

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

Mark one

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

For the quarterly period ended April 30, 1997

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 1-9974

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.)

60 Executive Blvd., Farmingdale, New York

11735

-----  
(Address of principal executive office)

-----  
(Zip Code)

(516-755-5500)

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

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

Common Stock, \$0.01 par value

The American Stock Exchange

-----  
(Title of Class)

-----  
(Name of each Exchange on  
which Registered)

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

NONE

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

Yes    X    No  
-----    -----

As of June 10, 1997 the Registrant had 23,309,823 shares of Common Stock outstanding.

ENZO BIOCHEM, INC.

FORM 10-Q

April 30, 1997

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ENZO BIOCHEM, INC.  
PART 1 - FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED BALANCE SHEET

	April 30, 1997 (unaudited)	July 31, 1996
	----- (in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$23,665	\$17,793
Accounts receivable, less allowance for doubtful accounts	11,527	10,488
Current portion of note receivable - litigation settlement	5,000	5,000
Inventories	1,720	1,810
Other	2,026	823
	-----	-----
Total current assets	43,938	35,914
Property and equipment, at cost, less accumulated depreciation and amortization	2,893	3,107
Long term portion of note receivable - litigation settlement	4,764	9,114
Cost in excess of fair value of net tangible assets acquired, less accumulated amortization	9,398	9,675
Deferred patent costs, less accumulated amortization	4,743	4,878
Other	152	150
	-----	-----
	\$65,888	\$62,838
	=====	=====

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ENZO BIOCHEM, INC.  
LIABILITIES AND STOCKHOLDERS' EQUITY

<TABLE>  
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April 30, July 31,  
1997 1996  
(unaudited)

	----- (in thousands)	
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Current liabilities:		
Trade accounts payable	\$ 933	\$ 1,281
Accrued legal fees	23	1,392
Accrued leasehold costs	--	2,950
Other accrued expenses	771	776
Current portion of long-term debt	36	35
Current portion of obligations under capital leases	27	29
	-----	-----
Total current liabilities	1,790	6,463
Long-term debt	19	47
Obligations under capital leases	47	67
Other deferred liabilities	1,008	1,008
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 and outstanding; 23,180,000 shares at April 30, 1997 and 21,624,900 shares at July 31, 1996	232	216
Additional paid-in capital	90,271	83,450
Accumulated deficit	(27,479)	(28,413)
	-----	-----
Total stockholders' equity	63,024	55,253
	-----	-----
	\$ 65,888	\$ 62,838
	=====	=====

</TABLE>

See accompanying notes

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ENZO BIOCHEM, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Nine Months Ended April 30,	
	----- 1997	1996 -----
	(In thousands, except per share data)	
Revenues:		
Research product sales	\$ 9,542	\$ 9,355
Clinical laboratory services	15,079	15,762
	-----	-----
Total operating revenues	24,621	25,117
Costs and expenses:		
Cost of research product sales	5,716	5,652
Cost of clinical laboratory services	5,248	5,273
Research and development expenses	2,694	1,975
Selling expenses	1,978	2,010
Provision for uncollectable accounts receivable	3,802	2,496
General and administrative expenses	5,775	6,100
	-----	-----
Total costs and expenses	25,213	23,506
Income (loss) before interest and provision for income taxes	(592)	1,611
Interest income - net	1,551	1,154
	-----	-----
Income before provision for income taxes	959	2,765

Provision for taxes on income	(25)	(865)
	-----	-----
Net income	\$ 934	\$ 1,900
	=====	=====
Net income per share	\$ 0.04	\$ 0.08
	=====	=====
Weighted average common shares	23,989	23,852
	=====	=====

See accompanying notes

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ENZO BIOCHEM, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended April 30,	
	1997	1996
	-----	
	(In thousands, except per share data)	
Revenues:		
Research product sales	\$ 3,426	\$ 3,108
Clinical laboratory services	5,461	5,445
	-----	-----
Total operating revenues	8,887	8,553
Costs and expenses:		
Cost of research product sales	2,006	2,139
Cost of clinical laboratory services	1,865	1,727
Research and development expenses	837	700
Selling expenses	711	729
Provision for uncollectable accounts receivable	1,236	1,142
General and administrative expenses	2,123	1,872
	-----	-----
Total costs and expenses	8,778	8,309
Income before interest and provision for income taxes	109	244
Interest income - net	511	390
	-----	-----
Income before provision for income taxes	620	634
Provision for taxes on income	(6)	(195)
	-----	-----
Net income	\$ 614	\$ 439
	=====	=====
Net income per share	\$ 0.03	\$ 0.02
	=====	=====
Weighted average common shares	23,989	23,852
	=====	=====

See accompanying notes

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ENZO BIOCHEM, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

Nine Months  
Ended April 30,  
-----

	1997	1996
	-----	
	(In thousands, except per share data)	
Cash flows from operating activities:		
Net income	\$ 934	\$ 1,900
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	644	669
Amortization of costs in excess of fair value of tangible assets acquired	278	278
Amortization of deferred patent costs	450	374
Provision for uncollectable accounts receivable	3,802	2,496
Accretion of interest on note receivable	(650)	(600)
Other	271	156
Change in assets and liabilities:		
Note receivable - J & J settlement	5,000	5,000
Accounts receivable before provision for uncollectable amounts	(4,841)	(5,263)
Inventories	90	(36)
Prepaid expense	494	172
Trade accounts payable and other accrued expenses	(301)	(855)
Accrued legal fees	(40)	(66)
Deferred liabilities	--	120
	-----	-----
	5,197	2,445
	-----	-----
Net cash provided by operating activities	\$ 6,131	\$ 4,345
	-----	-----

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ENZO BIOCHEM, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

<TABLE>  
<CAPTION>

	Nine Months Ended April 30,	
	-----	-----
	1997	1996
	-----	
	(In Thousands)	
<S>	<C>	<C>
Cash flows from investing activities:		
Capital expenditures	(430)	(319)
Patent costs deferred	(315)	(235)
Security deposits	(2)	(23)
Proceeds from insurance recovery	--	42
	-----	-----
Net cash used in investing activities	(747)	(535)
Cash flows from financing activities:		
Payments of obligations under capital lease	(47)	(66)
Proceeds from exercise of stock options	344	1,212
Proceeds from stock sale	286	--
Payment of security registration fees	(95)	--
	-----	-----
Net cash provided by used in financing activities	488	1,146
	-----	-----
Net increase in cash and cash equivalents	5,872	4,956
Cash and cash equivalents at the beginning of the year	17,793	11,068
	-----	-----

Cash and cash equivalents at the end of the period	\$ 23, 665	\$ 16,024
	=====	=====

</TABLE>

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ENZO BIOCHEM, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
April 30, 1997  
(Unaudited)

1. The consolidated balance sheet as of April 30, 1997, the consolidated statement of operations for nine months ended April 30, 1997 ("1997 Period") and 1996 ("1996 Period") and the consolidated statement of cash flows for the nine months ended April 30, 1997 and 1996 have been prepared by the Company without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows at April 30, 1997 and for all periods presented have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. It is suggested that these financial statements be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 1996 Annual Report on Form 10-K. The results of operations for the nine months ended April 30, 1997 are not necessarily indicative of the results that maybe expected for the full year.

In March 1995, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of". This standard is effective for the Company's financial statements beginning in the first quarter of fiscal 1997. SFAS No. 121 establishes the accounting for the impairment of long-lived assets, certain identifiable intangibles and the excess of cost over net assets acquired, related to those assets to be held and used in operations, whereby impairment losses are required to be recorded when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets carrying amount. SFAS No. 121 also addresses the accounting for long-lived assets and certain identifiable intangibles that are expected to be disposed of. In the opinion of the Company's management, the adoption of SFAS No. 121 did not have a material effect on the consolidated results of operations or financial condition of the Company.

2. On October 19, 1994 the Company executed a settlement agreement with Johnson & Johnson, Inc. in the aggregate amount of \$ 35.0 million pursuant to which the Company received \$ 15.0 million, and a promissory note requiring Johnson & Johnson and its subsidiary, Ortho Diagnostics, Inc., to pay \$ 5.0 million a year for each of the four successive anniversaries of said date. These future payments are recorded at net present value discounted using an interest rate of 5.25%. Pursuant to the terms of the settlement, all of the Company's

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ENZO BIOCHEM, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
April 30, 1997  
(Unaudited)

grants, licenses and intellectual property have been returned to the Company in totality.

3. In March 1993, the Company filed suit in the United States District Court for the District of Delaware charging patent infringement and acts of unfair competition against Calgene, Inc. and seeking a declaratory judgment of invalidity concerning Calgene, Inc.'s plant antisense patent. On February 9, 1994, the Company filed a second suit in the United States District Court for the District of Delaware charging Calgene with infringement of a second antisense patent owned by the Company. Calgene filed a counterclaim in the second Delaware action seeking a declaration that a third patent belonging to the Company is invalid. The two Delaware actions were consolidated and were tried to the Court in April 1995. Following trial, the Court issued a decision that was adverse to Enzo but subsequently withdrew that decision. Both sides have submitted additional materials and motions. The Court has not issued any further decision or ruled on the motions. The Company intends to appeal from any

adverse judgment. There can be no assurance that the Company will be successful in this matter or that Calgene will not be successful. However, even if the Company is not successful, management does not believe there will be a significant monetary impact.

4. In the fourth quarter of fiscal 1996, the Company negotiated a settlement with the City of New York to relieve the Company from any further obligations related to a former lease. The Company paid the City \$ 2,950,000 in shares of stock in full settlement of all of the City's claims for unpaid taxes and rent. Such shares of stock were subsequently sold by the City of New York. As a result of this settlement with the City, the Company incurred a charge against earnings in the amount of approximately \$ 7.6 million in the fourth quarter of fiscal 1996.

## Item 2- Management's Discussion and Analysis of Financial Condition and Results of Operations

### Liquidity and Capital Resources

The Company at April 30, 1997, had cash and cash equivalents of \$ 23,665,000 an increase of \$ 5,872,000 from July 31,1996. The Company had working capital of \$ 42,148,000 at April 30, 1997 compared to \$ 29,451,000 at July 31,1996.

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The Company's income before taxes for the nine months ended April 30, 1997 was \$959,000 which includes depreciation and amortization aggregating approximately \$1,372,000. The Company's positive cash flow from operations was sufficient to meet its current cash needs for the research and development programs and other investing activities.

Net cash provided by operating activities for the nine month period ended April 30, 1997 was approximately \$ 6,131,000 and includes \$ 5.0 million of cash received in connection with the litigation settlement with Johnson & Johnson, Inc. as compared to net cash provided by operating activities of \$ 4,345,000 for the 1996 period which also includes \$ 5.0 million of cash received in connecting with the litigation settlement with Johnson & Johnson, Inc. The increase in net cash provided by operating activities from the 1996 period to the 1997 period was primarily due to the Company's decrease in net income from April 30, 1997, an increase provision for uncollectable accounts receivable of \$ 1,306,000 offset by the decrease in trade accounts payable and other accrued expenses.

Net cash used in investing activities increased by \$ 212,000 from the 1996 period primarily as a result of an increase in capital expenditures and patent costs.

Net cash provided by financing activities decreased by \$ 658,000 from the 1996 period primarily as a result of the decrease in proceeds from the exercise of stock options.

### Results of Operations

Nine months ended April 30, 1997 compared with nine months ended April 30, 1996

Revenues from operations for the period ended April 30,1997 decreased by \$496,000 compared to revenues from operations for the nine month period ended April 30,1996. This decrease was due to a decrease of \$ 683,000 in revenue from the clinical reference laboratory operation offset by the increase of \$ 187,000 in the mix of research products sales resulting primarily from the Company's non-exclusive distribution agreements for the Company's products. The decrease in revenues from the clinical laboratory operations resulted primarily from a reduction in reimbursement rates from the Medicare program and, to a lesser extent, a decrease in volume from unprofitable diagnostic screening tests.

Cost of sales increased by \$ 39,000 as a result of an increase of \$ 64,000 in the cost of sales of research products from the Company's distribution agreements activities offset by a decrease in the cost of clinical laboratory services of \$ 25,000.

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Research and development expenses increased by \$ 719,000 as a result of an increase in research programs and to a lesser extent the increase in amortization of patent costs.

The provision for uncollectable accounts receivable increased by \$ 1,306,000 primarily due to the fact that additional reserves were needed during the nine months ended April 30, 1997 primarily to cover lower collection rates under the Federal Medicare program and other third-party insurance carriers. The health care industry is undergoing significant change as third-party payors, such as

Medicare and other insurers, increase their efforts to control the cost, utilization and delivery of health care services. In particular, the Company believes that reductions in reimbursement for Medicare services will continue to be implemented from time to time. Reductions in the reimbursement rates of other third-party payors are likely to occur as well. Furthermore, the Company cannot predict the effect health care reform, if enacted, would have on its business, and there can be no assurance that such reforms, if enacted, would not have a material adverse effect on the Company's business and operations.

General and administration expenses decreased by \$325,000 primarily due to a decrease in legal fees and the overall improved efficiencies at the clinical reference laboratory.

Three months ended April 30, 1997 compared with three months ended April 30, 1996

Revenues from operations for the three month period ended April 30, 1997 increased by \$ 334,000 compared to revenues from operations for the three month period ended April 30, 1996. This increase was due to a increase of \$ 318,000 in the mix of research products sales primarily from the company's non-exclusive distribution agreements and by a increase of \$ 16,000 in revenue for the clinical reference laboratory operation.

Cost of sales increased by approximately \$ 5,000 as a result of an decrease of \$133,000 in the cost of sales of research products from the Company's distribution agreements activities, due to the increase in profit margins on the mix of research products sold. Offset by an increase in the cost of clinical laboratory services of \$ 138,000, due to the costs associated with the performing of higher priced esoteric tests.

Research and development expenses increased by approximately \$ 137,000 as a result of an increase in research programs and to a lesser extent the increase in amortization of patent costs.

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The provision for uncollectable accounts receivable increased by \$ 94,000 primarily due to the fact that additional reserves were needed during the three months ended April 30, 1997 primarily to cover lower collection rates under the Federal Medicare program and other third-party insurance carriers. The health care industry is undergoing significant change as third-party payors, such as Medicare and insurers, increase their efforts to control the cost, utilization and delivery of health care services. In particular, the Company believes that reductions in reimbursement for Medicare services will continue to be implemented from time to time. Reductions in the reimbursement rates of other third-party payors are likely to occur as well. Furthermore, the Company cannot predict the effect health care reform, if enacted, would have on its business, and there can be no assurance that such reforms, if enacted, would not have a material adverse effect on the Company's business and operations.

Selling and general and administration expenses increased by \$ 233,000 primarily due to an increase of \$ 104,000 in costs associated with the marketing programs of the research activities and the costs incurred related to the 401K employer match of \$ 129,000.

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#### SIGNATURES

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

ENZO BIOCHEM, INC.  
-----  
(registrant)

Date: June 10, 1997

by: /s/ Shahram K . Rabbani  
-----  
Chief Operating Officer,  
Secretary and Treasurer

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FOR THE QUARTERLY PERIOD ENDED APRIL 30, 1997 AND IS QUALIFIED BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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