

Edgar Filing: ENZO BIOCHEM INC - Form 10-K/A

ENZO BIOCHEM INC  
Form 10-K/A  
March 30, 2007

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549  
FORM 10-K/A  
(Amendment No. 1)

(MARK ONE)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the fiscal year ended July 31, 2006

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  
of incorporation or organization)

-----  
(I.R.S. Employer  
Identification No.)

527 Madison Avenue  
New York, New York

10022

-----  
(Address of principal executive offices)

-----  
(Zip Code)

(212) 583-0100

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

(TITLE OF EACH CLASS)

(NAME OF EACH EXCHANGE ON WHICH REGISTERED)

-----  
Common Stock, \$.01 par value

-----  
The New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as  
defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports  
pursuant to Section 13 or Section 15(d) of the Act.

Yes ☐ No ☒

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 was  
required to file such reports), and (2) has been subject to such filing  
requirements for the past 90 days.

Yes ☒ No ☐

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes ☐ No ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).

Yes ☐ No ☒

The aggregate market value of the registrant's voting stock held by non-affiliates of the registrant was approximately \$355,971,000 as of January 31, 2006.

The number of shares of the Company's common stock, \$.01 par value, outstanding at September 30, 2006 was approximately 32,274,500.

### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement delivered to shareholders in connection with the Annual Meeting of Shareholders held on January 23, 2007 are incorporated by reference into Part III of this annual report.

### EXPLANATORY NOTE

The purpose of this Amendment No. 1 on Form 10-K/A (the "Amendment") to the Annual Report on Form 10-K for the fiscal year ended July 31, 2006 of Enzo Biochem, Inc. (the "Company"), which was filed with the Securities and Exchange Commission on October 13, 2006 (the "Original Filing"), is to include an explanatory paragraph in the Report of Independent Registered Public Accounting Firm emphasizing the Company's adoption of Statement of Financial Accounting Standards No. 123(R), which was inadvertently excluded from Ernst & Young LLP's report in the Original Filing. Other than including such paragraph and clarification, there have been no changes made to the Original Filing. The Amendment continues to speak as of the date of the Original Filing and the Company has not updated the disclosure in this Amendment to speak to any later date.

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### PART IV

#### Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

- (a) (1) Consolidated Financial Statements  
Consolidated Balance Sheets - July 31, 2006 and 2005  
Consolidated Statements of Operations- Years ended July 31,  
2006, 2005 and 2004  
Consolidated Statements of Stockholders' Equity and  
Comprehensive (Loss) Income - Years ended July 31, 2006,  
2005 and 2004  
Consolidated Statements of Cash Flows - Years ended July 31,  
2006, 2005 and 2004  
Notes to Consolidated Financial Statements.

- (2) Financial Statement Schedule

#### Schedule II - Valuation and Qualifying Accounts

All other schedules have been omitted because the required information is included in the consolidated financial statements or the notes thereto or because they are not required.

- (3) Exhibits

The following documents are filed as Exhibits to this Annual Report on Form 10-K:

Exhibit No. ---	Description -----
3(a)	Certificate of Incorporation, as amended March 17, 1980. (1)
3(b)	June 16, 1981 Certificate of Amendment of the Certificate of Incorporation. (2)
3(c)	Certificate of Amendment to the Certificate of Incorporation. (3)
3(d)	Bylaws. (1)
10(c)	Employment Agreements with Elazar Rabbani. (5)
10(d)	Employment Agreement with Shahram Rabbani. (5)
10(e)	Employment Agreement with Barry Weiner. (5)
10(f)	1994 Stock Option Plan. (6)
10(g)	Agreement with Corange International Limited (Boehringer Mannheim) effective April 1994. (19) (7)
10(h)	Agreement with Amersham International effective February 1995. (7)
10(i)	Agreement with Dako A/S effective May 1995. (7)

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- 10(j) Agreement with Baxter Healthcare Corporation (VWR Scientific Products) effective September 1995. (7)
- 10(k) Agreement with Yale University and amendments thereto. (7)
- 10(l) Agreement with The Research Foundation of the State of New York effective May 1987. (7)
- 10(m) 1999 Stock Option Plan filed. (8)
- 10(n) Amendment to Elazar Rabbani's employment agreement. (9)
- 10(o) Amendment to Shahram Rabbani's employment agreement. (9)
- 10(p) Amendment to Barry Weiner's employment agreement. (9)
- 10(s) Settlement and License Agreement with Digene Corporation effective as of September 30, 2004 (10) (12)
- 10(t) Joint Stipulation and Order of Dismissal with Prejudice dated October 14, 2004 (10) (12).
- 10(u) 2005 Equity Compensation Incentive Plan (11)
- 10(v) Lease agreement with Pari Management (13)
- 10(w) Settlement and Release Agreement between the Company and Sigma Aldrich (14)
- 14(a) Code of Ethics (10)

- 21 Subsidiaries of the registrant:
  - Enzo Clinical Labs, Inc., a New York corporation.
  - Enzo Life Sciences, Inc., a New York corporation.
  - Enzo Therapeutics, Inc., a New York corporation.
  - Enzo Realty, LLC, a New York Corporation
- 23 Consent of Independent Registered Public Accounting Firm filed herewith.
- 31(a) Certification of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 filed herewith.
- 31(b) Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 filed herewith.
- 32(a) Certification of CEO Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 filed herewith.
- 32(b) Certification of CFO Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 filed herewith.
- Notes to exhibits
- (1) The exhibits were filed as exhibits to the Company's Registration Statement on Form S-18 (File No. 2-67359) and are incorporated herein by reference.

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- (2) This exhibit was filed as an exhibit to the Company's Form 10-K for the year ended July 31, 1981 and is incorporated herein by reference.
- (3) This exhibit was filed with the Company's Annual Report on Form 10-K for the year ended July 31, 1989 and is incorporated herein by reference.
- (5) This exhibit was filed with the Company's Annual Report on Form 10-K for the year ended July 31, 1994 and is incorporated herein by reference.
- (6) This exhibit was filed with the Company's Annual Report on Form 10-K for the year ended July 31, 1995 and is incorporated herein by reference.
- (7) This exhibit was filed with the Company's Annual Report on Form 10-K for the year ended July 31, 1996 or previously filed amendment thereto and is incorporated herein by reference.
- (8) This exhibit was filed with the Company's Registration Statement on Form S-8 (333-87153) and is incorporated herein by reference.
- (9) This exhibit was filed with the Company's Annual Report on Form 10-K for the year ended July 31, 2000 and is incorporated herein by reference.
- (10) This exhibit was filed with the Company's Annual Report on Form 10-K for the year ended July 31, 2004 and is incorporated herein by reference.
- (11) This exhibit was filed as an exhibit to the Company's Proxy Statement of Schedule 14A filed on January 19, 2005 and is incorporated herein by reference.
- (12) These exhibits are subject to a confidential treatment request pursuant to securities exchange act rules. (13) This exhibit was filed with the Company's Annual Report on Form 10-K for the year ended July 31, 2006 and is incorporated herein by reference.
- (14) This exhibit was filed with the Company's current report on Form 8-K on September 21, 2006 and is incorporated herein by reference.
- (b) See Item 15(a) (3), above.
- (c) See Item 15(a) (2), above.

### SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: March 30, 2007

By: /s/ Elazar Rabbani Ph.D.

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-----  
Chairman of the Board

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Elazar Rabbani Ph.D. March 30, 2007  
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Elazar Rabbani  
Chairman of Board of Directors  
(Principal Executive Officer)

By: /s/ Shahram K. Rabbani March 30, 2007  
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Shahram K. Rabbani,  
Secretary, Treasurer and Director

By: /s/ Barry W. Weiner March 30, 2007  
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Barry W. Weiner,  
President, Chief Financial Officer, and Director

By: /s/ John B. Sias March 30, 2007  
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John B. Sias, Director

By: /s/ John J. Delucca March 30, 2007  
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John J. Delucca, Director

By: /s/ Irwin Gerson March 30, 2007  
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Irwin Gerson, Director

By: /s/ Melvin F. Lazar March 30, 2007  
-----

Melvin F. Lazar, Director

By: /s/ Stephen B. H. Kent March 30, 2007  
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Stephen B. H. Kent, Director

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FORM 10-K, ITEM 15(a) (1) and (2)  
ENZO BIOCHEM, INC.

## LIST OF CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE

The following consolidated financial statements and financial statement schedule of Enzo Biochem, Inc. are included in Item 15(a):

Report of Independent Registered Public Accounting Firm F-2

Consolidated Balance Sheets -- July 31, 2006 and 2005 F-3

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Consolidated Statements of Operations -- Years ended July 31, 2006, 2005 and 2004	F-4
Consolidated Statements of Stockholders' Equity and Comprehensive (Loss) Income -- Years ended July 31, 2006, 2005 and 2004	F-5
Consolidated Statements of Cash Flows -- Years ended July 31, 2006, 2005 and 2004	F-6
Notes to Consolidated Financial Statements	F-7
Schedule II - Valuation and Qualifying Accounts -- Years ended July 31, 2006, 2005 and 2004	S-1

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

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### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of  
Enzo Biochem, Inc

We have audited the accompanying consolidated balance sheets of Enzo Biochem, Inc. (the "Company") as of July 31, 2006, and 2005, and the related consolidated statements of operations, consolidated statements of stockholders' equity and comprehensive (loss) income and consolidated statements of cash flows for each of the three years in the period ended July 31, 2006. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Enzo Biochem, Inc. at July 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended July 31, 2006, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, effective August 1, 2005, the Company adopted Statement of Financial Accounting Standards

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No. 123(R), "Share-Based Payment."

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Enzo Biochem, Inc.'s internal control over financial reporting as of July 31, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated October 5, 2006, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Melville, New York  
October 5, 2006

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

#### ASSETS

##### Current assets:

Cash and cash equivalents .....	
Marketable securities .....	
Accounts receivable, net of allowance for doubtful accounts of \$1,033 in 2006 and \$2,292 in 2005 .....	
Inventories .....	
Prepaid expenses .....	
Recoverable and prepaid income taxes .....	
Deferred taxes .....	

Total current assets .....

Property, plant, and equipment, net of accumulated depreciation and amortization of \$8,247 in 2006 and \$7,279 in 2005 .....	
Goodwill .....	
Patent costs, net of accumulated amortization of \$9,770 in 2006 and \$9,695 in 2005 .....	
Other .....	

Total assets .....

#### LIABILITIES AND STOCKHOLDERS' EQUITY

##### Current liabilities:

Accounts payable - trade .....	
Accrued liabilities .....	
Other current liabilities .....	

Total current liabilities .....

Deferred taxes .....	
Long term installment payable, net of current portion .....	



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## 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: 32,844,200 at July 31, 2006 and 32,526,800 at July 31, 2005 .....	
Additional paid-in capital .....	
Less treasury stock at cost: 569,700 shares at July 31, 2006 and 384,400 shares at July 31, 2005 .....	
Accumulated deficit .....	
Accumulated other comprehensive loss .....	
Total stockholders' equity .....	
Total liabilities and stockholders' equity .....	

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

## ENZO BIOCHEM, INC. CONSOLIDATED STATEMENTS OF OPERATIONS (IN THOUSANDS, EXCEPT PER SHARE DATA)

	2006
Revenues:	
Product revenues and royalty income .....	\$ 7,900
Clinical laboratory services .....	31,926
	39,826
Costs and expenses and other (income):	
Cost of product revenues .....	2,174
Cost of clinical laboratory services .....	13,917
Research and development expense .....	7,896
Selling, general, and administrative expense .....	24,971
Provision for uncollectible accounts receivable .....	3,633
Legal expense .....	7,388
Interest income .....	(3,144)
Gain on patent litigation settlement .....	--
	56,835

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(Loss) income before income taxes .....	(17,009)
Benefit (provision) for income taxes .....	1,342
	-----
Net (loss) income .....	(\$15,667)
	=====
Net (loss) income per common share:	
Basic .....	(\$ 0.49)
	=====
Diluted .....	(\$ 0.49)
	=====
Weighted average common shares outstanding:	
Basic .....	32,215
	=====
Diluted .....	32,215
	=====

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

## ENZO BIOCHEM, INC CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE (LOSS) INCOME YEARS ENDED JULY 31, 2006, 2005 AND 2004 (IN THOUSANDS, EXCEPT SHARE DATA)

	COMMON STOCK SHARES -----	TREASURY STOCK SHARES -----	COMMON STOCK AMOUNT -----
Balance at July 31, 2003.....	29,975,100	---	\$300
Net (loss) for the year ended July 31, 2004.....	---	---	---
Unrealized loss on available-for-sale securities, net of tax.....	---	---	---
Surrender of common stock for exercise of stock options..	---	349,900	---
Exercise of stock options (see Note 2).....	873,900	---	9
Issuance of stock for employee 401(k) plan match.....	15,800	---	---
Comprehensive (loss).....	---	---	---
	-----	-----	-----
Balance at July 31, 2004.....	30,864,800	349,900	309
Net income for the year ended July 31, 2005.....	---	---	---
Unrealized gain on available-for-sale securities, net of tax.....	---	---	---
Reclassification adjustment for net loss			

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realized and reported in net income.....	---	---	---
Valuation reserve.....			
5% stock dividend (fair value on date declared).....	1,543,600	17,500	15
Surrender of common stock for exercise of stock options..	---	17,000	---
Tax benefit for stock options exercised.....	---	---	---
Exercise of stock options (see Note 2).....	100,300	---	1
Issuance of stock for employee 401(k) plan match.....	18,100	---	0
Comprehensive income.....	---	---	---
Balance at July 31, 2005.....	32,526,800	384,400	325
Net (loss) for the year ended July 31, 2006.....	---	---	---
Realized loss on available-for-sale securities, net of tax.....	---	---	---
Surrender of common stock for exercise of stock options..	---	185,300	---
Exercise of stock options (see Note 2).....	285,030	---	3
Issuance of stock for employee 401(k) plan match.....	32,370	---	---
Share based compensation charges.....	---	---	---
Stock options issued for consulting services.....	---	---	---
Comprehensive (loss).....	---	---	---
Balance at July 31, 2006.....	32,844,200	569,700	\$328

	ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME	TOTAL STOCKHOLDERS' EQUITY	
Balance at July 31, 2003.....	(\$85)	\$109,381	
Net (loss) for the year ended July 31, 2004.....	---	(6,232)	
Unrealized loss on available-for-sale securities, net of tax.....	(161)	(161)	
Surrender of common stock for exercise of stock options..	---	(5,669)	
Exercise of stock options (see Note 2).....	---	6,565	
Issuance of stock for employee 401(k) plan match.....	---	282	
Comprehensive (loss).....	---	---	
Balance at July 31, 2004.....	(246)	104,166	
Net income for the year ended July 31, 2005.....	---	3,004	
Unrealized gain on available-for-sale securities, net of tax.....	43	43	
Reclassification adjustment for net loss realized and reported in net income.....	122	122	
Valuation reserve.....	(50)	(50)	
5% stock dividend (fair value on date declared).....	---	---	
Surrender of common stock for exercise of stock options..	---	(325)	
Tax benefit for stock options exercised.....	---	124	
Exercise of stock options (see Note 2).....	---	831	
Issuance of stock for employee 401(k) plan match.....	---	352	
Comprehensive income.....	---	---	
Balance at July 31, 2005.....	(131)	108,267	
Net (loss) for the year ended July 31, 2006.....	---	(15,667)	
Realized loss on available-for-sale			

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securities, net of tax.....	131	131
Surrender of common stock for exercise of stock options..	---	(2,505)
Exercise of stock options (see Note 2).....	---	3,116
Issuance of stock for employee 401(k) plan match.....	---	402
Share based compensation charges.....	---	1,763
Stock options issued for consulting services.....	---	80
Comprehensive (loss).....	---	---
Balance at July 31, 2006.....	---	\$95,587

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

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

	2006
OPERATING ACTIVITIES	
Net (loss) income .....	(\$15,66
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:	
Depreciation and amortization of property, plant and equipment .....	1,04
Amortization of patent costs .....	7
Provision for uncollectible accounts receivable .....	3,63
Write-off and/or reserve for obsolete inventory .....	59
Deferred taxes .....	64
Share based compensation charges .....	1,76
Options issued to consultant .....	8
Issuance of stock for 401(k) employer match .....	40
Deferred rent .....	--
Realized loss on sales of marketable securities .....	15
Tax benefit on stock option exercises .....	--
Other .....	--
Changes in operating assets and liabilities:	
Accounts receivable .....	(65
Inventories .....	(12
Prepaid expenses .....	38
Recoverable and prepaid income taxes .....	(60
Accounts payable - trade .....	(1,11
Accrued liabilities .....	(46
Other current liabilities .....	(27

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Adjustments .....	5,54
Net cash (used in) provided by operating activities .....	(10,12)
INVESTING ACTIVITIES	
Capital expenditures .....	(4,22)
Patent costs .....	--
Sales of marketable securities .....	6,76
Purchases of marketable securities .....	(6
Security deposits and other .....	7
Net cash provided by (used in) investing activities .....	2,53
FINANCING ACTIVITIES	
Proceeds from the exercise of stock options .....	61
Payment of long term installment payable .....	(15
Other .....	--
Net cash provided by financing activities .....	46
Net (decrease) increase in cash and cash equivalents .....	(7,12
Cash and cash equivalents at the beginning of year .....	76,98
Cash and cash equivalents at the end of year .....	\$ 69,85

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

### ENZO BIOCHEM, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JULY 31, 2006 AND 2005

#### NOTE 1 - BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### BUSINESS

Enzo Biochem, Inc. (the "Company") is engaged in research, development, manufacturing and marketing of diagnostic and research products based on genetic engineering, biotechnology and molecular biology. These products are designed for the diagnosis of and/or screening for infectious diseases, cancers, genetic defects and other medically pertinent diagnostic information and are distributed in the United States and internationally. The Company is conducting research and development activities in the development of therapeutic products based on the Company's technology platform of genetic modulation and immune modulation. The Company also operates a clinical laboratory that offers and provides diagnostic medical testing services to the health care community in the greater New York and New Jersey area. The Company operates in three segments (see Note 13).

##### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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### PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Enzo Clinical Labs, Enzo Life Sciences, Enzo Therapeutics and Enzo Realty LLC ("Realty"). Realty was formed in fiscal 2006 to acquire a building (see Note 5). All intercompany transactions and balances have been eliminated.

### USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

### CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Company to concentrations of credit risk primarily consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities. The Company's cash equivalents are invested in diverse financial instruments with high credit ratings. The Company believes the fair value of the aforementioned financial instruments approximates the current value due to the immediate or short-term nature of these items.

Concentration of credit risk with respect to the Company's life sciences segment is mitigated by the diversity of the Company's clients and their dispersion across many different geographic regions. To reduce risk, the Company routinely assesses the financial strength of these customers and, consequently, believes that its accounts receivable credit exposure, with respect to these customers, is limited.

The Company believes that the concentration of credit risk with respect to clinical laboratory's accounts receivable is limited due to the diversity of the Company's client base, the number of insurance carriers it deals with, and its numerous individual patient accounts. As is standard in the health care industry, substantially all of the Company's clinical laboratory's accounts receivable is with numerous third party insurance carriers and individual patient accounts. The Company also provides services to certain patients covered by various third-party payers, including the Federal Medicare program. The clinical laboratory industry is characterized by a significant amount of uncollectible accounts receivable resulting from the inability to receive accurate and timely billing information in order to forward it to the third party payers for reimbursement, and the inaccurate information received from the covered individual patients for unreimbursed unpaid amounts.

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ENZO BIOCHEM, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JULY 31, 2006 AND 2005

### REVENUE RECOGNITION

Product revenues

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Revenues from product sales are recognized when the products are shipped, the sales price is fixed or determinable and collectibility is reasonably assured. The Company has certain non-exclusive distribution agreements, which provide for consideration to be paid to the distributors for the manufacture of certain products. The Company records such consideration provided to distributors under these non-exclusive distribution agreements as a reduction to product revenues. The Company did not recognize any revenue from these distributors during the year ended July 31, 2006. During the years ended July 31, 2005, and 2004, the manufacturing and processing cost of these products sold was \$0.7 million, and \$7.4 million, respectively. The revenue from these non-exclusive distribution agreements are recognized when shipments are made to their respective customers and reported to the Company.

### Royalties

Royalty revenues are recorded in the period earned. Royalties received in advance of being earned are recorded as deferred 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 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 revenue percentages by revenue category for the years ended July 31, 2006 and 2005:

Net revenues	Year ended July 31, 2006		Year ended July 31, 2005	
Revenue Category	(In 000'S)	(In %)	(In 000'S)	(In %)
Medicare	\$7,462	23	\$6,906	21
Third party carriers	17,680	56	17,528	54
Patient self-pay	4,925	15	6,904	21
HMO's	1,859	6	1,519	5
Total	\$31,926	100%	\$32,857	100%

The Company provides services to certain patients covered by various third-party payers, including the Federal Medicare program. Revenue, net of contractual expense, from direct billings under the Federal Medicare program during the years ended July 31, 2006, 2005 and 2004 were approximately 23%, 21% and 26%, 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.

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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 expense 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 expense estimate periodically, based on its evaluation of historical settlement experience with payers, industry reimbursement trends, and other relevant factors.

ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Accounts receivable are reported at realizable value, net of allowances for doubtful accounts, which is estimated and recorded in the period of the related revenue.

For the Clinical Labs 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.

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 years ended July 31, 2006 and 2005, 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 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.



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## ENZO BIOCHEM, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JULY 31, 2006 AND 2005

The following is a table of the Company's net accounts receivable by segment. The Clinical Labs segment's net receivables are detailed by billing category and as a percent to its total net receivables: At July 31, 2006 and 2005, approximately 88% and 94%, respectively, of the Company's net accounts receivable relates to its clinical labs business, which operates in the greater New York and New Jersey area.

Net accounts receivable	As of July 31, 2006		As of July 31, 2005
Billing Category	(In 000'S)	(In %)	(In 000'S)
Clinical Labs			
Medicare	\$1,367	15	\$1,594
Third party carriers	4,025	44	6,742
Patient self-pay	3,294	36	3,819
HMO's	475	5	394
	---	-	---
Total Clinical Labs	9,161	100%	12,549
		=====	
Total Life Sciences	1,286		872
	-----		---
Total accounts receivable	\$10,447		\$13,421
	=====		=====

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

In 000's	July 31, 2006	July 31, 2005
Beginning balance	\$2,292	\$2,770
Provision for doubtful accounts	3,633	4,967
Write-offs	(4,892)	(5,445)
	-----	-----
Ending balance	\$1,033	\$2,292
	=====	=====

### CASH AND CASH EQUIVALENTS

Cash and cash equivalents include highly liquid corporate debt instruments with maturities of three months or less at the time acquired by the Company.

### MARKETABLE SECURITIES

Investments with a maturity greater than three months at the date of purchase are designated as marketable securities. During the year ended July 31, 2006, the Company sold all investments designated as marketable securities and had no investments in marketable securities as of July 31, 2006.

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At July 31, 2005, management designated marketable securities held by the Company as available-for-sale securities, in accordance with of Statement of Financial Accounting Standards ("SFAS") No. 115 "Accounting for Certain Investments in Debt and Equity Securities". Available-for-sale securities were carried at fair value with the unrealized losses reported in stockholders' equity under the caption "Accumulated other comprehensive loss". The Company periodically reviewed its investment portfolio to determine if there was an impairment that is other than temporary. In testing for impairment, the Company considers, among other factors, the length of time and the extent of a security's unrealized loss, the financial condition and near term prospects of the issuer, economic forecasts and market or industry trends. The cost of marketable securities sold was based on the original cost basis plus any reinvested dividends.

### INVENTORIES

Inventories are stated 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.

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### ENZO BIOCHEM, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JULY 31, 2006 AND 2005

### PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost, and depreciated on the straight-line basis over the estimated useful lives of the various asset classes. The useful life for the building is 30 years. The useful life for laboratory machinery and equipment and office furniture and computer equipment ranges from 3-5 years. Leasehold improvements are amortized over the term of the related leases or estimated useful lives of the assets, whichever is shorter.

### GOODWILL

Goodwill represents the cost of acquired businesses in excess of the fair value of assets acquired, including separately recognized intangible assets, less the fair value of liabilities assumed in the business acquisition. The Company uses a non-amortization approach to account for purchased goodwill. Under this approach, goodwill is not amortized, but instead is reviewed for impairment. All of the Company's goodwill is related to its clinical laboratory segment. Prior to adopting SFAS No. 142, "Goodwill and Other Intangibles" ("SFAS 142"), the Company recorded amortization of goodwill aggregating approximately \$9.8 million.

Under the non-amortization provisions of SFAS 142, goodwill is subject to at least an annual assessment for impairment by applying a fair-value based test. The Company performs the annual impairment testing during the fourth quarter of its fiscal year. Based on this testing, there has been no impairment to Goodwill recorded on the accompanying balance sheets as of July 31, 2006 and 2005.

### IMPAIRMENT OF LONG-LIVED ASSETS

The Company reviews the recoverability of the carrying value of long-lived assets, primarily property, plant and equipment, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. Should indicators of impairment exist, the carrying

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values of the assets are evaluated in relation to the operating performance and future undiscounted cash flows of the underlying business. The net book value of an asset is adjusted to fair value if its expected future undiscounted cash flow is less than its book value. No impairment losses were identified during the years ended July 31, 2006, 2005 or 2004.

### PATENT COSTS

The Company capitalizes certain legal costs directly incurred in pursuing patent applications as patent costs. When such applications result in an issued patent, the related costs are amortized over a ten year period or the life of the patent, whichever is shorter, using the straight-line method. The Company reviews its issued patents and pending patent applications, and if it determines to abandon a patent application or that an issued patent no longer has economic value, the unamortized balance in deferred patent costs relating to that patent is immediately expensed. The Company estimates amortization for patent costs at July 31, 2006 to be at approximately \$79,000 in each of the next five fiscal years.

### COMPREHENSIVE (LOSS) INCOME

SFAS No. 130, "Reporting Comprehensive Income" (SFAS 130), requires reporting and displaying of comprehensive loss and its components. In accordance with SFAS 130, the Accumulated Other Comprehensive Loss, which is comprised of net unrealized losses on marketable securities, is disclosed as a separate component of stockholders' equity.

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## ENZO BIOCHEM, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JULY 31, 2006 AND 2005

### SHIPPING AND HANDLING COSTS

Product revenue shipping and handling costs included in selling expense amounted to approximately \$226,000, \$299,000, and \$384,000 for years ended July 31, 2006, 2005, and 2004, respectively.

### RESEARCH AND DEVELOPMENT

Research and development costs are charged to expense as incurred.

### ADVERTISING

All costs associated with advertising are expensed as incurred. Advertising expense, included in Selling, general and administrative expense approximated \$128,000, \$57,000 and \$18,000 for the years ended July 31, 2006, 2005 and 2004, respectively.

### INCOME TAXES

The Company accounts for income taxes under the liability method of accounting for income taxes. Under the liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The liability method requires that any tax benefits recognized for net operating loss carryforwards and other items be reduced by a valuation allowance when it is more likely than not that the benefits may not be realized. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the

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years in which those temporary differences are expected to be recovered or settled. Under the liability method, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

### SEGMENT REPORTING

The Company follows SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information" ("SFAS 131") which establishes standards for reporting information on operating segments in interim and annual financial statements. An enterprise is required to separately report information about each operating segment that engages in business activities from which the segment may earn revenues and incur expenses, whose separate operating results are regularly reviewed by the chief operating decision maker regarding allocation of resources and performance assessment and which exceed specific quantitative thresholds related to revenue and profit or loss. The Company's operating activities are reported in three segments (see Note 13).

### NET (LOSS) INCOME PER SHARE

The Company applies SFAS No. 128, "Earnings per Share." ("SFAS 128"). SFAS 128 establishes standards for computing and presenting earnings per share. Basic net income (loss) per share represents net income (loss) divided by the weighted average number of common shares outstanding during the period. The dilutive effect of potential common shares, consisting of outstanding stock options, is determined using the treasury stock method in accordance with SFAS 128. Diluted weighted average shares outstanding for 2006 and 2004 do not include the potential common shares from stock options because to do so would have been antidilutive. Accordingly, basic and diluted net loss per share is the same in fiscal 2006 and 2004. The number of potential common shares ("in the money options") excluded from the calculation of diluted earnings per share during the years ended July 31, 2006, 2005 and 2004 was 423,000, 0, and 798,000 shares, respectively.

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### ENZO BIOCHEM, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JULY 31, 2006 AND 2005

The following table sets forth the computation of basic and diluted net (loss) income per share pursuant to SFAS 128 for the years ended July 31:

IN 000'S	2006	2005
-----	----	----
Numerator:		
Net (loss) income	\$ (15,667)	\$3,667
	=====	=====
Denominator:		
Weighted-average common shares outstanding- Basic	32,215	32,215
Effect of dilutive stock options	- -	- -
	---	---

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Weighted-average common shares outstanding - Diluted	32,215 =====	32, ===
Net (loss) income per share		
Basic	\$ (.49) =====	\$ =
Diluted	\$ (.49) =====	\$ =

For the years ended July 31, 2006, 2005 and 2004, the effect of approximately 1,916,000, 818,000, and 554,000 respectively, of outstanding "out of the money" options to purchase common shares were excluded from the calculation of diluted net (loss) income per share because their effect would be anti-dilutive.

### SHARE-BASED COMPENSATION

Effective August 1, 2005, the Company adopted SFAS No. 123(R), "Share-Based Payment" ("SFAS 123(R)") and related interpretations which superseded the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations. SFAS 123(R) requires that all share-based compensation be recognized as an expense in the financial statements and that such cost be measured at the fair value of the award. SFAS 123(R) was adopted using the modified prospective method, which requires the Company to recognize compensation expense on a prospective basis. Therefore, prior period financial statements have not been restated. Under this method, in addition to reflecting compensation expense for new share-based awards, expense is also recognized to reflect the remaining service period of awards that had been included in pro-forma disclosures in prior periods.

With the adoption of SFAS 123(R), the Company is required to record the fair value of share-based compensation awards as an expense. In order to determine the fair value of stock options on the date of grant, the Company utilizes the Black-Scholes option-pricing model. Inherent in this model are assumptions related to expected stock-price volatility, option life, risk-free interest rate and dividend yield. While the risk-free interest rate and dividend yield are less subjective assumptions, typically based on factual data derived from public sources, the expected stock-price volatility and option life assumptions require a greater level of judgment which make them critical accounting estimates. The Company uses an expected stock-price volatility assumption that is primarily based on historical realized volatility of the underlying stock during a period of time. No employee or director stock options were granted during the year ended July 31, 2006.

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### ENZO BIOCHEM, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JULY 31, 2006 AND 2005

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 No. 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 No. 123(R) for recognition purposes, this FSP provides an elective alternative transition method. The method comprises (a) a computational

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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 No. 123(R). The Company is evaluating the principles set forth in this FSP to determine its APIC pool. The implementation date is one year from the later of the initial adoption of SFAS No. 123(R) or the effective date of FSP FAS 123(R)-3.

Prior to August 1, 2005, the Company accounted for employee stock option plans under the intrinsic value method in accordance with APB 25. Under APB 25, generally no compensation expense is recorded when terms of the award are fixed and the exercise price of employee and director stock options equals or exceeds the fair value of the underlying stock on the date of the grant.

As a result of adopting SFAS 123(R), the Company's net loss for the year ended July 31, 2006 was approximately \$1.6 million higher, than if the Company had continued to account for share-based compensation under APB No. 25. Basic and diluted loss per share for the year ended July 31, 2006 were increased by \$0.05 per share as a result of adopting SFAS 123(R). SFAS 123(R) also requires that excess tax benefits related to stock option exercises be reflected as financing cash inflows instead of operating cash inflows. For the year ended July 31, 2006, no excess tax benefits were recognized. Other share-based compensation expense relating to the fair value of restricted shares and restricted stock units issued and vested during the year ended July 31, 2006 was approximately \$172,000 (see Note 8).

The following table sets forth the amount of expense related to share-based payment arrangements included in specific line items in the accompanying Statement of operations for the year ended July 31, 2006:

In 000's

-----

Cost of products	\$21
Research and development	249
Selling, general and administrative	1,493
	-----
	\$1,763
	=====

As of July 31, 2006, there was \$2.0 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Company's stock option and restricted stock plans, which will be recognized over a weighted average remaining life of approximately one and a half years.

During the years ended July 31, 2005 and 2004, the Company followed the provisions of FASB Statement No. 148 ("SFAS 148"), "Accounting for Stock-Based Compensation - Transition and Disclosure." SFAS 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," ("SFAS 123") to provide alternative methods of transition to SFAS 123's fair value method of accounting for stock-based employee compensation. SFAS 148 also amends the disclosure provisions of SFAS 123 to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income. While SFAS 148 did not amend SFAS 123 to require companies to account for employee stock options using the fair value method, as SFAS 123(R) did, the disclosure provisions of SFAS 148 are applicable to all companies with share-based employee compensation method of SFAS 123 or the intrinsic value method of APB 25.

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## ENZO BIOCHEM, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JULY 31, 2006 AND 2005

On June 3, 2005, the Board of Directors approved the acceleration of vesting of unvested "out of the money" stock options held by employees, including executive officers and directors. The stock options considered as out of the money were those with an exercise price that was \$1.50 or more than the closing price of the Company's common stock on June 3, 2005 of \$14.82. All other terms and conditions of these "out of the money" options remain unchanged. As a result of the acceleration, options to purchase approximately 666,000 shares of the Company's common stock (which represented approximately 21% of the Company's then outstanding stock options) became exercisable immediately. The accelerated options ranged in exercise prices from \$16.39 to \$19.02 and the weighted average exercise price of the accelerated options was \$17.55 per share. The total number of options subject to acceleration included options to purchase 575,000 shares held by executive officers and directors of the Company. This action was taken to avoid expense recognition in future financial statements upon adoption of SFAS 123(R). The accelerated vesting of the "out of the money" options did not result in a charge in the Company's statement of operations for the year ended July 31, 2005 based on U.S. generally accepted accounting principles. The Company reported approximately \$10.1 million of pro forma compensation expense for the year ended July 31, 2005, of which \$6.0 million was applicable to the accelerated "out of the money" options.

Pro forma information regarding net income (loss) applicable to common stockholders is required under SFAS 123, as if the Company has accounted for its stock options under the fair value method. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The fair value for these options was estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions used for all grants in the years ended July 31, 2005 and 2004: no dividend yield, weighted-average expected life of the option of seven years, risk-free interest rate ranges of 3% to 6.88% and a volatility of 71% and 74%, respectively, for all grants.

The following table illustrates the effect on net income (loss) if the Company had applied the fair value recognition provisions of SFAS 123 (in 000's, except per share):

Years Ended July 31,	2005	2004
-----	----	----
Reported net income (loss)	\$3,004	\$(6,232)
Pro forma compensation expense	(10,129)	(3,239)
	-----	-----
Pro forma net (loss)	\$(7,125)	\$(9,471)
	=====	=====
Pro forma net (loss) per share:		
Basic	\$(.22)	\$(.30)
Diluted	\$(.22)	\$(.30)

### EFFECT OF NEW ACCOUNTING PRONOUNCEMENTS

In June 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

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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 is not expected to have a material impact on the Company's financial condition or results of operations.

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### ENZO BIOCHEM, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JULY 31, 2006 AND 2005

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.

#### RECLASSIFICATIONS

Certain amounts in prior years have been reclassified to conform to current year presentation.

#### NOTE 2 - SUPPLEMENTAL DISCLOSURE FOR STATEMENT OF CASH FLOWS

In the years ended July 31, 2006, 2005 and 2004, net income taxes paid by or (refunded to) the Company approximated (\$1,374,000), \$3,566,000 and \$219,000 respectively.

In fiscal 2006, certain officers of the Company exercised 227,800 stock options in a non-cash transaction. The officers surrendered 185,300 shares of previously owned shares of the Company's common stock to exercise the stock options. The Company recorded approximately \$2.5 million, the market value of the surrendered shares, as treasury stock.

In fiscal 2005, a director of the Company exercised 31,660 stock options in a non-cash transaction. The director surrendered 17,000 previously owned shares of the Company's common stock to exercise the stock options. The Company recorded approximately \$325,000, the market value of surrendered shares, as treasury stock.

In fiscal 2004, certain officers of the Company exercised 769,300 stock options in a non-cash transaction. The officers surrendered 349,900 of previously owned shares of the Company's common stock to exercise the stock options. The Company recorded approximately \$5.7 million, the market value of the surrendered shares, as treasury stock.



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In fiscal 2004, the Company purchased the assets of a privately held company for \$650,000, of which \$350,000 was paid during fiscal 2004 and \$150,000 during fiscal 2006. The remaining \$150,000 is to be paid in fiscal 2007 on the thirty-sixth month anniversary date of the acquisition.

## NOTE 3 - MARKETABLE SECURITIES

Marketable securities are recorded at fair value. The Company had no investments in marketable securities at July 31, 2006. The following is a summary of available-for-sale securities at July 31, 2005:

In 000's -----	Fair Value -----	Unrealized -----
Income bond mutual fund	\$5,639	
Marketable debt securities:		
U.S. Government and agency securities	449	
Corporate debt securities	626	
	---	
(Average of remaining maturity of debt securities was approximately four months at July 31, 2005)	\$6,714 =====	

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## ENZO BIOCHEM, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JULY 31, 2006 AND 2005

During fiscal 2006, the Company realized proceeds of approximately \$6.8 million from maturities and sales of marketable securities, on which it realized a loss of approximately \$154,000, based on the average cost. During fiscal 2005, the Company realized proceeds of approximately \$10.7 million from maturities and sales of marketable securities, on which it realized a loss of approximately \$200,000, based on the average cost. There were no realized gains or losses on marketable security transactions during fiscal 2004. The Company's cost basis in marketable securities as of July 31, 2005 was approximately \$6.8 million.

The following is a summary of accumulated other comprehensive loss, relating to the Company's investments in marketable securities which were classified as available for sale securities:

In 000's -----	Accumulated Loss Before Tax -----	Tax (Expense) or Benefit -----
Fiscal 2003 - unrealized losses	\$ (139)	\$54
	-----	---
Balance - July 31, 2003	\$ (139)	\$54
Fiscal 2004 - unrealized losses	(262)	101
	-----	---
Balance - July 31, 2004	\$ (401)	\$155
Fiscal 2005 - realized losses	200	(78)

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Fiscal 2005 - unrealized gain and valuation allowances	70	(77)
	--	----
Balance - July 31, 2005	(131)	--
Fiscal 2006 - realized losses, net	131	--
	---	--
Balance - July 31, 2006	\$--	\$--
	=====	=====

## NOTE 4 - INVENTORIES

At July 31, 2006 and 2005 inventories - net of reserves of \$238,000 and \$0, respectively, consist of:

In 000's	2006	2005
-----	----	----
Raw materials	\$38	\$52
Work in process	1,518	1,767
Finished products	845	1,057
	---	----
	\$2,401	\$2,876
	=====	=====

## NOTE 5 - PROPERTY, PLANT, AND EQUIPMENT

At July 31, 2006 and 2005 property, plant, and equipment consist of:

In 000's	2006	2005
-----	----	----
Building	\$2,470	--
Laboratory machinery	2,242	\$2,098
Office furniture and computer equipment	5,696	5,080
Leasehold improvements	2,975	2,771
	-----	-----
	13,383	9,949
Accumulated depreciation and amortization	(8,247)	(7,279)
	-----	-----
	5,136	\$2,670
Land and land improvements	712	--
	---	--
	\$5,848	\$2,670
	=====	=====

In June 2006, the Company acquired land and building aggregating \$3,182,000, which upon completion of improvements, will be primarily used for the Company's Life Sciences and Therapeutics research and development and manufacturing operations.

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## ENZO BIOCHEM, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JULY 31, 2006 AND 2005

## NOTE 6 - INCOME TAXES

The Company accounts for income taxes under the provisions of SFAS 109. The benefit (provision) for income taxes is as follows:

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Fiscal Year Ended July 31, (In 000's)	2006	2005
-----	----	----
Current benefit (provision):		
Federal	\$2,047	\$ (1,386)
State and local	(65)	64
Deferred (provision) benefit	(640)	(891)
	-----	-----
Benefit (provision) for income taxes	\$1,342	\$ (2,213)
	=====	=====

Deferred tax assets and liabilities arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. The components of deferred tax assets (liabilities) as of July 31, 2006 and 2005 are as follows:

In 000's	July 31, 2006
-----	-----
Deferred tax assets:	
Federal tax carryforward losses	\$3,315
Provision for uncollectible accounts receivable	404
State and local tax carry forward losses	1,080
Depreciation	14
Research and development and other tax credit carryforwards	405
Realized and unrealized losses on marketable securities	138
	----
Gross deferred tax assets	5,356
	-----
Deferred tax liabilities:	
Deferred patent costs	(280)
Other, net	(220)
	-----
Gross deferred tax liabilities	(500)
	-----
Net deferred tax assets - before valuation allowance	\$4,856
Less: valuation allowance	(4,856)
	-----
Deferred tax assets, net	--
	==

Pursuant to SFAS 109, the Company recorded a valuation allowance during the year ended July 31, 2006 equal to its net deferred tax assets at July 31, 2005 and for net deferred tax assets generated in fiscal 2006. The Company believes that the valuation allowance is necessary as it is not more likely than not that the deferred tax assets will be realized in the foreseeable future based on positive and negative evidence available at this time. This conclusion was reached 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 deferred tax assets. During fiscal 2005, the Company determined that it was not more likely than not that it would generate taxable income against which the deferred tax asset for the realized and unrealized losses on marketable securities could be applied. Therefore, the Company established a valuation

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reserve against that deferred tax asset.

As of July 31, 2006, the Company had a U.S. federal net operating loss carryforward of approximately \$9.7 million. The U.S. federal tax loss expires in 2024 if not fully utilized by then. Utilization is dependent on generating sufficient taxable income prior to expiration of the tax loss carryforward. There was no U.S. federal net operating loss carryforward as of July 31, 2005. As of July 31, 2006 and 2005, the Company has state and local tax carry forward losses of approximately \$21.1 million and \$5.1 million, respectively.

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### ENZO BIOCHEM, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JULY 31, 2006 AND 2005

The benefit (provision) for income taxes were at rates different from U.S. federal statutory rates for the following reasons:

Year Ended July 31, -----	2006 ----
Federal statutory rate	34%
Expenses not deductible for income tax return purposes	(4%)
State income taxes, net of (benefit) of federal tax deduction.	5%
Change in valuation allowance	(28%)
Benefit of foreign sales	--
Fixed asset basis difference	--
Other	1%
	--
	8%
	==

#### NOTE 7 - ACCRUED LIABILITIES AND OTHER CURRENT LIABILITIES

At July 31, 2006 and 2005, Accrued liabilities consist of:

In 000's  
-----

Legal  
Payroll, benefits, and commissions  
Research and development  
Professional fees  
Outside reference lab testing  
Other

At July 31, 2006 and 2005 other current liabilities consist of:

In 000's  
-----

Installment payable

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Deferred revenue

## NOTE 8 - STOCKHOLDERS' EQUITY

### TREASURY STOCK

In fiscal 2006, certain officers of the Company exercised 227,800 stock options in a non-cash transaction. The officers surrendered 185,300 shares of previously owned shares of the Company's common stock to exercise the stock options. The Company recorded approximately \$2.5 million, the market value of the surrendered shares, as treasury stock.

In fiscal 2005, a director of the Company exercised 31,660 stock options in a non-cash transaction. The director surrendered 17,000 previously owned shares of the Company's common stock to exercise the stock options. The Company recorded approximately \$325,000, the market value of surrendered shares, as treasury stock.

In fiscal 2004, certain officers of the Company exercised 769,300 stock options in a non-cash transaction. The officers surrendered 349,900 of previously owned shares of the Company's common stock to exercise the stock options. The Company recorded approximately \$5.7 million, the market value of the surrendered shares, as treasury stock.

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## ENZO BIOCHEM, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JULY 31, 2006 AND 2005

### INCENTIVE STOCK OPTION PLANS

The Company has incentive stock option plans ("1994 plan", "1999 plan" and "2005 plan") under which the Company may grant options for up to 1,336,745 shares (1994 plan), up to 2,312,356 shares (1999 plan) and up to 1,000,000 shares (2005 plan) of common stock. No additional options may be granted under the 1994 plan. The exercise price of options granted under such plans is equal to or greater than fair market value of the common stock on the date of grant. The options granted pursuant to the plans may be either incentive stock options or non statutory options. Stock options generally become exercisable at 25% per year after one year and expire ten years after the date of grant. The 2005 plan provide for the issuance of restricted stock and restricted stock unit awards which generally vest over a two to four year period.

A summary of the information pursuant to the Company's stock option plans for the years ended July 31, 2006, 2005 and 2004 is as follows:

	2006		2005	
	Weighted -		Weighted -	
	Average		Average	
	Exercise		Exercise	
Options	Price	Options	Price	Options
-----	-----	-----	-----	-----

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Outstanding at beginning of year	3,154,125	\$12.61	2,856,801	\$11.86	3,397,087
Granted	100,000	\$24.84	431,975	\$16.57	428,925
Exercised	(285,030)	\$10.93	(100,332)	\$7.39	(917,539)
Cancelled	(91,368)	\$12.61	(34,319)	\$11.64	(51,672)
	-----		-----		-----
Outstanding at end of year	2,877,727	\$13.20	3,154,125	\$12.61	2,856,801
	=====		=====		=====
Exercisable at end of year	2,554,148	\$12.78	2,126,442	\$11.28	1,770,492
	=====		=====		=====
Weighted average fair value of options granted during year		\$1.01		\$11.76	
		=====		=====	

The aggregate intrinsic value of stock options exercised during the years ended July 31, 2006 and 2005, including the non-cash transactions (see Note 2) was \$0.7 million and \$0.9 million, respectively. The aggregate intrinsic value of options both outstanding and exercisable at July 31, 2006 is approximately \$3.7 million.

The following table summarizes information for stock options outstanding at July 31, 2006:

Range of Exercise prices	Shares	Options outstanding		Options exercisable	
		Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
-----	-----	-----	-----	-----	-----
\$5.45-8.08	289,020	2.2 years	\$5.64	289,020	\$5.64
\$8.33-12.25	1,502,111	4.4 years	\$11.09	1,378,906	\$10.91
\$12.93-19.02	906,719	7.4 years	\$16.82	806,345	\$16.60
\$20.20-24.84	161,644	2.9 years	\$23.02	61,644	\$21.42
\$36.05	18,233	3.4 years	\$36.05	18,233	\$36.05
	-----			-----	
	2,877,727			2,554,148	
	=====			=====	

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## ENZO BIOCHEM, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JULY 31, 2006 AND 2005

During the year ended July 31, 2006, the Company granted 100,000 options to a consultant with an exercise price of \$24.84, which vest over six months and have a two year term. The fair value of these options at July 31, 2006 is \$101,000. The fair value of the options, which will be accounted for as a variable instrument, will be fair valued and recognized as expense over the six month

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vesting term. The assumptions used to fair value this option grant as of July 31, 2006 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 \$80,000 in selling, general and administrative expense in the accompanying statements of operations for the year ended July 31, 2006.

### RESTRICTED STOCK AWARDS

During fiscal 2006, the compensation committee of the Company's board of directors approved grants of 84,950 restricted stock and restricted stock unit awards (the "Awards") under the 2005 Plan to the Company's directors and certain officers and employees. The Awards vest in full upon the recipient's continued employment or director service over either two, three or four years. Share-based compensation expense is recorded over the vesting period on a straight-line basis. The Awards will be forfeited if the recipient ceases to be employed by or serve as a director of the Company, as defined in the Award grants. The Awards settle in shares of the Company's common stock on a one-for-one basis. As of July 31, 2006, all Awards were unvested.

A summary of the information pursuant to the Company's Awards for the year ended July 31, 2006 is as follows:

	Awards	Weighted - Average Award Price
	-----	-----
Outstanding at beginning of year	--	--
Awarded	84,950	\$12.29
Forfeited	(7,500)	\$13.13
	-----	-----
Outstanding at end of year	77,450	\$12.21
	=====	=====
Weighted average market value of Awards granted during year		\$12.29
		=====

As of July 31, 2006, there were approximately 629,000 shares available for grant under the Company's stock option plans.

### STOCK DIVIDENDS

During fiscal 2005, the Company's board of directors declared a 5% stock dividend on October 5, 2004 payable November 15, 2004 to shareholders of record as of October 25, 2004. The fiscal 2004 per share data was adjusted retroactively to reflect the stock dividend declared on October 5, 2004. The Company recorded a charge to accumulated deficit and offsetting credits to both common stock and additional paid-in capital of \$23,433,400 in fiscal 2005, which reflects the fair value of the stock dividends on the dates of declaration.

### NOTE 9 - EMPLOYEE BENEFIT PLAN

The Company has a qualified Salary Reduction Profit Sharing Plan (the "Plan") for eligible employees under Section 401(k) of the Internal Revenue Code. The Plan provides for voluntary employee contributions through salary reduction and voluntary employer contributions at the discretion of the Company. For the years ended July 31, 2006, 2005 and 2004, the Company authorized employer matched contributions of 50% of the employees' contribution up to 10% of the employees' compensation, payable in Enzo Biochem, Inc. common stock. The 401(k) employer matched contributions expense was \$402,300, \$351,600, and \$282,200, in fiscal years 2006, 2005, and 2004, respectively.

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## ENZO BIOCHEM, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JULY 31, 2006 AND 2005

### NOTE 10 - GAIN ON PATENT LITIGATION SETTLEMENT, LICENSE AGREEMENT AND ROYALTY INCOME

In fiscal 2005, the Company as plaintiff finalized and executed a settlement and license agreement with Digene Corporation to settle a patent litigation lawsuit (the "Agreement"). Under the terms of the Agreement, the Company received an initial payment of \$16.0 million, would earn in the first "annual period" (October 1, 2004 to September 30, 2005) a minimum royalty payment of \$2.5 million, and receive a minimum royalty of \$3.5 million in each of the next four annual periods. In addition, 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 on April 24, 2018. These quarterly running royalties are fully creditable against the minimum royalty payments due in the first five years of the Agreement. The balance, if any, of the minimum royalty payment is recognized in the final quarter of the applicable annual royalty period.

As a result of the Digene Agreement, the Company recorded a gain on patent litigation settlement of \$14.0 million during the year ended July 31, 2005 and deferred \$2 million, which was earned from net sales of the Company's licensed products covered by the Agreement during the first annual period. During the years ended July 31, 2006 and 2005, the Company recorded royalty income under the Agreement of approximately \$3.1 million and \$1.6 million, respectively, which is included in the Life Sciences segment.

### NOTE 11 - COMMITMENTS

#### LEASES

The Company leases equipment, office and laboratory space under several non-cancelable operating leases that expire between January 2007 and March 2017. An entity owned by certain executive officers/directors of the Company owns the building that the Company leases as its main facility for laboratory, research, and manufacturing operations. In March 2005, the Company amended and extended the lease for another 12 years. In addition to the minimum annual rentals of space, the lease is subject to annual increases, based on the consumer price index. Annual increases are limited to 3% per year. Rent expense, inclusive of real estate taxes, under this renewed lease and the prior lease approximated \$1,337,000, \$1,289,000, and \$1,370,000 during fiscal years 2006, 2005, and 2004, respectively.

Total consolidated rent expense incurred by the Company during fiscal 2006, 2005, and 2004 was approximately \$2,257,000, \$2,140,000, and \$1,801,000 respectively. Minimum future annual rentals under non-cancelable operating leases as of July 31, 2006, are as follows:

Years ended July 31, -----	In 000's -----
2007	\$2,663
2008	2,505
2009	2,384
2010	2,337
2011	2,044
Thereafter	8,429



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-----  
\$20,362  
=====

### Employment Agreements

The Company has employment agreements with certain executive officers that are cancelable at any time but provide for severance pay in the event an executive officer is terminated by the Company without cause, as defined in the agreements. Unless cancelled earlier, the contracts expire through May 2008. Aggregate minimum compensation commitments, exclusive of any severance provisions, for the years ended July 31, 2007 and 2008 are \$1,490,000 and \$870,000, respectively

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### ENZO BIOCHEM, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JULY 31, 2006 AND 2005

#### NOTE 12- CONTINGENCES

##### LITIGATION

In October 2002, the Company filed suit in the United States District Court of the Southern District of New York against Amersham plc, Amersham Biosciences, Perkin Elmer, Inc., Perkin Elmer Life Sciences, Inc., Sigma-Aldrich Corporation, Sigma Chemical Company, Inc., Molecular Probes, Inc. and Orchid Biosciences, Inc. In January 2003, the Company amended its Complaint to include defendants Sigma Aldrich Co. and Sigma Aldrich, Inc. The counts set forth in the suit are 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. The Complaint alleges that these counts arise out of the defendants' breach of distributorship agreements with the Company concerning labeled nucleotide products and technology, and the defendants' infringement of patents covering the same. In April, 2003, the Court directed that individual Complaints be filed separately against each defendant. The defendants have answered the individual Complaints and asserted a variety of affirmative defenses and counterclaims. Fact discovery is ongoing. The Court issued a claim construction opinion on July 10, 2006. The Company and Sigma Aldrich ("Sigma") entered into a Settlement Agreement and Release effective September 15, 2006 (the "Agreement"). Pursuant to the Agreement, the Company's litigation with Sigma was dismissed and the Company will recognize \$2 million on settlement in the first quarter ending October 31, 2006. There can be no assurance that the Company will be successful with the remaining outstanding litigation. However, even if the Company is not successful, management does not believe that there will be a significant adverse monetary impact to the Company. The Company has not recorded revenue under these distribution agreements in fiscal 2006. The Company recorded revenue from only Perkin Elmer in fiscal 2005.

On October 28, 2003, the Company and Enzo Life Sciences, Inc., a subsidiary of the Company, filed suit in the United States District Court of the Eastern District of New York against Affymetrix, Inc. The Complaint alleges that Affymetrix improperly transferred or distributed substantial business assets of the Company to third parties, including portions of the Company's proprietary technology, reagent systems, detection reagents and other intellectual property. The Complaint also charges that Affymetrix failed to account for certain shortfalls in sales of the Company's products, and that Affymetrix improperly induced collaborators and customers to use the Company's products in unauthorized fields or otherwise in violation of the agreement. The Complaint

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seeks full compensation from Affymetrix to the Company for its substantial damages, in addition to injunctive and declaratory relief to prohibit, among other things, Affymetrix's unauthorized use, development, manufacture, sale, distribution and transfer of the Company's products, technology, and/or intellectual property, as well as to prohibit Affymetrix from inducing collaborators, joint venture partners, customers and other third parties to use the Company's products in violation of the terms of the agreement and the Company's rights. Subsequent to the filing of the Complaint against Affymetrix, Inc. referenced above, on or about November 10, 2003, Affymetrix, Inc. filed its own Complaint against the Company and its subsidiary, Enzo Life Sciences, Inc., in the United States District Court for the Southern District of New York, seeking among other things, declaratory relief that Affymetrix, Inc., has not breached the parties' agreement, that it has not infringed certain of Enzo's Patents, and that certain of Enzo's patents are invalid. The Affymetrix Complaint also seeks damages for alleged breach of the parties' agreement, unfair competition, and tortuous interference, as well as certain injunction relief to prevent alleged unfair competition and tortuous interference. The Company does not believe that the Affymetrix Complaint has any merit and intends to defend vigorously. Affymetrix also moved to transfer venue of Enzo's action to the Southern District of New York, where other actions commenced by Enzo were pending as well as Affymetrix's subsequently filed action. On January 30, 2004, Affymetrix's motion to transfer was granted. Accordingly, the Enzo and Affymetrix actions are now both pending in the Southern District of New York. Initial pleadings have been completed and discovery has commenced. The Court issued a Markman (claim construction) opinion on July 10, 2006. The Company did not record any revenue from Affymetrix during the fiscal years ended July 31, 2006, 2005 and 2004.

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### ENZO BIOCHEM, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JULY 31, 2006 AND 2005

On June 2, 2004 Roche Diagnostic GmbH and Roche Molecular Systems, Inc. (collectively "Roche") filed suit in the U.S. District Court of the Southern District of New York against Enzo Biochem, Inc. and Enzo Life Sciences, Inc. (collectively "Enzo"). The Complaint was filed after Enzo rejected Roche's latest cash offer to settle Enzo's claims for, INTER ALIA, alleged breach of contract and misappropriation of Enzo's assets. The Complaint seeks declaratory judgment (i) of patent invalidity with respect to Enzo's 4,994,373 patent (the "'373 patent"), (ii) of no breach by Roche of its 1994 Distribution and Supply Agreement with Enzo (the "1994 Agreement"), (iii) that non-payment by Roche to Enzo for certain sales of Roche products does not constitute a breach of the 1994 Agreement, and (iv) that Enzo's claims of ownership to proprietary inventions, technology and products developed by Roche are without basis. In addition, the suit claims tortious interference and unfair competition. The Company does not believe that the Complaint has merit and intends to vigorously respond to such action with appropriate affirmative defenses and counterclaims. Enzo filed an Answer and Counterclaims on November 3, 2004 alleging multiple breaches of the 1994 Agreement and related infringement of Enzo's '373 patent. Discovery has commenced. The Court issued a Markman opinion on July 10, 2006. The Company did not record any revenue from Roche during the fiscal year ended July 31, 2006. The Roche agreement remains in force to date.

On March 6, 2002, the Company was named, along with certain of its officers and directors among others, in a complaint entitled Lawrence F. Glaser and Maureen Glaser, individually and on behalf of Kimberly, Erin, Hannah, and Benjamin Glaser v. Hyman Gross, Barry Weiner, Enzo Biochemical Inc., Elazar Rabbani, Shahram Rabbani, John Delucca, Dean Engelhardt, Richard Keating, Doug Yates, and Does I-50, Case No. CA-02-1242-A (the "Glasser Action"), in the U.S. District

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Court for the Eastern District of Virginia. This complaint was filed by an investor in the Company who had filed for bankruptcy protection and his family. The complaint alleged securities fraud, breach of fiduciary duty, conspiracy, and common law fraud and sought in excess of \$150 million in damages. On August 22, 2002, the complaint was voluntarily dismissed; however a new substantially similar complaint was filed at the same time. On October 21, 2002, the Company and the other defendants filed a motion to dismiss the complaint, and the plaintiffs responded by amending the complaint and dropping their claims against defendants Keating and Yates. On November 18, 2002, the Company and the other defendants again moved to dismiss the Amended Complaint. On July 16, 2003, the Court issued a Memorandum Opinion dismissing the Amended Complaint in its entirety with prejudice. Plaintiffs thereafter moved for reconsideration but the Court denied the motion on September 8, 2003. Plaintiffs thereafter appealed the decision to the United States Court of Appeals for the Fourth Circuit. On March 21, 2005, the Fourth Circuit affirmed the lower Court's prior dismissal of all claims asserted in the action, with the sole exception of a portion of the claim for common law fraud and remanded that remaining portion of the action to the U.S. District Court for the Eastern District of Virginia. On May 20, 2005, defendants again moved the District Court to dismiss the sole remaining claim before it. On July 14, 2005, the District Court granted defendants' renewed motion to dismiss. On July 29, 2005, Plaintiffs moved to amend their Complaint for reconsideration. On August 19, 2005, the Court denied Plaintiffs' motion to amend and entered final judgment dismissing the complaint. Thereafter, Plaintiffs appealed the order and judgment to the Fourth Circuit. On September 16, 2006, the United States Court of Appeals for the Fourth Circuit affirmed the dismissal of the Complaint relating to the Glasser Action. Although the Glasser plaintiffs still have the option of requesting a rehearing before the Fourth Circuit or petitioning for a writ of certiorari from the United States Supreme Court, absent such further relief, the Glasser Action will be closed. The Company continues to believe that the Glasser Action and the remaining complaint have no merit whatsoever and intends to continue to defend the actions vigorously.

On June 7, 2004, the Company and its wholly-owned subsidiary, Enzo Life Sciences, Inc., filed suit in the United States District Court for the District of Connecticut against Applera Corporation and its wholly-owned subsidiary Tropix, Inc. The complaint alleges infringement of six patents (relating to DNA sequencing systems, labelled nucleotide products, and other technology). Yale University is the owner of four of the patents and the Company is the exclusive licensee. Accordingly, Yale is also a plaintiff in the lawsuit. Yale and Enzo are aligned in protecting the validity and enforceability of the patents. Enzo Life Sciences is the owner of the remaining two patents. The complaint seeks permanent injunction and damages (including treble damages for wilful infringement). Defendants answered the complaint on July 29, 2004. The answer pleads affirmative defences of invalidity, estoppels and laches and asserts counterclaims of non-infringement and invalidity. Fact discovery is ongoing. A one-day Markman hearing was held on May 25, 2006 and the parties are currently waiting for a Markman ruling. Dispositive motions due dates are based on the Markman ruling date.

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### ENZO BIOCHEM, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JULY 31, 2006 AND 2005

The trial date is currently scheduled for December 1, 2006. There can be no assurance that the Company will be successful in this litigation. Even if the Company is not successful, management does not believe that there will be a significant adverse monetary impact on the Company.

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## NOTE 13 - SEGMENT REPORTING

The Company has three reportable segments: Life Sciences, Therapeutics, and Clinical Labs. The Company's Life Sciences segment develops, manufactures, and markets products to research and pharmaceutical customers. The Company's Therapeutic segment conducts research and development activities for therapeutic drug candidates. The Clinical Labs segment provides diagnostic services to the health care community. Prior to fiscal 2006, the Life Sciences and Therapeutics segments were reported together as the Research and Development segment. The fiscal 2005 and 2004 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.

Management of the Company assesses assets on a consolidated basis only and therefore, assets by reportable segment have not been included in the reportable segments below. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies.

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

YEAR ENDED JULY 31, 2006

Revenues:	Life Sciences	Therapeutics	Clinical La
-----	-----	-----	-----
Product revenues and royalty income	\$7,900	--	
Clinical laboratory services	--	--	\$31,9
	-----	-----	-----
	7,900	--	31,9
Cost and expenses and other (income):			
-----			
Cost of products	2,174	--	
Cost of clinical laboratory services	--	--	13,9
Research and development	3,659	\$4,237	
Provision for uncollectible accounts	--	--	3,6
Selling, general and administrative and legal	2,260	--	14,3
Interest income	--	--	
	-----	-----	-----
(Loss) income before income taxes	(\$193)	(\$4,237)	\$
	=====	=====	=
Depreciation and amortization included above	\$180	\$12	\$8
	=====	=====	=====
Share-based compensation included in above:			
-----			
Cost of products	\$21	--	
Research and development	106	\$143	
Selling, general and administrative and legal	87	--	\$5
	--	--	--
Total	\$214	\$143	\$5
	=====	=====	=====
Capital expenditures	\$3,332	\$6	\$8
	=====	=====	=====

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## ENZO BIOCHEM, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JULY 31, 2006 AND 2005

YEAR ENDED JULY 31, 2005

	Life Sciences	Therapeutics	Clinical
	-----	-----	-----
REVENUES:			
Product revenues and royalty income	\$10,546	--	
Clinical laboratory services	--	--	\$32,8
	-----	-----	-----
	10,546	--	32,8
Cost and expenses and other (income):			
-----			
Cost of products	2,197	--	
Cost of clinical laboratory services	--	--	12,5
Research and development	5,340	\$3,112	
Provision for uncollectible accounts	--	--	4,9
Selling, general and administrative and legal	2,405	--	12,5
Interest income	--	--	
Gain on patent litigation settlement	(14,000)	--	
	-----	-----	-----
Income (loss) before income taxes	\$14,604	(\$3,112)	\$2,8
	=====	=====	=====
Depreciation and amortization included above	\$1,382	\$13	\$8
	=====	=====	=====
Capital expenditures	\$126	\$40	\$1,1
	=====	=====	=====

YEAR ENDED JULY 31, 2004

	Life Sciences	Therapeutics	Clinical
	-----	-----	-----
REVENUES:			
Product revenues	\$12,972	--	
Clinical laboratory services	--	--	\$28,6
	-----	-----	-----
	12,972	--	28,6
Cost and expenses and other (income):			
-----			
Cost of products	2,518	--	
Cost of clinical laboratory services	--	--	10,5
Research and development	5,661	\$2,417	
Provision for uncollectible accounts	1,753	--	10,2
Selling, general and administrative and legal	1,922	--	9,3
Interest income	--	--	
	-----	-----	-----
(Loss) income before income taxes	\$1,118	\$(2,417)	\$(1,4

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	=====	=====	=====
Depreciation and amortization included above	\$1,397	\$17	\$9
	=====	=====	=====
Total capital expenditures	\$70	\$7	\$1,1
	=====	=====	=====

The Company's reportable segments are determined based on the services they perform, the products they sell, and the royalties they earn, not on the geographic area in which they operate. The Company's Clinical Labs segment operates 100% in the United States with all revenue derived from this country. The Life Sciences segment earns product revenue both in the United States and foreign countries and royalty income in the United States. The following is a summary of the Life Sciences segment revenues attributable to customers located in the United States and foreign countries:

In 000's	2006	2005	2004
-----	-----	-----	-----
United States	\$6,361	\$7,985	\$8,029
Foreign countries	1,539	2,561	4,943
	-----	-----	-----
	\$7,900	\$10,546	\$12,972
	=====	=====	=====

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## ENZO BIOCHEM, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JULY 31, 2006 AND 2005

### NOTE 14 - SUMMARY OF SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following table contains statement of operations information for each quarter of the years ended July 31, 2006 and 2005. The Company believes that the following information reflects all normal recurring adjustments necessary for a fair presentation of the information for the periods presented. The operating results for any quarter are not necessarily indicative of results for any future period.

Unaudited quarterly financial data (in thousands, except per share amounts) for fiscal 2006 and 2005 is summarized as follows:

	Quarter Ended		
FISCAL 2006	OCTOBER 31, 2005 ----	JANUARY 31, 2006 ----	APRIL 30, 2006 ----
Total revenues	\$10,165	\$10,116	
Gross profit	6,143	6,300	
Loss before income taxes	(3,163)	(5,098)	(6,143)
Net loss	(3,286)	(4,439)	(5,098)
Basic loss per common share	(\$0.10)	(\$0.14)	(\$0.14)
Diluted loss per common share	(\$0.10)	(\$0.14)	(\$0.14)

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FISCAL 2005	Quarter Ended		
	OCTOBER 31, 2004 ----	JANUARY 31, 2005 ----	APRIL 30, 2005 ----
Total revenues	\$10,301	\$11,235	\$11,235
Gross profit	6,812	7,820	7,820
Income (loss) before income taxes	12,173	(944)	(944)
Net income (loss)	7,021	(528)	(528)
Basic income (loss) per common share	\$0.22	(\$0.02)	(\$0.02)
Diluted income (loss) per common share	\$0.22	(\$0.02)	(\$0.02)

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ENZO BIOCHEM, INC  
SCHEDULE II - VALUATION  
AND QUALIFYING ACCOUNTS  
Years ended July 31, 2006, 2005 and 2004  
(in thousands)

Year ended July 31, -----	Description -----	Balance at Beginning of period -----	Charged (credited) to costs and expenses -----	Charged to other accounts-- describe -----	De de ---
2006	Allowance for doubtful accounts receivable	\$2,292	\$3,633	---	
2005	Allowance for doubtful accounts receivable	2,770	4,967	---	
2004	Allowance for doubtful accounts receivable	2,257	11,987	---	
2006	Deferred tax asset valuation allowance	129	4,727	---	
2005	Deferred tax asset valuation allowance	-	129	---	
2006	Reserve for obsolete inventory	-	596	---	

(1) Write-off of uncollectible accounts receivable.

(2) Write-off of obsolete inventory.

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