Life Sciences entered into a Stock Purchase Agreement pursuant to which Enzo Life Sciences purchased all of the issued and outstanding capital stock of Axxora Life Sciences, Inc. ("Axxora") for an aggregate purchase price of $16.3 million in cash, exclusive of acquisition costs of approximately $1 million and assumed debt of $475,000. Upon consummation of the acquisition Axxora became a wholly-owned subsidiary of Enzo Life Sciences. The consolidated statements of operations for the three and nine months ended April 30, 2008 include the results of operations of Axxora. Axxora is included in the Life Sciences segment.

Axxora is a developer, manufacturer and distributor of reagents for the research and biochemical industries and is based in the U.S. with wholly-owned subsidiaries in the U.S., Switzerland, Germany and the United Kingdom, as well as distributors located in other major markets throughout the world. Axxora's electronic marketplace enables customers to purchase research reagents from internationally recognized manufacturers covering all areas of the life sciences research reagents field. As a result of this transaction, Enzo Life Sciences has expanded its product offerings both through internal manufacturing and distribution and increases its geographic distribution. The acquisition was financed with the Company's cash and cash equivalents.

Results of Operations
Three months ended April 30, 2008 as compared to April 30, 2007

Comparative Financial Data for the Three Months Ended April 30,

(in thousands)

	2008	2007	Increase (Decrease)	% Change
Revenues:				
Product sales	$ 6,995	$ 883	$ 6,112	692%
Royalty and license fee income	1,642	1,547	95	6
Clinical laboratory services	10,312	11,530	(1,218)	(11)
Total revenues	18,949	13,960	4,989	36
Costs and expenses and other (income):				
Cost of products	4,434	831	3,603	434
Cost of laboratory services	5,178	5,253	(75)	(1)
Research and development	1,999	2,614	(615)	(24)
Selling, general and administrative	8,343	6,177	2,166	35
Provision for uncollectible accounts receivable	927	1,338	(411)	(31)
Legal expenses	782	3,049	(2,267)	(74)
Interest income	(712)	(1,548)	836	(54)
Other income	(62)	-	(62)	
Total costs and expenses and other- net				