ENZO BIOCHEM INC
Form 10-Q
December 10, 2007

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

Mark one

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

For the quarterly period ended October 31, 2007

or

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

For the transition period from ______________ to ______________

Commission File Number 001-09974

ENZO BIOCHEM, INC.
(Exact name of registrant as specified in its charter)

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

212-583-0100
(Registrants telephone number, including area code)

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

Yes þ No o

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

Large accelerated filer o Accelerated filer þ Non- accelerated filer o

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

Yes o No þ

As of December 1, 2007 the Registrant had approximately 36,719,000 shares of common stock outstanding.

ENZO BIOCHEM, INC.
FORM 10-Q
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PART I - FINANCIAL INFORMATION

Part 1 Financial Information
Item 1 Financial Statements

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

ASSETS	October 31, 2007	July 31, 2007
Current assets:	(unaudited)	(audited)
Cash and cash equivalents	$ 103,786	$ 105,149
Accounts receivable, net of allowances	14,534	14,353
Inventories	6,413	7,022
Prepaid expenses	1,637	1,767
Total current assets	126,370	128,291
Property, plant, and equipment, net	6,695	6,621
Goodwill	13,908	13,676
Intangible assets, net	9,217	9,338
Other	1,194	1,076
Total assets	$ 157,384	$ 159,002
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable - trade	$ 3,747	$ 4,111
Accrued liabilities	7,698	8,446
Other current liabilities	1,311	1,287
Deferred taxes	417	597
Total current liabilities	13,173	14,441
Deferred revenue	825	938
Deferred taxes	1,945	1,729
Commitments and contingencies		
Stockholders' equity:		
Preferred Stock, $.01 par value; authorized 25,000,000 shares; no shares issued or outstanding		
Common Stock, $.01 par value; authorized 75,000,000 shares; shares issued: 37,317,722 at October 31, 2007 and 37,280,723 at July 31, 2007	373	372
Additional paid-in capital	296,641	295,899
Less treasury stock at cost: 600,620 shares at October 31, 2007 and 596,456 shares at July 31, 2007	(8,989)	(8,915)
Accumulated deficit	(146,736)	(145,504)

Accumulated other comprehensive income	152	42
Total stockholders' equity	141,441	141,894
Total liabilities and stockholders' equity	$ 157,384	$ 159,002

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

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

	Three Months Ended October 31,	
	2007	2006
Revenues:		
Product revenues	$ 5,863	$ 1,092
Royalty and license fee income	2,318	1,297
Clinical laboratory services	11,266	8,053
	19,447	10,442
Costs and expenses and other (income):		
Cost of product revenues	4,434	609
Cost of clinical laboratory services	5,131	3,496
Research and development expense	1,703	1,862
Selling, general, and administrative expense	7,404	5,517
Provision for uncollectible accounts receivable	1,159	914
Legal expense	2,449	2,156
Interest income	(1,460)	(911)
Other income	(26)	(2,000)
	20,794	11,643
Loss before income taxes	(1,347)	(1,201)
Benefit (provision) for income taxes	115	(45)
Net loss	($ 1,232)	($ 1,246)
Net loss income per common share:		
Basic	($ 0.03)	($ 0.04)
Diluted	($ 0.03)	($ 0.04)
Weighted average common shares outstanding:		
Basic	36,717	32,279
Diluted	36,717	32,279

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

ENZO BIOCHEM, INC
CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY
AND COMPREHENSIVE INCOME (LOSS)
Three months ended October 31, 2007
(UNAUDITED)
(In thousands, except share data)

	Common Stock Shares	*Treasury Stock Shares*	Common Stock Amount	Additional Paid-in Capital	Treasury Stock Amount	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Total Stockholders Equity	Comprehensive income (loss)
Balance at July 31, 2007	*37,280,723*	*596,456*	$ 372	$ 295,899	($ 8,915)	($ 145,504)	$ 42	$ 141,894	
Net loss for the three months ended October 31, 2007						($ 1,232)		(1,232)	(1,232)
Purchase of treasury stock		*4,164*			(74)			(74)	
Exercise of stock options	*36,399*		1	422				423	
Vesting of restricted stock	*600*								
Stock based compensation charges				332				332	
Common stock issuance costs adjustment				(12)				(12)	
Foreign currency translation adjustments							110	110	110
Comprehensive loss									(1,122)
Balance at October 31, 2007	*37,317,722*	*600,620*	$ 373	$ 296,641	($ 8,989)	($ 146,736)	$ 152	$ 141,441	

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

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

	Three Months Ended October 31, 2007	2006
Cash flows from operating activities:		
Net loss	($ 1,232)	($ 1,246)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization of property, plant and equipment	328	251
Amortization of intangible assets	121	20
Provision for uncollectible accounts receivable	1,159	914
Writeoff and/or reserve taken for obsolete inventory	62	-
Deferred income tax benefit	(166)	-
Share based compensation charges	332	370
Deferred revenue recognized	(113)	-
Other	52	9
Changes in operating assets and liabilities:		
Accounts receivable	(1,317)	(559)
Inventories	580	37
Prepaid expenses	135	441
Recoverable and prepaid income taxes	-	124
Other assets	1	-
Accounts payable - trade	(382)	88
Accrued liabilities	(758)	1,731
Other current liabilities	27	160
Total Adjustments	61	3,586
Net cash (used in) provided by operating activities	(1,171)	2,340
Cash flows from investing activities:		
Capital expenditures	(402)	(158)
Increase in cash surrender value	(96)	(146)
Increase in security deposits and other assets	(24)	(9)
Acquistion costs paid	(37)	-
Net cash used in investing activities	(559)	(313)
Cash flows from financing activities:		
Proceeds from the exercise of stock options	349	79
Net cash provided by financing activities	349	79
Effect of exchange rate changes on cash and cash equivalents	18	-
Increase (decrease) in cash and cash equivalents	(1,363)	2,106

Cash and cash equivalents - beginning of period	105,149	69,854
Cash and cash equivalents - end of period	$ 103,786	$ 71,960

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

ENZO BIOCHEM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 1 - Basis of Presentation

The accompanying consolidated financial statements include the accounts of Enzo Biochem, Inc. and its wholly-owned subsidiaries, Enzo Clinical Labs, Enzo Life Sciences, Enzo Therapeutics and Enzo Realty LLC, collectively referred to as the Company or Companies. Effective May 31, 2007, Enzo Life Sciences, Inc. completed the acquisition of all of the outstanding capital stock of Axxora Life Sciences, Inc (Axxora). The consolidated balance sheet as of October 31, 2007, statement of stockholders equity and comprehensive income (loss) for the three months ended October 31, 2007 and the consolidated statements of operations and statements of cash flows for the three month periods ended October 31, 2007 and 2006 are unaudited. In the opinion of management, all adjustments (which include normal recurring adjustments) necessary to present fairly the financial position and operating results for the interim periods have been made. Certain information and footnote disclosure, normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States, have been condensed or omitted. The consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended July 31, 2007 and notes thereto contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission. The consolidated balance sheet at July 31, 2007 has been derived from the audited financial statements at that date. The results of operations for the three months ended October 31, 2007 and 2006 are not necessarily indicative of the results for the respective full years.

Recent Accounting Pronouncements

On August 1, 2007, the Company adopted Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" (FIN 48). FIN 48 prescribes a "more-likely-than-not" threshold for the recognition and derecognition of tax positions, provides guidance on the accounting for interest and penalties relating to tax positions and requires that the cumulative effect of applying the provisions of FIN 48 be reported as an adjustment to the opening balance of retained earnings or other appropriate components of equity or net assets in the statement of financial position. The Company did not have any significant unrecognized tax positions and there was no material effect on our financial condition or results of operations as a result of implementing FIN 48. See Note 10, "Income Taxes," for additional information relating to the Company's implementation of FIN 48.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 establishes a common definition of fair value of financial instruments, sets a framework for measuring fair value and expands disclosure about such fair value measurements. The Statement applies only to fair value measurements that are already required or permitted by other accounting standards and is effective for fiscal years beginning after November 15, 2007. The Company does not believe that the adoption of FAS 157 will have a material effect on the Companys financial statement disclosures.

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

Reclassifications

Certain amounts in prior year period have been reclassified to conform to current year presentation. In the fourth quarter of Fiscal 2007, the Company reclassified shipping and handling costs previously included in selling expense to cost of sales. The shipping and handling costs reclassed were approximately $54,000 for the quarter ended October 31, 2006.

Note 2 - Acquisition

On May 29, 2007, Enzo Life Sciences, Inc. ("Enzo Life Sciences"), a wholly owned subsidiary of the Company, entered into a Stock Purchase Agreement (the "Agreement"), by and among Enzo Life Sciences, Axxora Life Sciences, Inc. ("Axxora") and the stockholders, option holders and warrant holders of Axxora who owned all of the issued and outstanding capital stock, options and warrants, respectively, of Axxora (collectively, the "Security holders"). Pursuant to the Agreement, Enzo Life Sciences purchased all of the issued and outstanding capital stock of Axxora from the Security holders for an aggregate purchase price of $16,322,000, exclusive of acquisition costs of $1,009,000 and assumed debt of $475,000. The Company acquired $881,000 in cash which is included in the current assets below. At closing $14,992,000 was paid to the Security holders, $1,280,000 was paid to an escrow agent for a one-year period following the closing to satisfy any indemnification obligations of the Security holders under the Agreement during that period and $50,000 was paid to an escrow agent, for a one-year period following the closing to pay certain out-of-pocket expenses of the representatives of the Security holders in connection with the transaction. Upon consummation of the acquisition on June 3, 2007 with an effective date of May 31, 2007, (date of acquisition), Axxora became a wholly-owned subsidiary of Enzo Life Sciences. The acquisition was financed with the Companys cash and cash equivalents.

The following table presents the preliminary estimated fair values of the assets acquired and liabilities assumed (in thousands) as at October 31, 2007:

Current assets	$ 9,033
Property and equipment	360
Other assets	82
Other intangible assets	8,220
Goodwill	6,456
Total assets acquired	24,151
Less:	
Current liabilities	4,394
Deferred tax liabilities	2,426
Total liabilities assumed	6,820
Net assets acquired	$ 17,331

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

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

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

In $000s	Three months ended October 31, 2006
Net revenues	$ 14,572
Net loss	(1,111)
Net loss per common share basic and diluted:	($ 0.03)

Note 3 Net loss per share

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

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)	October 31, 2007	October 31, 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	473	443

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)	October 31, 2007	October 31, 2006
Out of the money employee and director stock options	971	1,082

Note 4 Share-based compensation

The Company adopted SFAS No. 123(R), "Share-Based Payment" ("SFAS 123(R)") and related interpretations effective August 1, 2005. Compensation costs recognized in the three-month periods ended October 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 123(R).

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

	Three months ended October 31,	
In thousands, except per share data	2007	2006
Stock options	$ 71	$ 309
Restricted stock awards	261	61
Total	$ 332	$ 370
Impact on basic and diluted net loss per common share	$ 0.01	$ 0.01
As included in the statements of operations		
Cost of product revenues	$ 2	$ 3
Research and development	4	42
Selling, general and administrative	326	325
	$ 332	$ 370

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

Stock option plans

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

	Options	Weighted Average Exercise Price	Aggregate Intrinsic Value
Outstanding at August 1, 2007	2,700,457	$ 13.32	$ 4,262,000
Exercised	(36,399)	$ 11.62	
Outstanding at end of period	2,664,058	$ 13.35	$ 3,173,000
Exercisable at end of period	2,634,282	$ 13.34	$ 3,173,000
Available for grant at			

October 31, 2007	578,000

As of October 31, 2007, there was approximately $331,000 of total unrecognized compensation cost related to unvested stock option-based compensation, which will be recognized over a weighted average life of approximately one year.

During the three months ended October 31, 2007 and 2006, the Company received cash proceeds of approximately $349,000 and $79,000, respectively, from the exercise of 30,017 and 6,700 stock options, respectively. The aggregate intrinsic value of stock options exercised during the three months ended October 31, 2007 and 2006, including the non-cash transactions (Note 5) was approximately $0.2 million and $0.1 million, respectively.

Restricted Stock Awards

A summary of the activity pursuant to the Company's restricted stock awards for the three months ended October 31, 2007 is as follows:

	Awards	Weighted Average Award Price
Unvested at beginning of period	141,062	$ 14.15
Granted	17,400	$ 13.14
Vested	(600)	$ 13.79
Forfeited	(6,000)	$ 13.83
Unvested at end of period	151,862	$ 14.05

The fair value of a restricted stock award is determined based on the closing stock price on the grant date. As of October 31, 2007, there was approximately $1,342,000 of total unrecognized compensation cost related to unvested restricted stock-based compensation to be recognized over a weighted average period of one and a half years.

Note 5 – Supplemental disclosure for statement of cash flows

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

	Three months ended October 31, 2007	2006
Taxes paid (refunded) – net	$ 83	$ (124)

During the three months ended October 31, 2007, certain officers of the Company exercised 6,382 stock options in a non-cash transaction. The officers surrendered 4,164 shares of previously acquired common stock to exercise the stock options. The Company recorded approximately $74,400, the market value of the surrendered shares, as treasury stock.

Note 6 – Comprehensive loss

During the three months ended October 31, 2007 and 2006, total comprehensive loss was approximately $1.1 million and $1.2 million, respectively.

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

Note 7 - Inventories

Inventories, net of reserves of $428,000 and $379,000, respectively, consist of the following, as of:

(In thousands)	October 31, 2007	July 31, 2007
Raw materials	$ 30	$ 34
Work in process	1,224	1,221
Finished products	5,159	5,767
	$ 6,413	$ 7,022

Note 8 Goodwill and intangible assets

The Companys goodwill, net of amortization as of October 31, 2007 is as follows:

In 000s	
Balance July 31, 2007	$ 13,676
Additional purchase price adjustments arising from fiscal 2007 business combination in Life Science segment (Note 2)	232
Balance October 31, 2007	$ 13,908

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