

ENZO BIOCHEM INC
Form PREC14A
December 02, 2015

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

SCHEDULE 14A
(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Under Rule 14a-12

ENZO BIOCHEM, INC.
(Name of Registrant as Specified in Its Charter)

LONE STAR VALUE INVESTORS, LP
LONE STAR VALUE INVESTORS GP, LLC
LONE STAR VALUE MANAGEMENT, LLC
JEFFREY E. EBERWEIN
DIMITRIOS J. ANGELIS
JOHN M. CLIMACO

(Name of Persons(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

.. Fee paid previously with preliminary materials:

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

PRELIMINARY COPY SUBJECT TO COMPLETION
DATED DECEMBER 2, 2015

LONE STAR VALUE INVESTORS, LP

_____, 2015

Dear Fellow Enzo Shareholder:

Lone Star Value Investors, LP (together with its affiliates, “Lone Star Value” or “we”), Dimitrios J. Angelis and John M. Climaco (collectively, the “Participants” and each a “Participant”) are the beneficial owners of an aggregate of 565,000 shares of common stock, par value \$0.01 per share (the “Common Stock”), of Enzo Biochem, Inc., a New York corporation (“Enzo” or the “Company”), representing approximately 1.23% of the outstanding shares of Common Stock. For the reasons set forth in the attached Proxy Statement, we believe significant changes to the composition of the Board of Directors of the Company (the “Board”) are necessary in order to ensure that the Company is being run in a manner consistent with your best interests. We are seeking your support for the election of our two nominees at the annual meeting of shareholders scheduled to be held on January [___], 2016, at __:___.M., local time, at _____ (including any adjournments or postponements thereof and any meeting which may be called in lieu thereof, the “Annual Meeting”). We are seeking representation on the Board because we believe that the Board should include shareholder representatives who have appropriate and relevant skill sets, independence and a shared objective of enhancing value for the benefit of all Enzo shareholders. The individuals we have nominated are highly-qualified, capable and committed to serve shareholders to help make Enzo a stronger, more profitable and more valuable company.

Our interests are fully aligned with the interests of all Enzo shareholders. We believe there is significant value to be realized at Enzo. However, we are concerned that the Board is not taking the appropriate actions to address the Company’s perennial underperformance and unlock value for the benefit of all shareholders. We are also concerned by Enzo’s poor corporate governance and related party transactions. Given the Company’s long history of poor financial and stock price performance, failed execution and poor corporate governance under the oversight of the incumbent Board, we strongly believe that the Board must be reconstituted to ensure that the interests of the shareholders, the true owners of Enzo, are appropriately represented in the boardroom, and that the Board takes the necessary steps to help the Company’s shareholders realize maximum value for their investment.

The Company has a classified Board, which is currently divided into three classes. There are two directorships up for election at the Annual Meeting. We are seeking your support at the Annual Meeting to elect our two nominees in opposition to the Company’s director nominees for the class with terms expiring at the 2018 annual meeting of shareholders. Lone Star Value believes that any attempt to increase or decrease the size of the current Board or the number of directors up for election at the Annual Meeting would constitute an improper manipulation of Enzo’s corporate machinery. Lone Star Value further believes that because the incumbent Board has historically eroded shareholder value and failed to adequately address the Company’s continued financial underperformance, change on the Board is urgently needed. Your vote to elect our nominees will have the legal effect of replacing two incumbent directors with our nominees. If elected, our nominees will constitute a minority on the Board and there can be no guarantee that our nominees will be able to implement the actions that they believe are necessary to unlock shareholder value.

We urge you to carefully consider the information contained in the attached Proxy Statement and then support our efforts by signing, dating and returning the enclosed [COLOR] proxy card today. The attached Proxy Statement and the enclosed [COLOR] proxy card are first being furnished to the shareholders on or about _____, 2015.

If you have already voted for the incumbent management slate, you have every right to change your vote by signing, dating and returning a later dated proxy or by voting in person at the Annual Meeting.

If you have any questions or require any assistance with your vote, please contact ICOM Advisors LLC dba InvestorCom, which is assisting us, at its address and toll-free numbers listed below.

Thank you for your support,

/s/ Jeffrey E. Eberwein

Jeffrey E. Eberwein
Lone Star Value Investors, LP

If you have any questions, require assistance in voting your [COLOR] proxy card, or need additional copies of Lone Star Value's proxy materials, please contact InvestorCom at the phone numbers listed below.

65 Locust Avenue, Suite 302

New Canaan, CT 06840

Shareholders call toll free at (877) 972-0090

Banks and Brokers may call collect at (203) 972-9300

PRELIMINARY COPY SUBJECT TO COMPLETION
DATED DECEMBER 2, 2015

2015 ANNUAL MEETING OF SHAREHOLDERS
OF
ENZO BIOCHEM, INC.

PROXY STATEMENT
OF
LONE STAR VALUE INVESTORS, LP

PLEASE SIGN, DATE AND MAIL THE ENCLOSED [COLOR] PROXY CARD TODAY

Lone Star Value Investors, LP (“Lone Star Value Investors”), Lone Star Value Investors GP, LLC (“Lone Star Value GP”), Lone Star Value Management, LLC (“Lone Star Value Management”), Jeffrey E. Eberwein (together with Lone Star Value Investors, Lone Star Value GP and Lone Star Value Management, “Lone Star Value” or “we”), Dimitrios J. Angelis and John M. Climaco (collectively, the “Participants” and each a “Participant”) are shareholders of Enzo Biochem, Inc., a New York corporation (“Enzo” or the “Company”), owning 565,000 shares of common stock, par value \$0.01 per share (the “Common Stock”), of the Company. We believe that the Board of Directors of the Company (the “Board”) must be reconstituted to ensure that the interests of the shareholders, the true owners of Enzo, are appropriately represented in the boardroom. We have nominated two directors who have strong, relevant backgrounds and who are committed to fully exploring all opportunities to unlock shareholder value. We are seeking your support at the annual meeting of shareholders scheduled to be held on January [__], 2016, at _:___.M., local time, at _____ (including any adjournments or postponements thereof and any meeting which may be called in lieu thereof, the “Annual Meeting”), for the following:

1. To elect Lone Star Value’s two (2) Class I director nominees, Dimitrios J. Angelis and John M. Climaco (each a “Nominee” and, collectively, the “Nominees”), to the Board to serve until the 2018 annual meeting of shareholders and until their respective successors are duly elected and qualified;
2. To approve, in a nonbinding advisory vote, the compensation of Enzo’s named executive officers;
3. To ratify the appointment of EisnerAmper LLP to serve as the Company’s independent registered public accounting firm for the Company’s fiscal year ending July 31, 2016; and
4. To transact such other business as may properly come before the Annual Meeting or any adjournment or postponement thereof.

As of the date hereof, the members of Lone Star Value and the other Participants collectively own 565,000 shares of Common Stock (the “Lone Star Value Group Shares”). We intend to vote the Lone Star Value Group Shares FOR the election of the Nominees, [in accordance with the recommendation of Institutional Shareholders Services Inc. (“ISS”)] with respect to the approval of the advisory vote to approve named executive officer compensation, and [FOR] the ratification of the appointment of EisnerAmper LLP as the independent registered public accounting firm of the Company for fiscal 2016, as described herein.

The Company has set the close of business on November 23, 2015 as the record date for determining shareholders entitled to notice of and to vote at the Annual Meeting (the "Record Date"). The mailing address of the principal executive offices of the Company is 527 Madison Avenue, New York, New York 10022. Shareholders of record at the close of business on the Record Date will be entitled to vote at the Annual Meeting. According to the Company, as of the Record Date, there were 46,068,815 shares of Common Stock outstanding.

THIS SOLICITATION IS BEING MADE BY LONE STAR VALUE AND NOT ON BEHALF OF THE BOARD OF DIRECTORS OR MANAGEMENT OF THE COMPANY. WE ARE NOT AWARE OF ANY OTHER MATTERS TO BE BROUGHT BEFORE THE ANNUAL MEETING OTHER THAN AS SET FORTH IN THIS PROXY STATEMENT. SHOULD OTHER MATTERS, WHICH LONE STAR VALUE IS NOT AWARE OF A REASONABLE TIME BEFORE THIS SOLICITATION, BE BROUGHT BEFORE THE ANNUAL MEETING, THE PERSONS NAMED AS PROXIES IN THE ENCLOSED [COLOR] PROXY CARD WILL VOTE ON SUCH MATTERS IN OUR DISCRETION.

LONE STAR VALUE URGES YOU TO SIGN, DATE AND RETURN THE [COLOR] PROXY CARD IN FAVOR OF THE ELECTION OF THE NOMINEES.

IF YOU HAVE ALREADY SENT A PROXY CARD FURNISHED BY COMPANY MANAGEMENT OR THE BOARD, YOU MAY REVOKE THAT PROXY AND VOTE ON EACH OF THE PROPOSALS DESCRIBED IN THIS PROXY STATEMENT BY SIGNING, DATING AND RETURNING THE ENCLOSED [COLOR] PROXY CARD. THE LATEST DATED PROXY IS THE ONLY ONE THAT COUNTS. ANY PROXY MAY BE REVOKED AT ANY TIME PRIOR TO THE ANNUAL MEETING BY DELIVERING A WRITTEN NOTICE OF REVOCATION OR A LATER DATED PROXY FOR THE ANNUAL MEETING OR BY VOTING IN PERSON AT THE ANNUAL MEETING.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting—This Proxy Statement and our [COLOR] proxy card are available at

[_____]

IMPORTANT

Your vote is important, no matter how few shares of Common Stock you own. Lone Star Value urges you to sign, date and return the enclosed [COLOR] proxy card today to vote FOR the election of the Nominees and in accordance with Lone Star Value's recommendations on the other proposals on the agenda for the Annual Meeting.

- If your shares of Common Stock are registered in your own name, please sign and date the enclosed [COLOR] proxy card and return it to Lone Star Value, c/o ICOM Advisors LLC dba InvestorCom ("InvestorCom"), in the enclosed postage-paid envelope today.
- If your shares of Common Stock are held in a brokerage account or bank, you are considered the beneficial owner of the shares of Common Stock, and these proxy materials, together with a [COLOR] voting form, are being forwarded to you by your broker or bank. As a beneficial owner, you must instruct your broker, trustee or other representative how to vote. Your broker cannot vote your shares of Common Stock on your behalf without your instructions.
- Depending upon your broker or custodian, you may be able to vote either by toll-free telephone or by the Internet. Please refer to the enclosed voting form for instructions on how to vote electronically. You may also vote by signing, dating and returning the enclosed voting form.

Since only your latest dated proxy card will count, we urge you not to return any proxy card you receive from the Company. Even if you return the management proxy card marked "withhold" as a protest against the incumbent directors, it will revoke any proxy card you may have previously sent to us. Remember, you can vote for our two Nominees only on our [COLOR] proxy card. So please make certain that the latest dated proxy card you return is the [COLOR] proxy card.

65 Locust Avenue, Suite 302
New Canaan, CT 06840
Shareholders call toll free at (877) 972-0090
Banks and Brokers may call collect at (203) 972-9300

Background to the Solicitation

The following is a chronology of events leading up to this proxy solicitation:

- On September 19, 2013, Mr. Eberwein met with Barry Weiner, the Company's President, Chief Financial Officer and a director, at the Company's headquarters on Madison Avenue in New York to discuss the history of the Company, its business and its Intellectual Property ("IP") litigation strategy. Mr. Eberwein asked about Enzo's high corporate expenses, its history of losses, its related party transactions, its poor corporate governance and its Board structure. Mr. Weiner mentioned that Enzo "would be profitable within the next 12 months." (Note: Enzo has yet to be profitable). Mr. Weiner suggested a follow-up meeting with Enzo co-founder, Chairman and Chief Executive Officer Dr. Elazar Rabanni for Mr. Eberwein to learn more about the history of the Company and its science.
- On October 29, 2013, Mr. Eberwein met with Dr. Rabanni and Mr. Weiner at the Company's headquarters in New York. Dr. Rabanni discussed Enzo's legacy as a science company and a leader in the genomics field, but there was no mention of earning profits or generating value for shareholders. There was further discussion of Enzo's business and IP litigation strategy.
- On November 5, 2013, Mr. Eberwein had a follow-up call with Mr. Weiner. Mr. Eberwein reiterated his belief that public shareholders have concerns about the "family-owned/family-run" structure of Enzo, its related party transactions (including the family-owned lab that is leased to Enzo), its poor corporate governance and the need for new talent and fresh perspectives on the Board. Mr. Weiner responded that the "family-owned/family-run" nature of Enzo was not a concern and that the family-owned facility leased to Enzo was at "market rates." Mr. Eberwein suggested that Mr. Weiner meet with John M. Climaco, with whom he became acquainted while serving on the board of directors of Digirad Corporation ("Digirad"). Mr. Eberwein mentioned Mr. Climaco as someone Enzo should consider adding to the Board given Mr. Climaco's biotechnology and legal background and the success Digirad has had in growing value for shareholders.
- In February 2014, Mr. Climaco met with Mr. Weiner at the Company's headquarters in New York to discuss the Company generally.
- On September 22, 2015, Mr. Eberwein met with Mr. Weiner at the Company's headquarters in New York to get an update on the Company's business and IP litigation strategy. Mr. Eberwein again mentioned shareholders' concerns about the Company's lack of profitability, its Board composition and its poor corporate governance.
- On September 25, 2015, Lone Star Value delivered a letter to Enzo notifying the Company in accordance with Enzo's Amended and Restated Bylaws (the "Bylaws") of Lone Star Value's nomination of Dimitrios J. Angelis and John M. Climaco for election to the Board at the Annual Meeting.

- On October 1, 2015, Mr. Eberwein had a call with Mr. Weiner to discuss Lone Star Value's director nominations and the value Mr. Climaco and Mr. Angelis could add to the Board for the benefit of all Enzo shareholders. Mr. Weiner expressed his displeasure with Lone Star Value's act of nominating and he encouraged Lone Star Value to withdraw its nomination. Mr. Weiner suggested an in-person meeting to discuss these matters.
- On October 14, 2015, Mr. Eberwein met with Mr. Weiner at the Company's headquarters in New York to further discuss Lone Star Value's nomination. Mr. Weiner again expressed his displeasure with Lone Star Value's nomination and asked Lone Star Value to withdraw its nomination. Mr. Eberwein noted Enzo's poor corporate governance, including that the leading proxy advisory firm ISS has given Enzo its worst rating on corporate governance.
- On October 20, 2015, Mr. Eberwein had a call with Mr. Weiner. Given the strength of the Lone Star Value Nominees' qualifications, Mr. Eberwein encouraged the Board to meet with them and consider the value that they could add to the Board. Mr. Weiner sent an email to Mr. Eberwein asking for additional information about the Nominees. Lone Star Value's two Nominees submitted this information to the Board and later met with the Nominating and Corporate Governance Committee of the Board.
- On November 25, 2015, Mr. Eberwein received a call from Mr. Weiner whereby Mr. Weiner informed him that after meeting with Lone Star Value's two Nominees, the Board refused to add either one to the Board. Mr. Weiner also mentioned that Enzo had retained legal and proxy advisers and was preparing for a contested proxy contest. Mr. Weiner again pressed Lone Star Value to withdraw its nomination and demanded a response within two hours. Mr. Eberwein expressed his disappointment with Enzo's response. Shortly thereafter, Mr. Eberwein responded to Mr. Weiner by email offering to withdraw Lone Star Value's nomination if Enzo agreed to add one of Lone Star Value's highly qualified Nominees to the Board. In the interest of avoiding a contest, Lone Star Value was further willing to accept increasing the Board size to create a new directorship for the Lone Star Value representative on the Board rather than have an existing director step down. Mr. Weiner responded by email the same day saying that Enzo convened a Board meeting to consider Lone Star Value's offer, but the offer was rejected by the Board.

REASONS FOR THE SOLICITATION

WE BELIEVE THAT CHANGE TO ENZO'S BOARD IS NEEDED NOW

For more than two years, Lone Star Value has made multiple attempts to lead a constructive dialogue with Enzo's Board and management team. We have privately discussed our concerns with Enzo and have clearly outlined our views regarding Enzo's long history of financial losses, its poor corporate governance and its related party transactions. Unfortunately, the Board has disregarded our input, and we have little confidence that the incumbent Board, as currently composed, will take the steps necessary to enhance shareholder value at Enzo given the lasting underperformance and apparent conflicts of interest under their stewardship.

Tellingly, this is not the first time a shareholder has raised similar concerns with the Company's continued underperformance. Prior to both the 2009 and 2010 annual meetings of shareholders, for example, Shahram K. Rabbani, a co-founder and former officer and director of the Company (and the current CEO's brother), initiated a proxy contest seeking the election of a new independent director due to, in his opinion, the "lack of a strategic direction within the Company, the performance of the management team, and the failure by the Board of Directors to implement any strategic or management changes to reverse the tide of increasing annual losses."¹ We applaud Mr. Rabbani for voicing his concerns and believe immediate change is necessary to address the Company's financial and governance issues.

We believe that real and urgent change is needed on the Board. We are convinced that change to Enzo's Board needs to occur for shareholder rights and value to be maximized. Therefore, we are soliciting your support to elect our Nominees at the Annual Meeting, who we believe would bring significant and relevant experience and focus on representing the best interests of the public shareholders in the boardroom.

We Are Concerned with the Company's Consistently Poor Financial Performance

Enzo has continuously failed to post a profit since fiscal year ("FY") 2005, an almost unfathomable 10 consecutive years of unprofitability. From 2005 until plateauing in 2010, Enzo experienced significant revenue growth; however, the Company remained unprofitable each and every year after 2005.²

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Revenue	\$43.40	\$39.83	\$52.91	\$77.79	\$89.57	\$97.08	\$102.03	\$103.08	\$93.71	\$95.95	\$97.60
Net Income	\$3.00	\$(15.67)	\$(13.26)	\$(10.65)	\$(23.56)	\$(22.23)	\$(12.96)	\$(39.27)	\$(18.24)	\$(11.22) ³	\$(13.45) ⁴

Dollar figures in millions.

Moreover, since FY 2005, the Company's gross margins have also experienced a significant decline. In FY 2005, the Company had a gross margin of 66%, which has since fallen to 44% in FY 2015.⁵ In addition, the Company has recorded consistently high total operating expenses and has not generated positive free cash flow during any fiscal year in the past decade. During 2015, free cash flow decreased 120%⁶, net income decreased 17%⁷ and the market value of the Company declined from approximately \$212.3 million⁸ to \$138.2 million.⁹

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
SG&A Expenses	\$19.84	\$24.75	\$25.35	\$33.27	\$41.31	\$48.40	\$45.19	\$47.93	\$43.65	\$41.80	\$41.07
SG&A as % of Revenue	45.7%	62.1%	47.9%	42.8%	46.1%	49.8%	44.3%	46.5%	46.6%	43.6%	42.1%

Free Cash

Flow \$11.55 \$(14.35) \$(5.21) \$(11.80) \$(14.19) \$(16.72) \$(9.55) \$(7.34) \$(11.00) \$(2.54) \$(5.48)

Dollar figures in millions.

1 Preliminary Proxy Statement on Schedule 14A filed by Shahram K. Rabbani on November 24, 2010.

2 All financial numbers taken from Enzo Annual Reports on Form 10-K filed each year from 2005 to 2015, unless otherwise noted.

3 Net Income for Fiscal Year 2014 is an adjusted non-GAAP figure as reported in Enzo's Q4 2014 Earnings Press Release; adjusted for legal settlements, net and legal fees associated with settlements.

4 Net Income for Fiscal Year 2015 is an adjusted non-GAAP figure as reported in Enzo's Q4 2015 Earnings Press Release; adjusted for legal settlements, net and legal fees associated with settlements.

5 Annual gross margin calculation = $(\text{Total RevenuesYear1} - \text{Cost of Clinical Laboratory ServicesYear1} - \text{Cost of Product RevenuesYear1}) / (\text{Total RevenuesYear1})$. Source: Total Revenues, Cost of Clinical Laboratory Services and Cost of Product Revenues taken from Enzo Annual Reports on Form 10-K filed for the referenced 2005 and 2015 fiscal years.

6 Source: Bloomberg; Cash Flow as of July 31, 2015, defined by Bloomberg as Operating Activities + Capital Expenditures.

7 Net Income for Fiscal Years 2014 and 2015 non-GAAP figure as reported in Enzo's Q4 2015 Earnings Press Release.

8 Source: Bloomberg; Market Cap as of July 31, 2014.

9 Source: Bloomberg; Market Cap as of July 31, 2015.

