

Edgar Filing: ENZO BIOCHEM INC - Form 10-Q

ENZO BIOCHEM INC  
Form 10-Q  
March 12, 2007

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, 2007

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-09974

ENZO BIOCHEM, INC.

-----  
(Exact name of registrant as specified in its charter)

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

212-583-0100  
-----  
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, \$0.01 par value New York Stock Exchange  
-----  
(Title of Class) (Name of Each Exchange  
on which Registered)

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 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

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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, 2007, the Registrant had approximately 36,650,300 shares of Common Stock outstanding.

ENZO BIOCHEM, INC.  
FORM 10-Q  
January 31, 2007

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ENZO BIOCHEM, INC.  
CONSOLIDATED BALANCE SHEETS  
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

ASSETS	January 31, 2007 (unaudited)	July 31, 2006 (Note 1)
	-----	-----
Current assets:		
Cash and cash equivalents	\$110,916	\$ 69,854
Accounts receivable, net of allowances	10,249	10,447
Inventories	2,383	2,401
Prepaid expenses	772	1,465
Recoverable and prepaid income taxes	1,807	1,931
	-----	-----
Total current assets	126,127	86,098
Property, plant, and equipment, net of accumulated depreciation and amortization	5,669	5,848
Goodwill	7,452	7,452
Patent costs, net of accumulated amortization	1,218	1,257
Other	989	869
	-----	-----
Total assets	\$141,455	\$101,524
	=====	=====
 LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable - trade	\$ 985	\$ 1,304
Accrued liabilities	6,408	4,403
Other current liabilities	470	230
	-----	-----
Total current liabilities	7,863	5,937
 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: 36,232,800 at January 31, 2007 and 32,844,200 at July 31, 2006	362	328
Additional paid-in capital	280,258	236,002
Less treasury stock at cost: 582,474 shares at January 31, 2007 and 569,700 shares at July 31, 2006	(8,686)	(8,499)
Accumulated deficit	(138,342)	(132,244)
	-----	-----
Total stockholders' equity	133,592	95,587
	-----	-----
Total liabilities and stockholders' equity	\$141,455	\$101,524
	=====	=====

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

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## CONSOLIDATED STATEMENTS OF OPERATIONS UNAUDITED (IN THOUSANDS, EXCEPT PER SHARE DATA)

	Three Months Ended January 31,		Six Months January
Revenues:	2007	2006	2007
Product revenues	\$725	\$1,434	\$1,816
Royalty income	909	675	2,207
Clinical laboratory services	8,960	8,007	17,014
	10,594	10,116	21,037
 Costs and expenses and other (income):			
Cost of product revenues	370	385	925
Cost of clinical laboratory services	4,067	3,431	7,563
Research and development expense	2,459	1,911	4,320
Selling, general, and administrative expense	7,210	7,326	12,781
Provision for uncollectible accounts receivable	1,180	1,209	2,094
Legal expense	1,952	1,632	4,110
Interest income	(1,168)	(680)	(2,079)
Other income	(699)	--	(2,699)
	15,371	15,214	27,015
 Loss before income taxes	(4,777)	(5,098)	(5,978)
(Provision) benefit for income taxes	(75)	659	(120)
 Net loss	(\$4,852)	(\$4,439)	(\$6,098)
 Net loss per common share:			
Basic	(\$0.14)	(\$0.14)	(\$0.18)
Diluted	(\$0.14)	(\$0.14)	(\$0.18)
 Weighted average common shares outstanding:			
Basic	34,486	32,200	33,382
Diluted	34,486	32,200	33,382

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

ENZO BIOCHEM, INC  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
UNAUDITED  
(IN THOUSANDS)

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	Six Months Ended	
	January 31,	
OPERATING ACTIVITIES	2007	2006
	-----	-----
Net loss	(\$6,098)	(\$7,724)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization of property, plant and equipment	489	526
Amortization of patent costs	39	37
Provision for uncollectible accounts receivable	2,094	2,354
Deferred taxes	--	640
Share based compensation charges	870	869
Accrual for 401(k) employer match	418	--
Issuance of stock for 401(k) employer match	--	401
Loss on marketable securities	--	153
Other	10	--
Changes in operating assets and liabilities:		
Accounts receivable	(1,896)	(585)
Inventories	18	(104)
Prepaid expenses	693	868
Recoverable and prepaid income taxes	124	(1,204)
Accounts payable - trade	(319)	(765)
Accrued liabilities	1,587	(1,343)
Other current liabilities	240	(509)
	-----	-----
Adjustments	4,367	1,338
	-----	-----
Net cash used in operating activities	(1,731)	(6,386)
	-----	-----
INVESTING ACTIVITIES		
Capital expenditures	(310)	(948)
Sales of marketable securities	--	6,761
Purchases of marketable securities	--	(69)
Increase in cash surrender values	(117)	(51)
Increase in security deposits	(3)	1
	-----	-----
Net cash (used in) provided by investing activities	(430)	5,694
	-----	-----
FINANCING ACTIVITIES		
Net proceeds from issuance of common stock	43,106	--
Proceeds from the exercise of stock options	117	73
	-----	-----
Net cash provided by financing activities	43,223	73
	-----	-----
Net increase (decrease) in cash and cash equivalents	41,062	(619)
Cash and cash equivalents at the beginning of period	69,854	76,981
	-----	-----
Cash and cash equivalents at the end of period	\$110,916	\$76,362
	=====	=====

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

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

As of January 31, 2007  
and for the three and six month periods ended  
January 31, 2007 and 2006  
(Unaudited)

#### Note 1 - Basis of Presentation

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The accompanying unaudited 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 (the "Company" or "Companies"). The consolidated balance sheet as of January 31, 2007 and the consolidated statements of operations and statements of cash flows for the three and six month periods ended January 31, 2007 and 2006 are unaudited and reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods. The consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended July 31, 2006 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, 2006 has been derived from the audited financial statements at that date. The results of operations for the three and six months ended January 31, 2007 are not necessarily indicative of the results to be expected for the entire fiscal year ending July 31, 2007.

#### Recent Accounting Pronouncements

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections ("SFAS 154"), a replacement of APB Opinion No. 20, Accounting Changes, and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements". SFAS 154 changes the requirements for the accounting for and reporting of a change in accounting principle. Previously, most voluntary changes in accounting principles required recognition via a cumulative effect adjustment within net income for the period of the change. SFAS 154 requires retrospective application to prior periods' financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005; however, SFAS 154 does not change the transition provisions of any existing accounting pronouncements. The adoption of SFAS 154 did not have a material impact on the Company's financial condition or results of operations.

In June 2006, the FASB issued FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109, Accounting for Income Taxes" ("SFAS 109")", to clarify the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS 109. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006. The Company has not evaluated the impact of FIN 48 on its financial

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statements at this time.

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In September 2006, the SEC released Staff Accounting Bulletin No. 108 "Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 provides interpretative guidance on how public companies quantify financial statement misstatements. There have been two common approaches used to quantify such errors. Under an income statement approach, the "roll-over" method, the error is quantified as the amount by which the current year income statement is misstated. Alternatively, under a balance sheet approach, the "iron curtain" method, the error is quantified as the cumulative amount by which the current year balance sheet is misstated. In SAB 108, the SEC established an approach that requires quantification of financial statement misstatements based on the effects of the misstatements on each of the company's financial statements and the related financial statement disclosures. This model is commonly referred to as a "dual approach" because it requires quantification of errors under both the roll-over and iron curtain methods. SAB 108 is effective for the Company as of August 1, 2007. The adoption of SAB 108 is not expected to have a material impact on the Company's consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". This Statement defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements, and is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company has not evaluated the effect that the adoption of this Statement will have on its financial statements at this time.

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 159"). This statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 is effective as of the beginning of fiscal years that begin after November 15, 2007. The Company has not evaluated the effect that the adoption of this Statement will have on its financial statements at this time.

### Reclassifications

Certain balances in the prior period have been reclassified to conform with the presentation in the current period.

### Note 2 - Net loss per share

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Basic net loss per common share is computed using the weighted average number of common shares outstanding during the three and six months ended January 31, 2007 and 2006. Diluted net loss per common shares is computed using the weighted average number of shares outstanding during the three and six months ended January 31, 2007 and 2006, 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.

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

(In thousands)	Three months ended		Six months ended	
	January 31,		January 31,	
	2007	2006	2007	2006
	----	----	----	----
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	691	427	562	496
	====	====	====	====

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

(In thousands)	Three months ended		Six months ended	
	January 31,		January 31,	
	2007	2006	2007	2006
	----	----	----	----
"Out of the money" stock options	905	963	905	963
	====	====	====	====

### Note 3 - 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 six month periods ended January 31, 2007 and 2006 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 123R.

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		Six months ended	
	January 31,		January 31,	
	2007	2006	2007	2006
	----	----	----	----
Stock options	\$367	\$420	\$676	\$840
Restricted stock awards	133	29	194	29
Total	\$500	\$449	\$870	\$869
	====	====	====	====
Impact on basic and diluted net loss per common share	\$0.02	\$0.01	\$0.03	\$0.03
	=====	=====	=====	=====



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As included in the statements of operations

Cost of product revenues	\$ 3	\$ 0	\$ 6	\$ 38
Research and development	51	71	98	142
Selling, general and administrative	446	348	766	689
	-----	-----	-----	-----
	\$500	\$449	\$870	\$869
	=====	=====	=====	=====

No excess tax benefits were recognized during the three and six month periods ended January 31, 2007 and 2006.

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### STOCK OPTION PLANS

A summary of the activity relating to the Company's stock option plans for the six month period ended January 31, 2007 is as follows:

	Options	Weighted Average Exercise Price	Aggregate Intrinsic Value
	-----	-----	-----
Outstanding at August 1, 2006	2,877,727	\$13.20	\$3,700,000
Granted	--	--	=====
Exercised	(35,359)	\$8.59	
Cancelled	(69,098)	\$13.09	
	-----		
Outstanding at end of period	2,773,270	\$13.27	\$8,138,000
	=====		=====
Exercisable at end of period	2,588,409	\$13.31	\$7,733,000
	=====		=====
Available for grant at January 31, 2007	600,900		
	=====		

The Company did not grant stock options during the six months ended January 31, 2007. As of January 31, 2007, there was approximately \$594,000 of total unrecognized compensation cost related to nonvested stock option-based compensation, which will be recognized over a weighted average life of approximately one year.

During the six months ended January 31, 2007 and 2006, the Company received cash proceeds of approximately \$117,000 and \$73,000, respectively, from the exercise of 35,359 and 227,816 stock options, respectively. The aggregate intrinsic value of stock options exercised during the six months ended January 31, 2007 and 2006, including the non-cash transactions (Note 4) was approximately \$0.2 million and \$1.7 million, respectively.

During the year ended July 31, 2006, the Company granted 100,000 options to a consultant with an exercise price of \$24.84, which vested over six months and have a two year term. The fair value of these options on September 6, 2006 (the vesting date) was \$89,000. The fair value of the options, which was accounted for as a variable instrument, was fair valued and recognized as expense over the six month vesting term. The assumptions used to fair value this option grant were as follows: risk free interest rate of 4.97%, expected term of 2 years, expected volatility of 49%, and no dividend yield. In connection with the options issued to this consultant, the Company recognized an expense of approximately \$9,000 in selling, general and administrative expense in the accompanying statement of operations for the six months ended January 31, 2007.

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RESTRICTED STOCK AWARDS

During the six months ended January 31, 2007, the compensation committee of the Company's board of directors approved grants of restricted stock-based compensation awards (the "Awards") of 72,400 shares to certain independent directors, executive officers and employees. During the six months ended January 31, 2006, the compensation committee of the Company's board of directors approved Awards of 45,000 shares to certain independent directors and an employee.

A summary of the activity pursuant to the Company's Awards for the six months ended January 31, 2007 is as follows:

	Awards	Weighted Average Award Price
	-----	-----
Nonvested at August 1, 2006	77,450	\$12.21
Granted	72,400	\$14.85
Vested	(14,375)	\$13.64
Forfeited	(6,800)	\$13.41
	-----	
Nonvested at end of period	128,675	\$13.47
	=====	

The fair value of nonvested shares is determined based on the closing stock price on the grant date. As of January 31, 2007, there was approximately \$1.5 million of total unrecognized compensation cost related to nonvested restricted stock-based compensation to be recognized over a weighted average period of two years.

Note 4 - 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)	Six months ended January 31,	
	2007	2006
	----	----
Taxes (refunded) paid - net	\$ (56)	\$28
	====	====

During the six months ended January 31, 2007, an officer of the Company exercised 24,021 stock options in a non-cash transaction. The officer surrendered 12,774 shares of previously acquired common stock to exercise the stock options. The Company recorded approximately \$0.2 million, the market value of the surrendered shares, as treasury stock.

During the six months ended January 31, 2006, certain officers of the Company exercised 221,116 stock options in a non-cash transaction. The officers surrendered 180,411 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.

Note 5 - Inventories

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Inventories, net of reserves for excess and obsolete inventory of \$57,000 and \$238,000, respectively, consist of the following, as of:

(In thousands)	January 31, 2007	July 31, 2006
Raw materials	\$19	\$38
Work in process	1,357	1,518
Finished products	1,007	845
	-----	-----
	\$2,383	\$2,401
	=====	=====

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### Note 6 - Accrued liabilities and other current liabilities

Accrued liabilities consist of:

In 000's	January 31, 2007	July 31, 2006
Legal	\$1,940	\$1,974
Payroll, benefits, and commissions	2,396	868
Research and development	589	408
Professional fees	625	369
Outside reference lab testing	277	122
Other	581	662
	-----	-----
	\$6,408	\$4,403
	=====	=====

Other current liabilities consist of:

In 000's	January 31, 2007	July 31, 2006
Installment payable	\$150	\$150
Deferred revenue	320	80
	-----	-----
	\$470	\$230
	=====	=====

### Note 7 - 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 tax provisions for the three and six months ended January 31, 2007 were based on state and local taxes, and 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 tax benefit for the three months ended January 31, 2006 differed from the expected net operating loss carryforward benefit at the U.S. federal statutory rate of 34% primarily due to limitations on the timing of the recognition of the Company's then available federal tax carryback benefit for taxes paid in prior

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years. The tax benefit also differs from the expected net operating loss carryforward benefit due to the inability to recognize such benefit. The carryforward benefit could not be recognized because of uncertainties relating to future taxable income, in terms of both its timing and its sufficiency, which would have enabled the Company to realize the federal carryforward benefit.

The tax benefit for the six months ended January 31, 2006 differed from the expected net operating loss carryforward benefit at the U.S. federal statutory rate of 34% primarily due to limitations on the timing of the recognition of the Company's then available federal tax carryback benefit for taxes paid in prior years. The tax benefit also differs from the expected net operating loss carryforward benefit due to the inability to recognize such benefit. The carryforward benefit could not be recognized because of uncertainties relating to future taxable income, in terms of both its timing and its sufficiency, which would have enabled the Company to realize the federal carryforward benefit. Also due to these uncertainties, the Company recorded during the first quarter of the 2006 period a valuation allowance equal to its net deferred tax assets, including the federal net operating loss carryforward benefit generated during the first quarter of the 2006 period. The Company recorded the valuation allowance as it concluded that it was not more likely than not that its net deferred tax assets would be realized in the foreseeable future based on positive and negative evidence available at the time.

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In November 2005, the FASB issued FSP FAS 123(R)-3, "Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards", to provide an alternate transition method for the implementation of SFAS 123(R). Because some entities do not have, and may not be able to re-create, information about the net excess tax benefits that would have qualified as such had those entities adopted SFAS 123(R) for recognition purposes, this FSP provides an elective alternative transition method. The method comprises (a) a computational component that establishes a beginning balance of the additional paid in capital pool ("APIC pool") related to employee compensation and (b) a simplified method to determine the subsequent impact on the APIC pool of employee awards that are fully vested and outstanding upon the adoption of SFAS 123(R). The Company adopted the principles set forth in this FSP to determine its APIC pool.

### Note 8 - Royalty income

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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. Royalty income arising from the Agreement is included in the Life Sciences segment (see Note 11).

### Note 9 - Other income

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#### GAIN ON PATENT LITIGATION SETTLEMENT

The Company as plaintiff and Sigma Aldrich ("Sigma") entered into a Settlement Agreement and Release effective September 15, 2006 (the "Settlement Agreement"). Pursuant to the Settlement Agreement, the Company's litigation with Sigma was dismissed and the Company recognized a \$2 million gain on patent litigation settlement included in "Other income" in the accompanying consolidated statement of operations for the six months ended January 31, 2007.

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### PAYMENT FROM FORMER DISTRIBUTOR

During the quarter ended January 31, 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 has been included in "Other income" in the accompanying consolidated statements of operations for the three and six months ended January 31, 2007.

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### Note 10 - Stockholders' Equity

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On December 8, 2006, the Securities and Exchange Commission ("SEC") declared effective the shelf Registration Statement the Company filed on Form S-3 on November 13, 2006. The shelf Registration Statement allows the Company to offer and sell up to an aggregate of \$100 million of common stock from time to time in one or more offerings. The terms of any such offering would be established at the time of such offering.

On December 14, 2006, the Company entered into a Placement Agent Agreement with Lazard Capital Markets LLC, as exclusive placement agent, relating to a "registered direct" offering ("Offering") of shares of the Company's common stock. On December 15, 2006, the Company entered into a definitive Subscription Agreement with various institutional investors relating to the sale of an aggregate of 3,285,715 shares of common stock for a purchase price of \$14.00 per share. Net proceeds from the Offering aggregating \$43.1 million, net of placement fees and financing costs of \$2.9 million, were credited to common stock and additional paid-in capital. On December 15, 2006, the Company filed a prospectus supplement with the SEC relating to the Offering under the Registration Statement and supplement thereto.

Subsequent to January 31, 2007, the Company entered into a Placement Agent Agreement with Lazard Capital Markets LLC, as exclusive placement agent, relating to a "registered direct" offering ("Subsequent Offering") of shares of the Company's common stock. Further, the Company entered into a definitive Subscription Agreement with an investor relating to the sale of an aggregate of 1,000,000 shares of common stock for a purchase price of \$15.00 per share. Net proceeds from the Subsequent Offering aggregated \$14.2 million, net of placement fees and financing costs of \$800,000 and were received on February 7, 2007. The shares of common stock were registered under the aforementioned shelf Registration Statement on Form S-3. On February 5, 2007, the Company filed a prospectus supplement with the SEC relating to the Subsequent Offering under the Registration Statement and supplement thereto.

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### Note 11 - Segment reporting

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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 medical community. Prior to the fourth quarter ended July 31, 2006, the Life Sciences and Therapeutics segments were reported together as the Research and Development segment. The January 31, 2006 segment information has been restated to reflect this change. 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. Certain expenses were reclassified among segments in the fiscal 2006 periods for comparative purposes.

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 critical accounting policies.

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

THREE MONTHS ENDED JANUARY 31, 2007

Revenues:	Life Sciences	Therapeutics	Clinical L
-----	-----	-----	-----
Product revenues	\$725	--	
Royalty income	909	--	
Clinical laboratory services	--	--	\$8,
	-----	-----	-----
	1,634	--	8,
 Cost and expenses and other (income):			
Cost of products	370	--	
Cost of clinical laboratory services	--	--	4,
Research and development	903	\$1,556	
Provision for uncollectible accounts	--	--	1,
Selling, general and administrative and legal	510	--	3,
Interest income	--	--	
Other income	(699)	--	
	-----	-----	-----
Income (loss) before income taxes	\$550	(\$1,556)	\$
	=====	=====	=====
Depreciation and amortization included above	\$44	\$4	\$
	=====	=====	=====
Share-based compensation included in above:			
Cost of products	\$3	--	
Research and development	18	\$33	
Selling, general and administrative and legal	8	--	\$
	-----	-----	-----
Total	\$29	\$33	\$
	=====	=====	=====

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Capital expenditures	\$18	\$ --	\$
	=====	=====	=====

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THREE MONTHS ENDED JANUARY 31, 2006

Revenues:	Life Sciences	Therapeutics	Clinical L
-----	-----	-----	-----
Product revenues	\$1,434	--	
Royalty income	675	--	
Clinical laboratory services	--	--	\$8,
	-----	-----	-----
	2,109	--	8,
Cost and expenses and other (income):			
-----			
Cost of products	385	--	
Cost of clinical laboratory services	--	--	3,
Research and development	791	\$1,120	
Provision for uncollectible accounts	--	--	1,
Selling, general and administrative and legal	569	--	3,
Interest income	--	--	
	-----	-----	-----
Income (loss) before income taxes	\$364	(\$1,120)	\$(
	=====	=====	=====
Depreciation and amortization included above	\$45	\$3	\$
	=====	=====	=====
Share-based compensation included in above:			
-----			
Cost of products	\$30	--	
Research and development	35	\$36	
Selling, general and administrative and legal	22	--	\$
	-----	-----	-----
Total	\$87	\$36	\$
	=====	=====	=====
Capital expenditures	\$18	\$ --	\$
	=====	=====	=====

SIX MONTHS ENDED JANUARY 31, 2007

Revenues:	Life Sciences	Therapeutics	Clinical L
-----	-----	-----	-----
Product revenues	\$1,816	--	
Royalty income	2,207	--	
Clinical laboratory services	--	--	\$17,
	-----	-----	-----
	4,023	--	17,
Cost and expenses and other (income):			

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Cost of products	925	--	
Cost of clinical laboratory services	--	--	7,
Research and development	1,732	\$2,588	
Provision for uncollectible accounts	--	--	2,
Selling, general and administrative and legal	1,008	--	7,
Interest income	--	--	
Other income	(2,699)	--	
	-----	-----	-----
Income (loss) before income taxes	\$3,057	(\$2,588)	\$
	=====	=====	=====
Depreciation and amortization included above	\$92	\$7	\$
	=====	=====	=====
Share-based compensation included in above:			
-----			
Cost of products	\$6	--	
Research and development	36	\$62	
Selling, general and administrative and legal	15	--	\$
	-----	-----	-----
Total	\$57	\$62	\$
	=====	=====	=====
Capital expenditures	\$61	\$7	\$
	=====	=====	=====

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SIX MONTHS ENDED JANUARY 31, 2006

Revenues:	Life Sciences	Therapeutics	Clinical L
-----	-----	-----	-----
Product revenues	\$2,721	--	
Royalty income	1,534	--	
Clinical laboratory services	--	--	\$16,
	-----	-----	-----
	4,255	--	16,
Cost and expenses and other (income):			
-----			
Cost of products	926	--	
Cost of clinical laboratory services	--	--	6,
Research and development	1,780	\$1,681	
Provision for uncollectible accounts	--	--	2,
Selling, general and administrative and legal	1,093	--	7,
Interest income	--	--	
	-----	-----	-----
Income (loss) before income taxes	\$456	(\$1,681)	\$ (
	=====	=====	=====
Depreciation and amortization included above	\$91	\$6	\$
	=====	=====	=====



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Share-based compensation included in above:

	\$38	--	
Cost of products	70	\$72	\$
Research and development	40	--	\$
Selling, general and administrative and legal	-----	-----	-----
Total	\$148	\$72	\$
	=====	=====	=====
Capital expenditures	\$12	\$ --	\$
	=====	=====	=====

### 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 financial statements and related notes. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements. See "Forward-Looking and Cautionary Statements" in our Form 10-K for the year ended July 31, 2006. Because of those factors, you should not rely on past financial results as an indication of future performance. We believe that period-to-period comparisons of our financial results to date are not necessarily meaningful and expect that our results of operations might fluctuate from period to period in the future.

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

The Company is comprised of three interconnected operating companies that have evolved out of the Company's core competence: the use of nucleic acids as informational molecules and the use of compounds for immune response modulation. These wholly owned operating Companies conduct their operations through three segments (see Note 11 in the notes to consolidated financial statements).

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The Company's sources of revenue from the Life Sciences segment is 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 income. The Company's other source of revenue is 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 laboratory'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

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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. 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 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.

For the three months ended January 31, 2007 and 2006, approximately 7% and 14% of the Company's operating revenues were derived from product sales and approximately 8% and 7% were derived from royalty income, respectively, and approximately 85% and 79% were derived from clinical laboratory services, respectively. For the six months ended January 31, 2007 and 2006, approximately 9% and 13% of the Company's operating revenues were derived from product sales and approximately 10% and 8% were derived from royalty income, respectively, and approximately 81% and 79% were derived from clinical laboratory services, respectively.

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### Comparative Operating Data

(in 000's)	Three months ended		Increase	%
	January 31,		(Decrease)	Change
	2007	2006	-----	-----
Revenues:				
-----	-----	-----	-----	-----
Product revenues	\$725	\$1,434	\$(709)	(49)
Royalty income	909	675	234	35
Clinical laboratory services	8,960	8,007	953	12
	-----	-----	-----	
Total revenues	10,594	10,116	478	5
Costs and expenses and other (income):				
-----				
Cost of products	370	385	(15)	(4)
Cost of laboratory services	4,067	3,431	636	19
Research & development	2,459	1,911	548	29
Selling, general and administrative	7,210	7,326	(116)	(2)
Provision for uncollectible A/R	1,180	1,209	(29)	(2)
Legal expenses	1,952	1,632	320	20
Interest income	(1,168)	(680)	(488)	72

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Other income	(699)	--	(699)	--
	-----	-----	-----	
Total costs and expenses - net	15,371	15,214	157	1
	-----	-----	-----	
Loss before income taxes	(\$4,777)	(\$5,098)	\$321	6%
	=====	=====	=====	

### RESULTS OF OPERATIONS

THREE MONTHS ENDED JANUARY 31, 2007 AS COMPARED TO JANUARY 31, 2006

#### CONSOLIDATED RESULTS

Product revenues during the three months ended January 31, 2007 were \$0.7 million compared to \$1.4 million in the year ago quarter, a decrease of \$0.7 million or 49% due to the continuing competitiveness in the industry.

Royalty income during the three months ended January 31, 2007 was \$0.9 million compared to \$0.7 million in the year ago quarter, an increase of \$0.2 million or 35%. Royalties are earned from net sales of Digene products subject to a license, as reported to the Company by Digene. There are no expenses relating to royalty income.

Clinical laboratory revenues during the three month period ended January 31, 2007 was \$9.0 million compared to \$8.0 million in the year ago quarter, an increase of \$1.0 million or 12%. The Company experienced an increase in service revenues during the 2007 period due to an expansion of a provider agreement with an insurance provider, which was partially offset by an increase in the contractual adjustment expense, which reduces gross billings, to 77.6% of gross billings as compared to 74.3% in the year ago period. The increase in the contractual adjustment expense is due to continued competitive pricing throughout the industry.

The cost of products during both the three month periods ended January 31, 2007 and 2006 was comparable at \$0.4 million. Gross profit was negatively affected during the 2007 period due to the decline in product revenues.

The cost of clinical laboratory services during the three month period ended January 31, 2007 was \$4.1 million as compared to \$3.4 million in the year ago period, an increase of \$0.6 million or 19%. The increase was due to the number of tests performed and higher costs associated with certain routine and esoteric tests related to the increase in the number of patients being serviced.

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Research and development expenses were approximately \$2.4 million during the three months ended January 31, 2007, compared to \$1.9 million in the year ago quarter, an increase of \$0.5 million or 29%. The increase was primarily due to an increase in clinical trial activities of \$0.3 million and an increase in payroll costs approximating \$0.1 million at the Therapeutic segment.

Selling, general and administrative expenses of approximately \$7.2 million during the three months ended January 31, 2007 were comparable to the year ago period amount of \$7.3 million.

The provision for uncollectible accounts receivable relating to the clinical laboratory segment for the three months ended January 31, 2007 was comparable to the year ago period.

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Legal expense was \$1.9 million during the three months ended January 31, 2007 compared to \$1.6 million in the year ago period, an increase of \$0.3 million or 20%, due to an increase in ongoing patent litigation and corporate activities.

Interest income increased by \$0.5 million or 72% to \$1.2 million during the three months ended January 31, 2007 compared to \$0.7 million during the 2006 period, due to an increase in invested cash from the sale of common stock in a registered direct offering which closed in December 2006. The net cash proceeds from the offering were \$43.1 million. See Liquidity and Capital Resources. The Company earns interest by investing primarily in short term (30 to 90 days) commercial paper and money market funds with high credit ratings.

Other income was \$0.7 million during the three months ended January 31, 2007 due to a payment of \$0.7 million from Perkin Elmer for amounts due under a Distribution Agreement (the "Distribution Agreement") which terminated December 31, 2004, compared to \$0 during the 2006 period. 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, tortious interference with business relations, and fraud in the inducement of contract. Perkin Elmer advised in a letter to the Company that the payment under the Distribution Agreement 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.

The tax provision for the three months ended January 31, 2007 was based on state and local taxes, and 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 tax benefit for the three months ended January 31, 2006 differed from the expected net operating loss carryforward benefit at the U.S. federal statutory rate of 34% primarily due to limitations on the timing of the recognition of the Company's then available federal tax carryback benefit for taxes paid in prior years. The tax benefit also differs from the expected net operating loss carryforward benefit due to the inability to recognize such benefit. The carryforward benefit could not be recognized because of uncertainties relating to future taxable income, in terms of both its timing and its sufficiency, which would have enabled the Company to realize the federal carryforward benefit.

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### SEGMENT RESULTS

The Life Sciences segment's income before taxes was approximately \$0.6 million for the three months ended January 31, 2007 as compared to \$0.4 million in the year ago quarter. Segment operating income increased primarily as a result of an increase in royalty income of \$0.2 million. Revenues from product shipments declined \$0.7 million due to the continuing competitiveness in the industry. The segment's income was positively impacted by a payment of \$0.7 million from Perkin Elmer for amounts due under a Distribution Agreement which terminated December 31, 2004. Segment operating expenses (research and development and selling, general and administrative) in both periods were comparable.

The Therapeutics segment's loss before taxes was approximately \$1.6 million for the three months ended January 31, 2007 as compared to a loss of \$1.1 million for the earlier quarter. The 2007 period increase in the segment loss was

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primarily due to an increase in clinical trial activities of \$0.4 million.

The Clinical Laboratory segment loss before taxes was \$0.1 million for the period ended January 31, 2007 as compared to segment loss of \$0.6 million in the year ago quarter. The 2007 period was positively impacted by an increase in service revenues of \$1.0 million primarily due to the expansion of an insurance provider agreement which increased gross profit by approximately \$0.3 million and a reduction in selling general and administrative costs of \$0.1 million.

The Other segment's loss before income taxes for the three months ended January 31, 2007 was approximately \$3.7 million and comparable to the year ago quarter. The segment loss reflects an increase in interest income of \$0.5 million offset by expense increases.

### RESULTS OF OPERATIONS

SIX MONTHS ENDED JANUARY 31, 2007 AS COMPARED TO JANUARY 31, 2006

#### Comparative Operating Data

(in 000's)	Six months ended January 31,		Increase	%
Revenues:	2007	2006	(Decrease)	Change
Product revenues	\$1,816	\$2,721	\$ (905)	(33)
Royalty income	2,207	1,534	673	44
Clinical laboratory services	17,014	16,026	988	6
<b>Total revenues</b>	<b>21,037</b>	<b>20,281</b>	<b>756</b>	<b>4</b>
<b>Costs and expenses and other (income):</b>				
Cost of products	925	926	(1)	--
Cost of laboratory services	7,563	6,912	651	9
Research & development	4,320	3,461	859	25
Selling, general and administrative	12,781	12,781	--	--
Provision for uncollectible A/R	2,094	2,354	(260)	(11)
Legal expenses	4,110	3,494	616	18
Interest income	(2,079)	(1,387)	(692)	50
Other income	(2,699)	--	(2,699)	
<b>Total costs and expenses - net</b>	<b>27,015</b>	<b>28,541</b>	<b>(1,526)</b>	<b>(5)</b>
<b>Loss before income taxes</b>	<b>(\$5,978)</b>	<b>(\$8,260)</b>	<b>\$2,282</b>	<b>28%</b>

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#### CONSOLIDATED RESULTS

Product revenues during the six months ended January 31, 2007 was \$1.8 million compared to \$2.7 million in the year ago quarter, a decrease of \$0.9 million or 33%, due to the continuing competitiveness in the industry.

Royalty income during the six months ended January 31, 2007 was \$2.2 million compared to \$1.5 million in the year ago quarter, an increase of \$0.7 million or 44%. Royalties are earned from net sales of Digene products subject to a license, as reported to the Company by Digene. There are no expenses relating to royalty income.

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Clinical laboratory revenues during the six month period ended January 31, 2007 were \$17.0 million compared to \$16.0 million in the 2006 period, an increase of \$1.0 million or 6%. The Company experienced an increase in service revenues during the 2007 period primarily due to an expansion of an insurance provider agreement, which was partially offset by an increase in the contractual adjustment expense, which reduces gross billings, to 77.3% of gross billings as compared to 74.7% in the prior period. The increase in the contractual adjustment expense is due to continued competitive pricing throughout the industry.

The cost of products during both the six month periods ended January 31, 2007 and 2006 was comparable at \$0.9 million. Gross profit was negatively affected during the 2007 period due to the decline in product revenues.

The cost of clinical laboratory services during the six month period ended January 31, 2007 was \$7.6 million as compared to \$6.9 million in the prior period, an increase of \$0.7 million or 9%. The increase was due to the number of tests performed and higher costs associated with certain routine and esoteric tests related to the increase in the number of patients being serviced.

Research and development expenses were approximately \$4.3 million during the six months ended January 31, 2007, compared to \$3.5 million in the 2006 period, an increase of \$0.8 million or 25%. The increase was primarily due to an increase in clinical trial activities of \$0.5 million and an increase in payroll costs approximating \$0.2 million at the Therapeutic segment.

Selling, general and administrative expenses of approximately \$12.8 million during the six months ended January 31, 2007 are comparable to the 2006 period.

The provision for uncollectible accounts receivable relating to the clinical laboratory segment for the six months ended January 31, 2007 was \$2.1 million, compared to \$2.4 million during the year ago period, a decrease of \$0.3 million or 11%. The provision declined due to improved billing and collection procedures.

Legal expense was \$4.1 million during the six months ended January 31, 2007 compared to \$3.5 million in the year ago period, an increase of \$0.6 million or 18%, due to an increase in ongoing patent litigation and corporate activities.

Other income was \$2.7 million during the six months ended January 31, 2007 versus \$0 in the year ago period. During the 2007 period, the Company as plaintiff and Sigma Aldrich ("Sigma") entered into a Settlement Agreement and Release effective September 15, 2006 (the "Settlement Agreement"). Pursuant to the Settlement Agreement, the Company's litigation with Sigma was dismissed and the Company recognized a \$2 million gain on patent litigation settlement during the six months ended January 31, 2007. In addition, during the 2007 period, the Company received a payment of \$0.7 million from Perkin Elmer for amounts due under a 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 under the Distribution Agreement 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

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not represent all amounts owed under the Distribution Agreement.

Interest income increased by \$0.7 million or 50% to \$2.1 million during the six months ended January 31, 2007 compared to \$1.4 million during the 2006 period, due to an increase in invested cash from the sale of common stock in a registered direct offering which closed in December 2006. The net cash proceeds from the offering were \$43.1 million. See Liquidity and Capital Resources. The Company earns interest by investing primarily in short term (30 to 90 days) commercial paper and money market funds with high credit ratings.

The tax provision for the six months ended January 31, 2007 was based on state and local taxes, and 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 tax benefit for the six months ended January 31, 2006 differed from the expected net operating loss carryforward benefit at the U.S. federal statutory rate of 34% primarily due to limitations on the timing of the recognition of the Company's then available federal tax carryback benefit for taxes paid in prior years. The tax benefit also differed from the expected net operating loss carryforward benefit due to the inability to recognize such benefit. The carryforward benefit could not be recognized because of uncertainties relating to future taxable income, in terms of both its timing and its sufficiency, which would have enabled the Company to realize the federal carryforward benefit. Also due to these uncertainties, the Company recorded during the first quarter of the 2006 period a valuation allowance equal to its net deferred tax assets, including the federal net operating loss carryforward benefit generated during the first quarter of the 2006 period. The Company recorded the valuation allowance as it concluded that it was not more likely than not that its net deferred tax assets would be realized in the foreseeable future based on positive and negative evidence available at the time.

### SEGMENT RESULTS

The Life Sciences segment's income before taxes was approximately \$3.1 million for the six months ended January 31, 2007 as compared to \$0.5 million in the 2006 period. The increase is primarily the result of the Company's \$2.0 million patent litigation settlement with Sigma Aldrich and a payment of \$0.7 million from Perkin Elmer for amounts due under a Distribution Agreement which terminated December 31, 2004. Revenues from product shipments declined \$0.9 million due to the continuing competitiveness in the industry, partially offset by an increase in royalty income of \$0.7 million. Segment operating expenses (research and development and selling, general and administrative) in both periods were comparable.

The Therapeutics segment's loss before income taxes was approximately \$2.6 million for the six months ended January 31, 2007 as compared to a loss of \$1.7 million for the 2006 period. The increase was primarily due to an increase in clinical trial activities of \$0.5 million, an increase in payroll costs approximating \$0.2 million, and an increase in patent related costs of \$0.1 million.

The Clinical Laboratory segment's income before taxes was \$0.3 million for the six months ended January 31, 2007 as compared to a loss of \$0.5 million in the 2006 period. The 2007 period was positively impacted by an increase in service

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revenues due to the expansion of an insurance provider agreement, which increased gross profit by approximately \$0.3 million, a reduction of \$0.3 million in the provision for uncollectible accounts due to continued improved billing and collection procedures, and a reduction in selling general and administrative costs of \$0.2 million.

The Other segment's loss before taxes for the six months ended January 31, 2007 was approximately \$6.7 million as compared to a loss of \$6.5 million in the 2006 period. The increase in the loss before taxes was primarily due to an increase in legal fees of \$0.6 million due to an increase in ongoing patent litigation and corporate activities and an increase in compensation costs of approximately \$0.2 million, partially offset by an increase in interest income of \$0.7 million.

### LIQUIDITY AND CAPITAL RESOURCES

On December 14, 2006, the Company entered into a Placement Agent Agreement with Lazard Capital Markets LLC, as exclusive placement agent, relating to a "registered direct" offering ("Offering") of shares of the Company's common stock. On December 15, 2006, the Company entered into a definitive Subscription Agreement with various institutional investors relating to the sale of an aggregate of 3,285,715 shares of common stock for a purchase price of \$14.00 per share. Net proceeds from the Offering aggregating \$43.1 million, net of placement fees and financing costs of \$2.9 million, were credited to common stock and additional paid-in capital. On December 15, 2006, the Company filed a prospectus supplement with the SEC relating to the Offering under a shelf Registration Statement on Form S-3 which was effective December 8, 2006 and supplement thereto.

At January 31, 2007, our cash and cash equivalents were \$110.9 million, an increase of \$41.1 million from cash and cash equivalents at July 31, 2006. The increase in cash during the six months ended January 31, 2007 was primarily due to the Offering proceeds, a \$2.0 million settlement gain on patent litigation and cash flow impacts discussed below. The Company had working capital of \$118.3 million at January 31, 2007 compared to \$80.2 million at July 31, 2006. The increase in working capital was primarily the result of the Offering, offset by an increase in current liabilities of approximately \$2.0 million.

Net cash used in operating activities for the six months ended January 31, 2007 was approximately \$1.7 million as compared to net cash used in operating activities of \$6.4 million in the 2006 period. The decline in net cash used in operating activities in the 2007 period over the 2006 period of \$4.7 million was primarily due to a decrease in net loss of \$1.6 million, partially attributable to the other income of \$2.7 million in the 2007 period, and by the net changes of approximately \$3.1 million in operating assets and liabilities, primarily due to the increase in accrued liabilities and the decrease in recoverable income taxes during the 2007 period.

Net cash used in investing activities for the six months ended January 31, 2007 was approximately \$0.4 million as compared to net cash provided by investing activities of \$5.7 million in the year ago period, primarily due to a decline in the sales of marketable securities of approximately \$6.7 million. During the six months ended January 31, 2006, all investments in marketable securities were sold and the proceeds reinvested in cash equivalents.

Net cash provided by financing activities for the six months ended January 31, 2007 was \$43.2 million as compared to \$0.1 million in the year ago period. The increase was due to the proceeds from the Offering of \$43.1 million previously discussed.

Subsequent to January 31, 2007, the Company completed another "registered direct" offering ("Subsequent Offering") for an aggregate of 1,000,000 shares of



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common stock for a purchase price of \$15.00 per share. Net proceeds from the Subsequent Offering aggregating \$14.2 million, net of placement fees and financing costs of \$800,000, were received on February 7, 2007.

The Company believes that its current cash position is sufficient for its foreseeable liquidity and capital resource needs over the next 12 months, although there can be no assurance that future events will not alter such view.

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### CONTRACTUAL OBLIGATIONS

There were no significant changes to the Contractual Obligations disclosed in the Annual Report on Form 10-K for the 2006 fiscal year.

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.

### CRITICAL ACCOUNTING POLICIES

#### General

-----

The Company's discussion and analysis of its financial condition and results of operations are based upon Enzo Biochem, Inc.'s consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. 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 adjustments, allowance for uncollectible accounts, inventory, intangible assets and income taxes. The Company bases its estimates on experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

### PRODUCT REVENUES

-----

Revenues from product sales are recognized when the products are shipped, the sales price is fixed or determinable and collectibility is reasonably assured.

### ROYALTIES

-----

Royalty revenues are recorded in the period earned and no royalty related costs exist. Royalties received in advance of being earned are recorded as deferred revenues.

### REVENUES - CLINICAL LABORATORY SERVICES

-----

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

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is the difference between amounts billed to payers and the expected approved reimbursable settlements from such payers. The following are tables of the clinical laboratory segment's net revenues and percentages by revenue category for the three and six months ended January 31, 2007 and 2006:

Net revenues	Three months ended January 31, 2007		Three months ended January 31, 2006	
Revenue category	(In 000's)	(in %)	(In 000's)	(in %)
Medicare	\$2,008	22	\$1,968	24
Third party carriers	5,583	62	3,852	48
Patient self-pay	756	9	1,727	22
HMO's	613	7	460	6
<b>Total</b>	<b>\$8,960</b>	<b>100%</b>	<b>\$8,007</b>	<b>100%</b>

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Net revenues	Six months ended January 31, 2007		Six months ended January 31, 2006	
Revenue category	(In 000's)	(in %)	(In 000's)	(in %)
Medicare	\$3,962	23	\$3,803	24
Third party carriers	10,595	63	8,565	53
Patient self-pay	1,388	8	2,730	17
HMO's	1,069	6	928	6
<b>Total</b>	<b>\$17,014</b>	<b>100%</b>	<b>\$16,026</b>	<b>100%</b>

The Company provides services to certain patients covered by various third-party payers, including the Federal Medicare program. Revenue, net of contractual adjustments, from gross billings under the Federal Medicare program during the three and six months ended January 31, 2007 and 2006 were approximately 22% and 24%, and 23% and 24%, respectively, of the clinical lab segment's revenue. 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.

### CONTRACTUAL ADJUSTMENTS

The Company's estimate of contractual adjustments is based on significant assumptions and judgments, such as its interpretation of the applicable payer's 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. The Company adjusts the contractual adjustment estimate periodically, based on its evaluation of historical settlement experience with payers, industry reimbursement trends, and other relevant factors.

During the three and six months ended January 31, 2007 and 2006, the contractual adjustment percentages, determined using average historical reimbursement

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statistics, were 77.6% and 74.3% and 77.3% and 74.7%, respectively, of gross billings. The Company estimates (by using a sensitivity analysis) that each 1% point change in the contractual adjustment percentage could have resulted in a change in clinical laboratory services revenues of approximately \$749,000 for the six months ended January 31, 2007, and could have resulted in a change in the net accounts receivable of approximately \$245,000 as of January 31, 2007.

### ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

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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.

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

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The allowance for doubtful accounts includes the balances, after receipt of the approved settlements from third party payers for the insufficient diagnosis information received from the ordering physician, which result in denials of payment, and the uncollectible portion of receivables from self payers, including deductibles and copayments, which are subject to credit risk and patients' ability to pay. During the three and six months ended January 31, 2007 and 2006, the Company determined an allowance for doubtful accounts less than 210 days and wrote off 100% of accounts receivable (for all payers) over 210 days, as it assumed those accounts are uncollectible. The Company adjusts the historical collection analysis for recoveries, if any, on an ongoing basis.

The Company's ability to collect outstanding receivables from third party payers is critical to its operating performance and cash flows. The primary collection risk lies with uninsured patients or patients for whom primary insurance has paid but a patient portion remains outstanding. The Company also assesses the current state of its billing functions in order to identify any known collection or reimbursement issues in order to assess the impact, if any, on the allowance estimates, which involves judgment. The Company believes that the collectibility of its receivables is directly linked to the quality of its billing processes, most notably, those related to obtaining the correct information in order to bill effectively for the services provided. Should circumstances change (e.g. shift in payer mix, decline in economic conditions or deterioration in aging of receivables), our estimates of net realizable value of receivables could be reduced by a material amount.

The following is a table of the Company's net accounts receivable by segment. The clinical laboratory segment's net receivables are detailed by billing category and as a percent to its total net receivables. At January 31, 2007 and July 31, 2006, approximately 88% of the Company's net accounts receivable relates to its clinical laboratory business, which operates in the New York and New Jersey Metropolitan area.

Net accounts receivable	As of January 31, 2007	As of July 31, 2006
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Billing category	(In 000's)	(in %)	(In 000's)	(in %)
-----	-----	-----	-----	-----
Clinical laboratory				
Medicare	\$1,573	17	\$1,367	15
Third party carriers	4,883	54	4,025	44
Patient self-pay	2,008	22	3,294	36
HMO's	586	6	475	5
	-----	---	-----	---
Total Clinical laboratory	9,050	100%	9,161	100%
			=====	===
Total Life Sciences	1,199		1,286	
	-----		-----	
Total accounts receivable	\$10,249		\$10,447	
	=====		=====	

### INCOME TAXES

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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 of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

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### INVENTORY

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The Company values inventory at the lower of cost (first-in, first-out) or market. Work-in-process and finished goods inventories consist of material, labor, and manufacturing overhead. On a quarterly basis, we review inventory quantities on hand and analyze the provision for excess and obsolete inventory based on our estimate of sales forecasts based on sales history and anticipated future demand. Our estimate of future product demand may not be accurate and we may understate or overstate the provision for excess and obsolete inventory. Accordingly, unanticipated changes in demand could have a significant impact on the value of our inventory and results of operations. At January 31, 2007 and July 31, 2006, respectively, the reserve for excess and obsolete inventory was \$57,000 and \$238,000.

### Recent Accounting Pronouncements

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections ("SFAS 154"), a replacement of APB Opinion No. 20, Accounting Changes, and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements". SFAS 154 changes the requirements for the accounting for and reporting of a change in accounting principle. Previously, most voluntary changes in accounting principles required recognition via a cumulative effect adjustment within net income for the period of the change. SFAS 154 requires retrospective application to prior periods' financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative

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effect of the change.

SFAS 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005; however, SFAS 154 does not change the transition provisions of any existing accounting pronouncements. The adoption of SFAS 154 did not have a material impact on the Company's financial condition or results of operations.

In June 2006, the FASB issued FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109, Accounting for Income Taxes" ("SFAS 109"), to clarify the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS 109. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006. The Company has not evaluated the impact of FIN 48 on its financial statements at this time.

In September 2006, the SEC released Staff Accounting Bulletin No. 108 "Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 provides interpretative guidance on how public companies quantify financial statement misstatements. There have been two common approaches used to quantify such errors. Under an income statement approach, the "roll-over" method, the error is quantified as the amount by which the current year income statement is misstated. Alternatively, under a balance sheet approach, the "iron curtain" method, the error is quantified as the cumulative amount by which the current year balance sheet is misstated. In SAB 108, the SEC established an approach that requires quantification of financial statement misstatements based on the effects of the misstatements on each of the company's financial statements and the related financial statement disclosures. This model is commonly referred to as a "dual approach" because it requires quantification of errors under both the roll-over and iron curtain methods. SAB 108 is effective for the Company as of August 1, 2007. The adoption of SAB 108 is not expected to have a material impact on the Company's consolidated financial statements.

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In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". This Statement defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements, and is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the effect that the adoption of this Statement will have on its financial statements at this time.

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 159"). This statement permits entities to choose to measure many financial instruments and certain other items as fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 is effective as of the beginning of fiscal years that begin after November 15, 2007. The Company has not evaluated the effect that the adoption of this Statement will have on its financial statements at this time.

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### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company does not have an exposure to market risk from changes in foreign currency exchange rates, commodity price risk or other market risk. We do not engage in any hedging or market risk management tools. The Company does not have interest risk with respect to interest rates on cash and cash equivalents that could impact our results of operations and financial position since the investments are in highly liquid corporate debt instruments with maturities of three months or less. There have been no material changes with respect to market risk previously disclosed in our Annual Report on Form 10-K for our 2006 fiscal year.

### 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 Company's most recently completed interim fiscal period that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

There have been no material developments with respect to previously reported legal proceedings except as noted in Note 9. See the annual report on Form 10-K for the fiscal year ended July 31, 2006 filed with the Securities and Exchange Commission for a discussion of the Company's ongoing legal proceedings.

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### Item 1A. Risk Factors

Risk and uncertainties that, if they were to occur, could materially adversely affect our business or that could cause our actual results to differ materially from the results contemplated by the forward-looking statements contained in this Report and other public statements we make were set forth in the "Item 1A. - Risk Factors" section of our Annual Report on Form 10-K for the year ended July 31, 2006. There have been no material changes from the risk factors disclosed in that Form 10-K.

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### Item 4. Submission of matters to a vote of security holders

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(a) The Annual Meeting of Shareholders was held on January 23, 2007.

(b) The following matters were voted upon and the results were as follows:

(1) Shahram Rabbani and Irwin C. Gerson were nominated by management and elected by the shareholders to serve as Class I Directors until the 2010 Annual Meeting of Shareholders or until their respective successors are elected and shall qualify.

The shareholders voted 27,356,311 and 26,892,987 shares in the affirmative for Shahram Rabbani and Irwin C. Gerson, respectively, and withheld 386,949 and 850,273 shares for Shahram Rabbani and Irwin C. Gerson, respectively.

(2) The shareholders voted 27,604,956 in the affirmative with respect to the ratification of Ernst & Young LLP as the Company's independent auditors for the fiscal year ending July 31, 2007, 68,176 shares against and 70,128 shares abstained.

### Item 6. Exhibits

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Exhibit No. -----	Exhibit -----
31(a)	Certification of Elazar Rabbani, Ph.D. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31(b)	Certification of Barry Weiner pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32(a)	Certification of Elazar Rabbani, Ph.D. pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32(b)	Certification of Barry Weiner pursuant to 18 U.S.C. ss.1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

### SIGNATURES

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

ENZO BIOCHEM, INC.  
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(Registrant)

Date: March 12, 2007

by: /s/Barry Weiner  
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Chief Financial Officer