

ENZO BIOCHEM INC  
Form 10-Q  
March 12, 2013

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 January 31, 2013

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  
(State or Other Jurisdiction  
of Incorporation or Organization)

13-2866202  
(IRS. Employer  
Identification No.)

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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  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).

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 March 1, 2013 the Registrant had approximately 39,378,600 shares of common stock outstanding.

ENZO BIOCHEM, INC.  
FORM 10-Q  
January 31, 2013

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

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

	January 31, 2013 (unaudited)	July 31, 2012 (audited)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 10,023	\$15,076
Accounts receivable, net of allowances	12,580	14,135
Inventories	9,300	8,800
Prepaid expenses	2,214	2,357
Total current assets	34,117	40,368
Property, plant and equipment, net	9,252	9,116
Goodwill	7,452	7,452
Intangible assets, net	10,974	11,780
Other	431	407
Total assets	\$ 62,226	\$69,123
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable – trade	\$ 8,962	\$9,020
Accrued liabilities	11,201	9,818
Other current liabilities	281	118
Total current liabilities	20,444	18,956
Deferred taxes	727	938
Other liabilities	765	128
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: 39,592,612 at January 31, 2013 and 39,495,475 at July 31, 2012	396	395
Additional paid-in capital	304,659	304,358
Less treasury stock at cost: 216,556 shares at January 31, 2013 and July 31, 2012	(3,074 )	(3,074 )
Accumulated deficit	(263,548 )	(254,183)
Accumulated other comprehensive income	1,857	1,605
Total stockholders' equity	40,290	49,101
Total liabilities and stockholders' equity	\$ 62,226	\$69,123

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

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

	Three Months Ended		Six Months Ended	
	January 31,		January 31,	
	2013	2012	2013	2012
Revenues:				
Clinical laboratory services	\$13,320	\$14,123	\$28,497	\$28,310
Product revenues	7,876	9,542	16,309	19,245
Royalty and license fee income	1,014	1,308	3,033	3,170
Total revenues	22,210	24,973	47,839	50,725
Operating expenses:				
Cost of clinical laboratory services	9,425	8,709	19,135	17,523
Cost of product revenues	4,143	4,685	8,327	9,822
Research and development	968	1,703	1,979	3,328
Selling, general, and administrative	10,892	11,487	22,308	23,872
Provision for uncollectible accounts receivable	1,335	1,169	2,929	2,455
Legal	1,441	1,023	3,142	1,892
Total operating expenses	28,204	28,776	57,820	58,892
Operating loss	(5,994 )	(3,803 )	(9,981 )	(8,167 )
Other income (expense):				
Interest	(7 )	14	(15 )	12
Other	43	65	56	76
Foreign currency income (loss)	104	(352 )	333	(323 )
Loss before income taxes	(5,854 )	(4,076 )	(9,607 )	(8,402 )
Benefit (provision) for income taxes	180	(145 )	242	(313 )
Net loss	\$(5,674 )	\$(4,221 )	\$(9,365 )	\$(8,715 )
Net loss per common share:				
Basic and diluted	\$(0.14 )	\$(0.11 )	\$(0.24 )	\$(0.23 )
Weighted average common shares outstanding:				
Basic and diluted	39,312	38,616	39,295	38,607

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

**ENZO BIOCHEM, INC.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

**(UNAUDITED)**

**(Dollars in thousands)**

	Three Months Ended January 31,		Six Months Ended January 31,	
	2013	2012	2013	2012
Net loss	\$ (5,674)	\$ (4,221)	\$ (9,365)	\$ (8,715 )
Other comprehensive income (loss):				
Foreign currency translation adjustments, net of tax	92	(628 )	252	(1,590 )
Comprehensive loss	\$ (5,582)	\$ (4,849)	\$ (9,113)	\$ (10,305)

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

**ENZO BIOCHEM, INC.****CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**

Six months ended January 31, 2013

(UNAUDITED)

(Dollars In thousands, except share data)

	Common Stock Shares	Treasury Stock Shares	Common Stock Amount	Additional Paid-in Capital	Treasury Stock Amount	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance at July 31, 2012	39,495,475	216,556	\$ 395	\$ 304,358	\$(3,074 )	\$(254,183 )	\$ 1,605	\$ 49,101
Net loss for the period ended January 31, 2013	—	—	—	—	—	(9,365 )	—	(9,365 )
Vesting of restricted stock	97,137	—	1	—	—	—	—	1
Stock based compensation charges	—	—	—	301	—	—	—	301
Other comprehensive income	—	—	—	—	—	—	252	252
Balance at January 31, 2013	39,592,612	216,556	\$ 396	\$ 304,659	\$(3,074 )	\$(263,548 )	\$ 1,857	\$ 40,290

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



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

	Six Months Ended January 31,	
	2013	2012
Cash flows from operating activities:		
Net loss	\$(9,365 )	\$(8,715 )
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization of property, plant and equipment	1,339	1,480
Amortization of intangible assets	997	779
Provision for uncollectible accounts receivable	2,929	2,455
Income tax benefit	(243 )	(62 )
Share based compensation charges	301	430
Share based 401(k) employer match expense	293	289
Foreign currency transaction loss (gain)	(352 )	343
Changes in operating assets and liabilities:		
Accounts receivable	(1,299 )	(750 )
Inventories	(411 )	(326 )
Prepaid expenses	148	325
Accounts payable – trade	(17 )	(130 )
Accrued liabilities, other current liabilities and other liabilities	1,107	329
Total adjustments	4,792	5,162
Net cash used in operating activities	(4,573 )	(3,553 )
Cash flows from investing activities:		
Purchases of short term investments	—	(20,000)
Maturities of short term investments	—	20,000
Capital expenditures	(590 )	(544 )
Security deposits and other	(24 )	29
Earn-out payment	—	(1,150 )
Net cash used in investing activities	(614 )	(1,665 )
Cash flows from financing activities:		
Installment loan and capital lease obligation payments	(83 )	(68 )
Net cash used in financing activities	(83 )	(68 )
Effect of exchange rate changes on cash and cash equivalents	217	(286 )
Decrease in cash and cash equivalents	(5,053 )	(5,572 )
Cash and cash equivalents - beginning of period	15,076	14,161
Cash and cash equivalents - end of period	\$10,023	\$8,589

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 January 31, 2013  
and for the three and six months ended  
January 31, 2013 and 2012  
(Unaudited)  
(Dollars in thousands, except share data)

Note 1 – Basis of Presentation

The accompanying consolidated financial statements include the accounts of Enzo Biochem, Inc. and its wholly-owned subsidiaries, Enzo Life Sciences, Enzo Clinical Labs, Enzo Therapeutics and Enzo Realty LLC, collectively referred to as the “Company” or “Companies”. The consolidated balance sheet as of January 31, 2013, the consolidated statements of operations and the consolidated statements of comprehensive income (loss) for the three and six months ended January 31, 2013 and 2012, the consolidated statements of cash flows for the six months ended January 31, 2013 and 2012, and the consolidated statement of stockholders’ equity for the six months ended January 31, 2013 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 annual 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, 2012 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, 2012 has been derived from the audited financial statements at that date. The results of operations for the three and six months ended January 31, 2013 are not necessarily indicative of the results that may be expected for the fiscal year ending July 31, 2013.

*Recent Accounting Pronouncements Adopted*

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, “Comprehensive Income” (Topic 220) – Presentation of Comprehensive Income” (ASU No. 2011-05), which requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminated the option to present the components of other comprehensive income as part of the statement of stockholders’ equity. The Company adopted ASU 2011-05 in its first quarter of fiscal year 2013 by including the required disclosures in two separate but consecutive statements.

In September 2011, the FASB issued Accounting Standards Update No. 2011-08 “Testing Goodwill for Impairment” (ASU No. 2011-08) which is intended to reduce the complexity and costs to test goodwill for impairment. The amendment allows an entity the option to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity will no longer be required to calculate the fair value of a reporting unit unless the entity determines, based on its qualitative assessment, that it is more likely than not that the fair value of the reporting unit is less than its carrying amount. The ASU also expands upon the examples of events and circumstances that an entity should consider between annual impairment tests in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The amendment became effective for annual and interim goodwill impairment tests performed for the Company’s fiscal year beginning August 1, 2012. The Company does not expect the adoption of ASU 2011-08 to have a material impact on its consolidated financial statements.

In July 2011, the FASB issued ASU No. 2011-07 “Health Care Entities (Topic 954) - Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care

Entities”. This update was issued to provide greater transparency relating to accounting practices used for net patient service revenue and related bad debt allowances by health care entities. Some health care entities recognize patient service revenue at the time the services are rendered regardless of whether the entity expects to collect that amount or has assessed the patient’s ability to pay. These prior accounting practices used by some health care entities resulted in a gross-up of patient service revenue and the provision for bad debts, causing difficulty for users of financial statements to make accurate comparisons and analyses of financial statements among entities. ASU No. 2011-07 requires certain healthcare entities to change the presentation of the statement of operations, reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue and also requires enhanced quantitative and qualitative disclosures relevant to the entity’s policies for recognizing revenue and assessing bad debts.

This update is not designed to change and will not change the net income reported by healthcare entities. The Company adopted this update in its first quarter of fiscal year 2013 with no impact on its consolidated financial position or results of operations.

#### Note 2 – 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 six months ended January 31, 2013 and 2012 do not include the potential common shares from stock options and unvested restricted stock because to do so would have been antidilutive, and as such is the same as basic weighted average shares outstanding.

During the three and six months ended January 31, 2013 and 2012, potential shares from unvested restricted stock excluded from the computation of diluted net loss per share were approximately 23,000 and 24,000 shares, respectively.

For the three and six months ended January 31, 2013 the effect of approximately 780,000 and 733,000 shares respectively, of outstanding “out of the money” options to purchase common shares were excluded from the calculation of diluted net loss per share because their effect would be anti-dilutive. During the three and six months ended January 31, 2012, approximately 776,000 and 780,000 shares respectively were excluded from the calculation of diluted net loss per share.

#### Note 3 – Share-based compensation

The Company has an incentive stock option plan (the “1999 Plan”), an incentive stock option and restricted stock award plan (the “2005 Plan”), and a long term incentive share award plan, (the “2011 Incentive Plan”), which are more fully described in Note 9 to the consolidated financial statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended July 31, 2012. The 2011 Plan, which is the only plan from which awards may now be granted, provides for the award to eligible employees, officers, directors, consultants and other persons of stock options, stock appreciation rights (SARs), restricted stock, restricted stock units, performance awards, and other stock-based awards.

The amounts of share-based compensation expense recognized in the periods presented are as follows:

	Three months ended January 31,		Six months ended January 31,	
	2013	2012	2013	2012
Stock options	15	—	15	—
Restricted stock	145	217	286	430
	\$160	\$217	\$301	\$430

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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:

	Three months ended January 31,		Six months ended January 31,	
	2013	2012	2013	2012
Cost of clinical laboratory services	\$2	\$3	\$5	\$5
Research and development	1	1	1	4
Selling, general and administrative	157	213	295	421
	\$160	\$217	\$301	\$430

No excess tax benefits were recognized during the three and six month periods ended January 31, 2013 and 2012.

*Stock option plans*

The following table summarizes stock option activity during the six month period ended January 31, 2013:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (000s)
Outstanding at July 31, 2012	736,490	\$ 14.50		
Awarded	336,817	\$ 2.88		
Exercised	—	\$ —		
Cancelled	(293,188)	\$ 12.07		
Outstanding at end of period	780,119	\$ 10.39	3.1 years	\$ 3
Options vested at end of period	443,302	\$ 16.10	1.4 years	\$ —

On January 17, 2013, the Company awarded 336,817 options to directors and officers with an exercise price of \$2.88 and a five year term, of which 247,672 options vest over two years and 89,145 vest over three years. The weighted average assumptions used to fair value this option award were as follows: expected life of 3.3 years, expected volatility 60.8%, risk free interest rate of 0.45% and no dividend yield. As of January 31, 2013, none of these options were vested.

As of January 31, 2013, the total future compensation cost related to non-vested options, not yet recognized in the statements of operations, was \$0.4 million and the weighted average period over which the remaining expense of these awards is expected to be recognized is 2.2 years.

*Restricted Stock Awards*

A summary of the activity pursuant to the Company's restricted stock awards for the six months ended January 31, 2013 is as follows:

	Awards	Weighted Average Award Price
Unvested at July 31, 2012	257,583	\$ 3.58
Awarded	32,000	\$ 1.60
Vested	(97,137)	\$ 2.89
Forfeited	(3,291)	\$ 5.13
Unvested at end of period	189,155	\$ 3.57

The fair value of a restricted stock award is determined based on the closing stock price on the award date. As of January 31, 2013, there was approximately \$0.4 million of unrecognized compensation cost related to unvested restricted stock-based compensation to be recognized over a weighted average remaining period of approximately one year.

The total number of shares available for grant as equity awards from the 2011 Incentive Plan is approximately 2,320,000 shares as of January 31, 2013.





Note 4 - Inventories

Inventories consist of the following:

	January 31, 2013	July 31, 2012
Raw materials	\$ 1,150	\$ 1,283
Work in process	2,846	2,821
Finished products	5,304	4,696
	\$ 9,300	\$ 8,800

Note 5 – Goodwill and intangible assets

At January 31, 2013 and July 31, 2012, the Company's net carrying amount of goodwill, related to the Clinical Labs segment, is \$7,452.

## Intangible assets

The Company's change in the net carrying amount of intangible assets, all in the Life Sciences segment is as follows:

	Gross	Accumulated Amortization	Net
July 31, 2012	\$ 27,904	\$ (16,124 )	\$ 11,780
Amortization expense	—	(997 )	(997 )
Foreign currency translation	447	(256 )	191
January 31, 2013	\$ 28,351	\$ (17,377 )	\$ 10,974

Intangible assets consist of the following:

	January 31, 2013			July 31, 2012		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Patents	\$ 11,027	\$ (10,504 )	\$ 523	\$ 11,027	\$ (10,439 )	\$ 588
Customer relationships	12,543	(4,969 )	7,574	12,304	(4,356 )	7,948
Website and acquired content	1,032	(942 )	90	1,019	(874 )	145
Licensed technology and other	487	(351 )	136	485	(300 )	185
Trademarks	3,262	(611 )	2,651	3,069	(155 )	2,914
Total	\$ 28,351	\$ (17,377 )	\$ 10,974	\$ 27,904	\$ (16,124 )	\$ 11,780

At January 31, 2013 information with respect to the intangibles acquired is as follows:

	<b>Useful life assigned</b>	<b>Weighted average remaining useful life</b>
Customer relationships	8-15 years	8 years
Trademarks	5 years	4.5 years
Other intangibles	4-10 years	2 years

At January 31, 2013, the weighted average useful lives of amortizable intangible assets were approximately seven years.

#### Note 6 – Accrued Liabilities and Other Current Liabilities

Accrued liabilities consist of the following as of:

	January 31, 2013	July 31, 2012
Legal	\$2,756	\$1,475
Payroll, benefits, and commissions	4,985	5,125
Professional fees	830	901
Research and development	732	696
Other	1,898	1,621
	\$11,201	\$9,818

Other current liabilities consist of the following as of:

	January 31, 2013	July 31, 2012
Capital lease obligations	\$ 149	\$—
Installment loans	132	118
	\$ 281	\$ 118

#### Note 7 – Other Liabilities

Other liabilities consist of the following as of:

	January 31, 2013	July 31, 2012
Capital lease obligations, net of short term	\$ 608	\$—
Installment loans, net of short term	157	128
	\$ 765	\$ 128

During the six months ended January 31, 2013, the Company entered into a five year capital lease arrangement for lab equipment aggregating \$768 and into various installment loans for transportation equipment aggregating \$115 for the Clinical Labs segment. Future minimum payments under the capital lease net of interest of \$109 aggregates \$757, including a short term debt portion of \$149 included in other current liabilities. Future minimum payments over thirty six months under the installment loans aggregate \$289, including a short term portion of \$132 included in other current liabilities.

Note 8 - 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 benefit (provision) for the three months ended January 31, 2013 was a benefit of 3.1% compared to a provision of (3.6%) during the three months ended January 31, 2012. The Company's effective tax rate benefit (provision) for the six months ended January 31, 2013 was a benefit of 2.5% compared to a provision of (3.7%) during the six months ended January 31, 2012. The tax benefit (provision) for the periods were based on state and local taxes and domestic and foreign tax for tax deductible intangibles. 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 combined returns with California, Michigan and New York State and City for 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, 2009 through fiscal 2011.

Note 9 – Royalty and licensing income

The Company has a license agreement with QIAGEN Gaithersburg Inc. ("Qiagen") that began in 2005, whereby the Company earns quarterly running royalties on the net sales of Qiagen products subject to the license until the expiration of the patent on April 24, 2018. During the three months ended January 31, 2013 and 2012, the Company recorded royalty income under the Agreement of approximately \$1.0 million and \$1.3 million, respectively. During the six months ended January 31, 2013 and 2012, the Company recorded royalty income under the Agreement of approximately \$3.0 million and \$3.2 million, respectively which is included in the Life Sciences segment.

Note 10 – Segment reporting

The Company has three reportable segments: Clinical Labs, Life Sciences, and Therapeutics. The Clinical Labs segment provides diagnostic services to the health care community. 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 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 contained in the Company's Annual Report on Form 10-K for the year ended July 31, 2012.

The following financial information represents the operating results of the reportable segments of the Company:

**Three months ended January 31, 2013**

	Clinical Labs	Life Sciences	Therapeutics	Other	Consolidated
Revenues:					
Clinical laboratory services	\$13,320	—	—	—	\$ 13,320
Product revenues	—	\$ 7,876	—	—	7,876
Royalty and license fee income	—	1,014	—	—	1,014
	13,320	8,890	—	—	22,210
Operating expenses:					
Cost of clinical laboratory services	9,425	—	—	—	9,425
Cost of product revenues	—	4,143	—	—	4,143
Research and development	86	570	\$ 312	—	968
Selling, general and administrative	4,911	4,081	—	\$ 1,900	10,892
Provision for uncollectible accounts receivable	1,213	122	—	—	1,335
Legal	51	31	—	1,359	1,441
Total operating expenses	15,686	8,947	312	3,259	28,204
Operating income (loss)	(2,366 )	(57 )	(312 )	(3,259 )	(5,994 )
Other income (expense)					
Interest	(13 )	5	—	1	(7 )
Other	17	17	—	9	43
Foreign currency gain	—	104	—	—	104
Income (loss) before income taxes	\$(2,362 )	\$ 69	\$ (312 )	\$(3,249 )	\$(5,854 )
Depreciation and amortization included above	\$355	\$ 799	\$ 7	\$25	\$ 1,186
Share-based compensation included in above:					
Cost of clinical laboratory services	\$2	—	—	—	\$ 2
Research and development	—	1	—	—	1
Selling, general and administrative	11	\$ 6	—	\$140	157
Total	\$13	\$ 7	—	\$140	\$ 160
Capital expenditures	\$241	\$ 87	\$ —	\$—	\$ 328

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Three months ended January 31, 2012

	Clinical Labs	Life Sciences	Therapeutics	Other	Consolidated
Revenues:					
Clinical laboratory services	\$ 14,123	—	—	—	\$ 14,123
Product revenues	—	\$ 9,542	—	—	9,542
Royalty and license fee income	—	1,308	—	—	1,308
	14,123	10,850	—	—	24,973
Operating expenses:					
Cost of clinical laboratory services	8,709	—	—	—	8,709
Cost of product revenues	—	4,685	—	—	4,685
Research and development	71	1,136	\$ 496	—	1,703
Selling, general and administrative	5,190	4,227	—	\$ 2,070	11,487
Provision for uncollectible accounts receivable	1,146	23	—	—	1,169
Legal	69	118	—	836	1,023
Total operating expenses	15,185	10,189	496	2,906	28,776
Operating income (loss)	(1,062 )	661	(496 )	(2,906 )	(3,803 )
Other income (expense)					
Interest	(1 )	15	—	—	14
Other	17	45	—	3	65
Foreign currency (loss)	—	(352 )	—	—	(352 )
Income (loss) before income taxes	\$(1,046 )	\$ 369	\$ (496 )	\$(2,903 )	\$(4,076 )
Depreciation and amortization included above	\$ 269	\$ 734	\$ 11	\$ 31	\$ 1,045
Share-based compensation included in above:					
Cost of clinical laboratory services	\$ 3	—	—	—	\$ 3
Research and development	—	\$ 1	—	—	1
Selling, general and administrative	11	20	—	\$ 182	213
Total	\$ 14	\$ 21	—	\$ 182	\$ 217
Capital expenditures	\$ 241	\$ 62	\$ —	\$ —	\$ 303

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The following financial information represents the operating results of the reportable segments of the Company:

Six months ended January 31, 2013

	Clinical Labs	Life Sciences	Therapeutics	Other	Consolidated
Revenues:					
Clinical laboratory services	\$28,497	—	—	—	\$ 28,497
Product revenues	—	\$ 16,309	—	—	16,309
Royalty and license fee income	—	3,033	—	—	3,033
	28,497	19,342	—	—	47,839
Operating expenses:					
Cost of clinical laboratory services	19,135	—	—	—	19,135
Cost of product revenues	—	8,327	—	—	8,327
Research and development	175	1,175	\$ 629	—	1,979
Selling, general and administrative	9,873	8,353	—	\$4,082	22,308
Provision for uncollectible accounts receivable	2,769	160	—	—	2,929
Legal	158	36	—	2,948	3,142
Total operating expenses	32,110	18,051	629	7,030	57,820
Operating income (loss)	(3,613 )	1,291	(629 )	(7,030 )	(9,981 )
Other income (expense)					
Interest	(22 )	4	—	3	(15 )
Other	24	20	—	12	56
Foreign currency gain	—	333	—	—	333
Income (loss) before income taxes	\$(3,611 )	\$ 1,648	\$ (629 )	\$(7,015 )	\$(9,607 )
Depreciation and amortization included above	\$663	\$ 1,604	\$ 14	\$55	\$ 2,336
Share-based compensation included in above:					
Cost of clinical laboratory services	\$4	—	—	—	\$ 4
Research and development	—	\$ 1	—	—	1
Selling, general and administrative	22	6	—	\$268	296
Total	\$26	\$ 7	—	\$268	\$ 301
Capital expenditures	\$420	\$ 170	\$ —	\$—	\$ 590

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Six months ended January 31, 2012

	Clinical Labs	Life Sciences	Therapeutics	Other	Consolidated
Revenues:					
Clinical laboratory services	\$28,310	—	—	—	\$ 28,310
Product revenues	—	\$ 19,245	—	—	19,245
Royalty and license fee income	—	3,170	—	—	3,170
	28,310	22,415	—	—	50,725
Operating expenses:					
Cost of clinical laboratory services	17,523	—	—	—	17,523
Cost of product revenues	—	9,822	—	—	9,822
Research and development	115	2,184	\$ 1,029	—	3,328
Selling, general and administrative	10,020	9,455	—	\$4,397	23,872
Provision for uncollectible accounts receivable	2,419	36	—	—	2,455
Legal	112	502	—	1,278	1,892
Total operating expenses	30,189	21,999	1,029	5,675	58,892
Operating income (loss)	(1,879 )	416	(1,029 )	(5,675 )	(8,167 )
Other income (expense)					
Interest	(2 )	14	—	—	12
Other	22	44	—	10	76
Foreign currency (loss)	—	(323 )	—	—	(323 )
Income (loss) before income taxes	\$(1,859 )	\$ 151	\$ (1,029 )	\$(5,665 )	\$(8,402 )
Depreciation and amortization included above	\$ 535	\$ 1,640	\$ 22	\$ 62	\$ 2,259
Share-based compensation included in above:					
Cost of clinical laboratory services	\$ 5	—	—	—	\$ 5
Research and development	—	\$ 4	—	—	4
Selling, general and administrative	27	40	—	\$354	421
Total	\$32	\$ 44	—	\$354	\$ 430
Capital expenditures	\$431	\$ 113	\$ —	\$—	\$ 544

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Note 11 - Contingencies

On June 7, 2004, the Company and Enzo Life Sciences, Inc., filed suit in the United States District Court for the District of Connecticut against Applera Corporation and its wholly-owned subsidiary Tropix, Inc., now Life Technologies, Inc. (NASDAQ:LIFE). The complaint alleged infringement of six patents relating to DNA sequencing systems, labeled nucleotide products, and other technology. Yale University is the owner of four of the patents and the Company is the exclusive licensee. These four patents are commonly referred to as the “Ward” patents. On November 12, 2012, a jury in New Haven found that one of these patents (United States Patent No. 5,449,667) was infringed and not proven invalid. The jury awarded \$48.5 million for this infringement. Prejudgment interest should provide for additional recovery in the tens of millions of dollars. Life Technologies will likely appeal and there can be no assurance that the Company will be successful in this litigation. Even if the Company is not successful, management does not believe that there will be a significant adverse monetary impact on the Company.

The Company is party to other claims, legal actions, complaints, and contractual disputes that arise in the ordinary course of business. The Company believes that any liability that may ultimately result from the resolution of these matters will not, individually or in the aggregate, have a material adverse effect on its financial position or results of operations.

**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 and development 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 currency 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 2012 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 growth-oriented integrated life sciences and biotechnology company focused on harnessing biological processes to develop research tools, diagnostics and therapeutics and serves as a provider of test services, including esoteric tests, to the medical community. Since our founding in 1976, our strategic focus has been on the development of enabling technologies in research, development, manufacture, licensing and marketing of innovative health care products, platforms and services based on molecular and cellular technologies. Our pioneering work in genomic analysis coupled with our extensive patent estate and enabling platforms have strategically positioned the Company to play an important role in the rapidly growing life sciences and molecular medicine marketplaces.

In the course of our research and development activities, we have built a substantial portfolio of intellectual property assets, comprising 114 key issued patents worldwide, and over 250 pending patent applications, along with extensive enabling technologies and platforms.

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 our operating segments (see note 10 in the Notes to Consolidated Financial Statements):

**Enzo Clinical Labs** is a regional clinical laboratory serving the greater New York, New Jersey and Eastern Pennsylvania medical communities. 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 approximately 30 patient service centers throughout greater New York, New Jersey and Eastern Pennsylvania, a standalone “stat” or rapid response laboratory in New York City, and a full-service phlebotomy and an in-house logistics department. Payments for clinical laboratory testing services are made by the Medicare program, healthcare insurers and patients.

**Enzo Life Sciences** manufactures, develops and markets products and tools to life sciences, drug development and clinical research customers world-wide and has amassed a large patent and technology portfolio. Enzo Life Sciences, Inc. is a recognized leader in labeling and detection technologies across research and diagnostic markets. Our strong portfolio of proteins, antibodies, peptides, small molecules, labeling probes, dyes and kits provides life science researchers tools for target identification/validation, high content analysis, gene expression analysis, nucleic acid detection, protein biochemistry and detection, and cellular analysis. We are internationally recognized and acknowledged as a leader in manufacturing, in-licensing, and commercialization of over 7,500 of our own products and in addition distribute over 30,000 products made by over 40 other original manufacturers. Our strategic focus is directed to innovative high quality research reagents and kits in the primary key research areas of genomics, cellular analysis, small molecule chemistry, protein homeostasis and epigenetics and immunoassays and assay development. The segment is an established source for a comprehensive panel of products to scientific experts in the fields of

cancer, cardiovascular disease, neurological disorders, diabetes and obesity, endocrine disorders, infectious and autoimmune disease, hepatotoxicity and renal injury.

**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 130 patents and patent applications.

**Results of Operations****Three months ended January 31, 2013 as compared to January 31, 2012**

	2013	2012	Increase (Decrease)	% Change
<b>Revenues:</b>				
Clinical laboratory services	\$13,320	\$14,123	\$ (803 )	(6 )%
Product revenues	7,876	9,542	(1,666 )	(17 )
Royalty and license fee income	1,014	1,308	(294 )	(22 )
Total revenues	22,210	24,973	(2,763 )	(11 )
<b>Operating expenses:</b>				
Cost of clinical laboratory services	9,425	8,709	716	8
Cost of product revenues	4,143	4,685	(542 )	(12 )
Research and development	968	1,703	(735 )	(43 )
Selling, general, and administrative	10,892	11,487	(595 )	(5 )
Provision for uncollectible accounts receivable	1,335	1,169	166	14
Legal	1,441	1,023	418	41
Total operating expenses	28,204	28,776	(572 )	(2 )
Operating loss	(5,994 )	(3,803 )	(2,191 )	58
<b>Other income (expense):</b>				
Interest	(7 )	14	(21 )	(150 )
Other	43	65	(22 )	(34 )
Foreign currency gain (loss)	104	(352 )	456	130
Loss before income taxes	\$(5,854 )	\$(4,076 )	\$ (1,778 )	44

**Consolidated Results:**

The “2013 period” and the “2012 period” refer to the three months ended January 31, 2013 and 2012, respectively.

Clinical laboratory services revenues for the 2013 period were \$13.3 million compared to \$14.1 million in the 2012 period. The 2013 period’s decrease over the 2012 period was \$0.8 million or 6%. During the 2013 period revenues were negatively impacted by approximately \$0.6 million from a severe storm affecting our service area in the first week of the period and by reduced reimbursements from third party payers.

Product revenues decreased by \$1.7 million or 17% in the 2013 period to \$7.9 million as compared to \$9.5 million in the 2012 period due to a decline in organic sales. During the 2013 period we continue to experience a decline attributed to certain distributed products for certain customer types and declines in resale products due to market softness in research reagent products.

Royalty and license fee income during the 2013 period was \$1.0 million compared to \$1.3 million in the 2012 period, a decrease of \$0.2 million or 22%. Royalties are primarily earned from the reported sales of Qiagen products subject to a license agreement. There are no direct expenses relating to royalty and licensing income.

The cost of clinical laboratory services during the 2013 period was \$9.4 million as compared to \$8.7 million in the 2012 period, an increase of \$0.7 million or 8%. The Company incurred increased costs due to higher reagent costs and supplies of \$0.2 million, higher outside reference lab costs of \$0.3 million and other lab support costs of \$0.3 million all attributed to changes in the mix of tests ordered by the ordering physician, offset by a decrease in laboratory personnel costs of \$0.1 million.

The cost of product revenues during the 2013 period was \$4.1 million compared to \$4.7 million in the 2012 period, a decrease of \$0.5 million or 12%. The decrease is attributed to lower payroll costs of \$0.2 million due to the business realignments during fiscal 2012 and \$0.3 million due to lower product revenue.

Research and development expenses were approximately \$1.0 million during the 2013 period, compared to \$1.7 million in the 2012 period, a decrease of \$0.7 million or 43%. The decrease was principally attributed to lower costs of \$0.5 million at the Enzo Life Sciences segment due to lower payroll and related costs of \$0.3 million and overhead costs of \$0.2 million due to a refocus of projects and decrease in patent filing costs. The clinical trial and related activities at the Therapeutics segment decreased by \$0.2 million due to lower payroll and related costs and patent filing costs as compared to the 2012 period.

The Company's selling, general and administrative expenses were approximately \$10.9 million during the 2013 period and \$11.5 million during the 2012 period, a decrease of \$0.6 million or 5%. The Life Sciences segment's selling, general and administrative decreased by \$0.2 million due to the positive effects from the business realignments in fiscal 2012 resulting in lower payroll and related costs of \$0.1 million, rent and facility costs of \$0.1 million and \$0.1 million in other operating costs offset by higher amortization of \$0.1 million. The Other selling general and administrative decreased by \$0.1 million, primarily due to a decrease of \$0.1 million in compensation and related expenses and in other costs. The Clinical Lab segment selling general and administrative decreased \$0.3 million primarily due to a decrease in personnel costs.

The provision for uncollectible accounts receivable, primarily related to the Clinical Labs segment, was \$1.3 million for the 2013 period as compared to \$1.2 million in the 2012 period, primarily due to the change in the mix of payers. As a percentage of revenues the provision for uncollectible accounts receivable for the Clinical Lab segment increased to 9.1% from 8.2% in the 2012 period.

Legal expense was \$1.4 million during the 2013 period compared to \$1.0 million in the 2012 period, an increase of \$0.4 million due to overall increases in legal services in the 2013 period for a patent litigation trial and other litigation related matters.

During the 2013 period, the gain on foreign currency transactions increased by \$0.5 million as compared to the 2012 period. The gain in the period was due to the strengthening of foreign currencies relative to the US dollar.

## **Segment Results**

### **Clinical Labs**

The Clinical Labs segment's loss before taxes was \$2.4 million for the 2013 period as compared to a loss of \$1.1 million in the 2012 period, an increase of \$1.3 million resulting from increased operating costs and the decreased service volume related to the negative impact of the severe storm at the beginning of the period. The revenue from laboratory services decreased in the 2013 period by \$0.8 million or 6% primarily due to the impact of the severe storm which occurred at the end of October 2012 and continued to affect the segment's service area in the first week of the 2013 period. The 2013 period gross profit of \$3.9 million decreased over the 2012 period by \$1.5 million or 28% due to the decrease in service revenues from the aforementioned storm, lower reimbursement rates from a payer, and increases in cost of lab services. Selling, general and administrative expense decreased by approximately \$0.3 million primarily due to lower payroll costs, directly the result of the decreased service revenues. The provision for uncollectible accounts receivable was comparable to the 2012 period and as a percentage of revenues increased to 9.1% from 8.1% in the 2012 period.

### **Life Sciences**

The Life Sciences segment's income before taxes was \$0.1 million for the 2013 period as compared to \$0.4 million for the 2012 period. The segment's gross profit was \$4.7 million in the 2013 period, as compared to \$6.2 million in the 2012 period. Gross profit was negatively impacted by the decline in product revenues, offset by reduced payroll, facility and other costs of \$0.3 million resulting from realignments during the second half of fiscal 2012. Product revenues decreased by \$1.7 million or 17% in the 2013 period to \$7.9 million as compared to \$9.5 million in the 2012 period due to a decline in organic sales. During the 2013 period we continue to experience a decline attributed to certain distributed products for certain customer types and declines in resale products due to market softness in research reagent products. Royalty and license fee income of \$1.0 million represented a decrease of \$0.3 million as compared to the 2012 period and is primarily from the reported sales of Qiagen products subject to a license agreement. The segment's other operating expenses, including selling, general and administrative, legal and research and development, provision for uncollectible accounts decreased by approximately \$0.7 million during the 2013 period due to reduced research and development and selling, general and administrative of \$0.7 million and lower legal of \$0.1 million offset by an increase in the provision for uncollectible accounts of \$0.1 million. Due to the strengthening of foreign currencies during the 2013 period as compared to the 2012 period, the foreign currency gain increased by \$0.4 million in the 2013 period.

### **Therapeutics**

Therapeutics loss before income taxes was approximately \$0.3 million for the 2013 period as compared to the \$0.5 million in 2012 period due to lower payroll costs, overhead costs and lower clinical trial activities.



**Other**

The Other loss before taxes for the 2013 period was approximately \$3.3 million as compared to \$2.9 million for the 2012 period, an increase of \$0.4 million. In the 2013 period legal expenses increased by \$0.5 million due to overall increases in legal services directly related to a patent litigation trial and other legal activities. General and administrative costs decreased by \$0.1 million due to lower compensation and related costs.

**Results of Operations****Six months ended January 31, 2013 as compared to January 31, 2012**

	2013	2012	Increase (Decrease)	% Change
<b>Revenues:</b>				
Clinical laboratory services	\$28,497	\$28,310	\$ 187	1 %
Product revenues	16,309	19,245	(2,936 )	(15 )
Royalty and license fee income	3,033	3,170	(137 )	(4 )
Total revenues	47,839	50,725	(2,886 )	(6 )
<b>Operating expenses:</b>				
Cost of clinical laboratory services	19,135	17,523	1,612	9
Cost of product revenues	8,327	9,822	(1,495 )	(15 )
Research and development	1,979	3,328	(1,349 )	(41 )
Selling, general, and administrative	22,308	23,872	(1,564 )	(7 )
Provision for uncollectible accounts receivable	2,929	2,455	474	19
Legal	3,142	1,892	1,250	66
Total operating expenses	57,820	58,892	(1,072 )	(2 )
Operating loss	(9,981 )	(8,167 )	(1,814 )	22
<b>Other income (expense):</b>				
Interest	(15 )	12	(27 )	(225 )
Other	56	76	(20 )	(26 )
Foreign currency gain	333	(323 )	656	203
Loss before income taxes	\$(9,607 )	\$(8,402 )	\$ (1,205 )	14

**Consolidated Results:**

The “2013 period” and the “2012 period” refer to the six months ended January 31, 2013 and 2012, respectively.

Clinical laboratory services revenues for the 2013 period were \$28.5 million compared to \$28.3 million in the 2012 period. The 2013 period’s increase over the 2012 period was \$0.2 million or 1% due to organic growth. During the 2013 period the increase in revenues was negatively impacted by approximately \$1.3 million due to a severe storm affecting our service area in the last three days of the first quarter and the first week of the second quarter and by reduced reimbursements from third party payers.

Product revenues decreased by \$2.9 million or 15% in the 2013 period to \$16.3 million as compared to \$19.2 million in the 2012 period due to a decline in organic sales. During the 2013 period we continue to experience a decline attributed to certain distributed products for certain customer types and declines in resale products due to market

softness in research reagent products.

Royalty and license fee income during the 2013 period was \$3.0 million compared to \$3.1 million in the 2012 period a decrease of \$0.1 million or 4%. Royalties are primarily earned from the reported sales of Qiagen products subject to a license agreement. There are no direct expenses relating to royalty and licensing income.

The cost of clinical laboratory services during the 2013 period was \$19.1 million as compared to \$17.5 million in the 2012 period, an increase of \$1.6 million or 9%. The Company incurred increased costs due to higher reagent costs and supplies of \$0.4 million, higher outside reference lab costs of \$0.5 million and other lab support costs of \$0.7 million, all attributed to the changes in the mix of tests offered to the ordering physician.

The cost of product revenues during the 2013 period was \$8.3 million compared to \$9.8 million in the 2012 period, a decrease of \$1.5 million or 15%. The decrease is attributed to lower payroll costs of \$0.5 million, lower overhead costs of \$0.1 due to the business realignments during the second half of fiscal 2012, and \$0.9 million due to lower product revenue.

Research and development expenses were approximately \$2.0 million during the 2013 period, compared to \$3.3 million in the 2012 period, a decrease of \$1.3 million or 41%. The decrease was principally attributed to lower costs of \$1.0 million at the Life Sciences segment due to lower payroll and related costs of \$0.6 million, lower patent filing costs of \$0.2 and overhead costs of \$0.2 million due to a refocus of projects. The clinical trial and related activities at the Therapeutics segment decreased by \$0.4 million due to lower payroll and related costs and patent filing fees as compared to the 2012 period. Research and development costs at the Clinical Labs segment were \$0.1 million higher in the 2013 period compared to the 2012 period.

The Company's selling, general and administrative expenses were approximately \$22.3 million during the 2013 period and \$23.9 million during the 2012 period, a decrease of \$1.6 million or 7%. The Life Sciences segment selling, general and administrative decreased by \$1.1 million due to the positive effects from the business realignments in the second half of fiscal 2012 resulting in lower payroll and related costs of \$0.7 million, rent and facility costs of \$0.3 million and \$0.1 million in other operating costs. The Clinical Lab segment selling general and administrative decreased by \$0.2 million primarily due to a decrease in personnel related costs. The Other selling general and administrative decreased by \$0.3 million, primarily due to a decrease of \$0.2 million in compensation and related expenses and a decrease in other costs of \$0.1 million.

The provision for uncollectible accounts receivable, primarily related to the Clinical Labs segment, was \$2.9 million for the 2013 period as compared to \$2.5 million in the 2012 period, primarily due to the change in the mix of payers. As a percentage of revenues the provision for uncollectible accounts receivable for the Clinical Lab segment increased to 9.7% from 8.5% in the 2012 period.

Legal expense was \$3.1 million during the 2013 period compared to \$1.9 million in the 2012 period, an increase of \$1.2 million due to overall increases in legal services in the 2013 period for a patent litigation trial and other litigation related matters.

During the 2013 period, the gain on foreign currency transactions increased by \$0.7 million as compared to the 2012 period. The gain in the period was due to the strengthening of foreign currencies relative to the US dollar. The Company is impacted by various foreign currencies including; the Swiss Franc, Euro and British pound.

## **Segment Results**

### **Clinical Labs**

The Clinical Labs segment's loss before taxes was \$3.6 million for the 2013 period as compared to a loss of \$1.8 million in the 2012 period, an increase of \$1.8 million resulting from increased operating costs partially offset by increased service volume. The revenue from laboratory services increased in the 2013 period by \$0.2 million. The net

revenue for the period was negatively impacted by the aforementioned storm by approximately \$1.3 million. The 2013 period gross profit of \$9.4 million decreased from the 2012 period by \$1.4 million or 13%. The slight increase in service revenues was offset by increases in cost of lab services, the negative impact from the storm affecting our service area and lower reimbursement rates from payers. Selling, general and administrative expense decreased by approximately \$0.1 million primarily due to decreases in personnel costs. The provision for uncollectible accounts receivable increased by \$0.4 million as compared to the 2012 period due to the changes in the mix of payers and as a percentage of revenues increased to 9.7% from 8.5% in the 2012 period.

### **Life Sciences**

The Life Sciences segment's income before taxes was \$1.6 million for the 2013 period as compared to income of \$0.1 million for the 2012 period. The segment's gross profit was \$11.0 million in the 2013 period, as compared \$12.6 million in the 2012 period. Gross profit was negatively impacted by the decline in product revenues, offset by reduced payroll, facility and other costs resulting from realignments during fiscal 2012. Product revenues decreased by \$2.9 million or 15% in the 2013 period to \$16.3 million as compared to \$19.2 million in the 2012 period due to a decline in organic sales. During the 2013 period we continue to experience a decline attributed to certain distributed products for certain customer types and declines in resale products due to market softness in research reagent products. Royalty and license fee income of \$3.0 million represented a decrease of \$0.1 million as compared to the 2012 period and is primarily from the reported sales of Qiagen products subject to a license agreement.

The segment's other operating expenses, including selling, general and administrative, legal, provision for uncollectible accounts and research and development, decreased by approximately \$2.5 million during the 2013 period due to reduced research and development and selling, general and administrative of \$2.1 million and lower legal of \$0.4 million offset by an increase in provision for uncollectible accounts of \$0.1. Due to the strengthening of foreign currencies during the 2013 period as compared to the 2012 period, the foreign currency gain increased by \$0.7 million in the 2013 period.

### **Therapeutics**

Therapeutics loss before income taxes was approximately \$0.6 million for the 2013 period as compared to the \$1.0 million in 2012 period due to lower payroll costs and lower clinical trial activities.

### **Other**

The Other loss before taxes for the 2013 period was approximately \$7.0 million as compared to \$5.6 million for the 2012 period, an increase of \$1.4 million. In the 2013 period legal expenses increased by \$1.7 million due to overall increases in legal services directly related to a patent litigation trial and other legal activities. General and administrative costs decreased by \$0.3 million due to lower compensation and related costs.

### **Liquidity and Capital Resources**

At January 31, 2013, the Company had cash and cash equivalents of \$10.0 million of which \$2.5 million was in foreign accounts, as compared to cash and cash equivalents of \$15.1 million, of which \$2.5 million was in foreign accounts at July 31, 2012. It is the Company's current intent to permanently reinvest these funds outside of the United States, and its current plans do not demonstrate a need to repatriate them to fund its United States operations. The Company had working capital of \$13.7 million at January 31, 2013 compared to \$21.4 million at July 31, 2012. The decrease in working capital of \$7.7 million was primarily the result of the net loss and funding capital expenditures offset by changes in net operating assets and liabilities.

Net cash used in operating activities for the six months ended January 31, 2013 was approximately \$4.6 million as compared to \$3.6 million for the six months ended January 31, 2012. The increase in net cash used in operating activities in the 2013 period over the 2012 period of approximately \$1.0 million was primarily due to an increase in the net loss, net of non-cash charges, of \$1.1 million, partially offset by changes in operating assets and liabilities of \$0.1 million, relating primarily to a decrease in accounts receivable and increases in current liabilities.

Net cash used in investing activities was approximately \$0.6 million as compared to cash used of \$1.7 million in the year ago period. The decrease in the 2013 period of \$1.1 million is primarily due to an earnout payment of \$1.1 million made in the 2012 period.

As previously disclosed in the Company's Form 10-K for the year ended July 31, 2012, in the fourth quarter of fiscal 2012 the Company completed a review of all operating units and expects to reduce annual cash expenditures by \$6.0 million in fiscal 2013 based on actions completed by September 1, 2012 which included, among other items, a realignment of our workforce, final integration of the acquired businesses at Life Sciences, rationalization of low margin products, a refocus of our research and development program toward higher value diagnostic platforms and the reduction in outside consulting costs. Through the six months ended January 31, 2013, the Company expects the aforementioned cost reductions in annual expenditures will be realized however, such reductions have been partially offset by higher than expected legal costs of approximately \$1.2 million relating to patent litigation matters. Despite the challenging global economic environment, declining revenues in the Life Sciences reporting unit in fiscal 2013 attributed to macroeconomic concerns and customer research budgets, impacts of healthcare reform regulations and changes in payer policies affecting reimbursements to providers and the funding of research projects, the Company believes that its current cash and cash equivalents level is sufficient for its foreseeable liquidity and capital resource needs over the next twelve (12) months, although there can be no assurance that future events will not alter such view. Although there can be no assurances, in the event additional capital is required, the Company believes it has the ability to raise funds through equity offerings, secure asset-based borrowings, or other sources of funds. Our liquidity plans are subject to a number of risks and uncertainties, including those described in the Item 1A. "Risk Factors" section of the Form 10-K for the year ended July 31, 2012 and referred to above are unchanged, some of which are outside our control. Macroeconomic conditions could limit our ability to successfully execute our business plans and therefore adversely affect our liquidity plans.

See our Form 10-K for the fiscal year ended July 31, 2012 for Forward Looking Cautionary Statements and Risk Factors.

## **Contractual Obligations**

There have been no material changes to our Contractual Obligations as reported in our Form 10-K for the fiscal year ended July 31, 2012, except as noted in Note 7 - Other Liabilities.

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. 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 on-going basis, we evaluate our estimates, including those related to contractual expense, 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.



Royalties

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

Revenues – Clinical laboratory services

Revenues from Clinical Labs 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.

The following table represents the clinical laboratory segment's net revenues and percentages by revenue category:

	Three months ended January 31, 2013		Three months ended January 31, 2012	
Revenue category				
Medicare	\$3,023	23 %	\$3,028	22 %
Third-party payer	6,217	46	7,115	50
Patient self-pay	2,906	22	2,719	19
HMO's	1,174	9	1,261	9
Total	\$13,320	100 %	\$14,123	100 %

	Six months ended January 31, 2013		Six months ended January 31, 2012	
Revenue category				
Medicare	\$6,303	22 %	\$6,047	21 %
Third-party payer	13,366	47	14,058	50
Patient self-pay	6,327	22	5,634	20
HMO's	2,501	9	2,571	9
Total	\$28,497	100 %	\$28,310	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 payers and Health Maintenance Organizations (“HMO’s”) categories represents approximately 22% and 21% of the Clinical Labs net revenues for the three months ended January 31, 2013 and 2012, respectively, and 21% for the six months ended January 31, 2013 and 2012. Another third party provider represents 10% and 13% of Clinical Labs net revenues for the three months ended January 31, 2013 and 2012, respectively and 10% for the six months ended January 31, 2013.

### 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 and 3) the growth of in-network provider arrangements and managed care plans specific to our Company.

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 will continue to reduce our revenues.

During the three months ended January 31, 2013 and 2012, the contractual adjustment percentages, determined using current and historical reimbursement statistics, were 85.7% and 84.6%, respectively, of gross billings. During the six months ended January 31, 2013 and 2012, the contractual adjustment percentages, determined using current and historical reimbursement statistics, were 85.2% and 84.6% respectively. The Company believes a decline in

reimbursement rates or a shift to managed care or similar arrangements may be offset by the positive impact of an increase in 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 \$1.9 million and \$1.8 million for the six months ended January 31, 2013 and 2012, respectively, and a change in the net accounts receivable of approximately \$0.6 million as of January 31, 2013.

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 rolling monthly analysis of current and historical claim settlement and reimbursement experience statistics 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 Labs segment's net receivables are detailed by billing category and as a percent to its total net receivables. At January 31, 2013 and July 31, 2012, approximately 59% and 55%, respectively, of the Company's net accounts receivable relates to its Clinical Labs business, which operates in the New York, New Jersey, and Eastern Pennsylvania medical communities.

The Life Sciences segment's accounts receivable, of which \$2.0 million or 39% and \$2.3 million or 36% represents foreign receivables as of January 31, 2013 and July 31, 2012 respectively, includes royalty receivables of \$1.0 million and \$1.7 million, as of January 31, 2013 and July 31, 2012, respectively, from Qiagen (Note 9).

Net accounts receivable

Billing category	As of January 31,	As of July 31, 2012
------------------	----------------------	------------------------

	2013			
Clinical Labs				
Medicare	\$1,257	17 %	\$1,270	16 %
Third party payers	3,367	46	3,478	45
Patient self-pay	2,461	33	2,655	35
HMO's	302	4	330	4
Total Clinical Labs	7,387	100%	7,733	100%
Total Life Sciences	5,193		6,402	
Total accounts receivable	\$12,580		\$14,135	

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

	Six months ended January 31, 2013	Twelve months ended July 31, 2012
Beginning balance	\$3,273	\$3,488
Provision for doubtful accounts	2,929	5,104
Write-offs, net	(2,609 )	(5,319)
Ending balance	\$3,593	\$3,273

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.

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The allowance for doubtful accounts primarily related to the Clinical Labs segment 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 six months ended January 31, 2013 and 2012, 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 patients initially determined to have primary insurance and patients for whom primary insurance has paid but a co-pay or deductible 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.

The following table indicates the Clinical Labs aged gross receivables by payer group 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 January 31, 2013	Total		Medicare		Third Party Payers		Self-pay		HMO	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1-30 days	\$28,871	53 %	\$ 3,687	40 %	\$16,376	50 %	\$ 4,987	63 %	\$ 3,821	88 %
31-60 days	7,370	14 %	980	10 %	4,607	13 %	1,713	22 %	70	2 %
61-90 days	6,024	11 %	1,255	14 %	3,402	10 %	1,295	16 %	72	2 %
91-120 days	3,533	6 %	630	7 %	2,835	9 %	(1)	0 %	69	2 %
121-150 days	2,468	5 %	375	4 %	1,945	6 %	(2)	0 %	150	3 %
Greater than 150 days*	6,227	11 %	2,338	25 %	3,819	12 %	(65)	-1 %	135	3 %
Totals	\$54,493	100 %	\$ 9,265	100 %	\$32,984	100 %	\$ 7,927	100 %	\$ 4,317	100 %

  

As of July 31, 2012	Total	%	Medicare	%	Third Party	%	Self-pay	%	HMO's	%
	Amount		Amount		Amount		Amount		Amount	

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	Payers														
	Amount														
1-30 days	\$27,092	54	%	\$5,246	56	%	\$14,529	52	%	\$3,337	39	%	\$3,980	89	%
31-60 days	8,282	17	%	475	5	%	4,566	17	%	3,092	36	%	149	3	%
61-90 days	4,922	9	%	964	10	%	2,561	9	%	1,257	15	%	140	3	%
91-120 days	3,758	8	%	512	6	%	2,124	8	%	977	10	%	145	3	%
121-150 days	2,301	5	%	515	6	%	1,733	6	%	—	0	%	53	1	%
Greater than 150 days*	3,701	7	%	1,589	17	%	2,072	8	%	—	0	%	40	1	%
Totals	\$50,056	100	%	\$9,301	100	%	\$27,585	100	%	\$8,663	100	%	\$4,507	100	%

\* Total includes \$2,581 fully reserved over 210 days as of January 31, 2013.

\*\* Total includes \$1,178 fully reserved over 210 days as of July 31, 2012.

*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.

It is the Company's policy to provide for uncertain tax positions and the related interest and penalties based upon management's assessment of whether a tax benefit is more likely than not to be sustained upon examination by tax authorities. To the extent the Company prevails in matters for which a liability for an unrecognized tax benefit is established or is required to pay amounts in excess of the liability, the Company's effective tax rate in a given financial statement period may be affected.

### *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. Write downs of inventories to market value are based on a review of inventory quantities on hand and estimated sales forecasts based on sales history and anticipated future demand. Unanticipated changes in demand could have a significant impact on the value of our inventory and require additional write downs of inventory which would impact our results of operations.

### *Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. The Company tests goodwill and other indefinite lived intangibles for impairment annually as of the first day of the fourth quarter, or more frequently if indicators of potential impairment exist. Goodwill is reviewed for impairment utilizing a two-step process. The first step of the impairment test requires the identification of the reporting units and comparison of the fair value of each of these reporting units to their respective carrying value. If the carrying value of the reporting unit is less than its fair value, no impairment exists and the second step is not performed. If the carrying value of the reporting unit is higher than its fair value, the second step must be performed to compute the amount of the goodwill impairment, if any. In the second step, the impairment is computed by comparing the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized for the excess

### *Intangible Assets*

Intangible assets (exclusive of patents), arose primarily from acquisitions and primarily consist of customer relationships, trademarks, licenses, 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.

*Accrual for Self-funded Medical*

Accruals for self-funded medical insurance are determined based on a number of assumptions and factors, including historical payment trends, claims history and current estimates. These estimated liabilities are not discounted. If actual trends differ from these estimates, the financial results could be impacted.

*Recent Accounting Pronouncements Adopted*

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, "Comprehensive Income" (Topic 220) – Presentation of Comprehensive Income" (ASU No. 2011-05), which requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminated the option to present the components of other comprehensive income as part of the statement of equity. The Company adopted ASU 2011-05 in its first quarter of fiscal year 2013 by including the required disclosures in two separate but consecutive statements.

In September 2011, the FASB issued Accounting Standards Update No. 2011-08 “Testing Goodwill for Impairment” (ASU No. 2011-08) which is intended to reduce the complexity and costs to test goodwill for impairment. The amendment allows an entity the option to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity will no longer be required to calculate the fair value of a reporting unit unless the entity determines, based on its qualitative assessment, that it is more likely than not that the fair value of the reporting unit is less than its carrying amount. The ASU also expands upon the examples of events and circumstances that an entity should consider between annual impairment tests in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The amendment became effective for annual and interim goodwill impairment tests performed for the Company’s fiscal year beginning August 1, 2012. The Company does not expect the adoption of ASU 2011-08 to have a material impact on its consolidated financial statements.

In July 2011, the FASB issued ASU No. 2011-07 “Health Care Entities (Topic 954) - Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities”. This update was issued to provide greater transparency relating to accounting practices used for net patient service revenue and related bad debt allowances by health care entities. Some health care entities recognize patient service revenue at the time the services are rendered regardless of whether the entity expects to collect that amount or has assessed the patient’s ability to pay. These prior accounting practices used by some health care entities resulted in a gross-up of patient service revenue and the provision for bad debts, causing difficulty for users of financial statements to make accurate comparisons and analyses of financial statements among entities. ASU No. 2011-07 requires certain healthcare entities to change the presentation of the statement of operations, reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue and also requires enhanced quantitative and qualitative disclosures relevant to the entity’s policies for recognizing revenue and assessing bad debts. This update is not designed to change and will not change the net income reported by healthcare entities. The Company adopted this update in its first quarter of fiscal year 2013 with no impact on its consolidated financial position or results of operations.

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

We are exposed to market risk from changes in foreign currency exchange rates resulting from transactions at foreign locations which could impact our results of operations and financial position. We do not currently engage in any hedging or market risk management tools.

#### *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 decline of 10% in the value of the U.S. dollar versus foreign currencies at January 31, 2013, our assets and liabilities would decrease by \$1.1 million and \$0.7 million, respectively, and our net sales and net earnings (loss) would decrease by \$1.0 million and \$0.1 million, respectively, on an annual basis.

We also maintain intercompany balances and loans receivable with subsidiaries in different local currencies. These amounts are at risk of foreign exchange losses if exchange rates fluctuate. Assuming a hypothetical increase of 10% in the value of the U.S. dollar versus foreign currencies at January 31, 2013, our pre-tax earnings (loss) would be unfavorably impacted by approximately \$0.4 million on an annual basis.

*Interest Rate Risk*

Our excess cash is invested in highly liquid money market accounts and U.S. Treasury bills. Changes in interest rates may affect the investment income we earn on these funds which are classified as cash equivalents and therefore affect our cash flows and results of operations. As of January 31, 2013, we were exposed to interest rate change market risk with respect to our cash equivalents of \$3.5 million. The cash equivalents bear interest rates ranging from 0% to 0.05%. As of January 31, 2013, based on the cash equivalents held, it is determined we have no material interest rate risk.

As of January 31, 2013, we have fixed interest rate financing on transportation and equipment leases.

#### **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. 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

There have been no other 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, 2012 filed with the Securities and Exchange Commission, other than as noted in Note 11 to the consolidated financial statements as of January 31, 2013 and the six months then ended.

### Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in Part 1, Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 2012.

### Item 6. Exhibits

#### Exhibit No. Exhibit

- 31.1 Certification of Elazar Rabbani, Ph.D. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Barry Weiner pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Elazar Rabbani, Ph.D. pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Barry Weiner pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS\* XBRL Instance Document
- 101.SCH\* XBRL Taxonomy Extension Schema Document
- 101.CAL\* XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF\* XBRL Taxonomy Extension Definitions Linkbase Document
- 101.LAB\* XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE\* XBRL Taxonomy Extension Presentation Linkbase Document

\*XBRL (Extensible Business Reporting Language) information is being furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

**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.  
(Registrant)

Date:  
March 12, 2013 by: /s/ Barry Weiner  
President,  
Chief  
Financial  
Officer,  
Principal  
Accounting  
Officer,  
Treasurer  
and  
Director