

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, 1998

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 9, 1998 the Registrant had 24,523,000 shares of Common Stock outstanding.

ENZO BIOCHEM, INC.

FORM 10-Q

April 30, 1998

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For the nine months ended April 30, 1998 and 1997

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ENZO BIOCHEM, INC.
PART 1 - FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED BALANCE SHEET

<TABLE>
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	April 30, 1998 (unaudited)	July 31, 1997

	(in Thousands)	
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ASSETS		
Current assets:		
Cash and cash equivalents	\$32,024	\$25,250
Accounts receivable, less allowance for doubtful accounts	13,598	11,986
Current portion of note receivable - litigation settlement	4,904	5,000
Inventories	1,484	1,559
Other	1,031	1,811
	-----	-----
Total current assets	53,041	45,606
Property and equipment, at cost, less accumulated depreciation and amortization	2,528	2,910
Long term portion of note receivable - litigation settlement	----	4,689
Cost in excess of fair value of net tangible assets acquired, less accumulated amortization	9,027	9,305
Deferred patent costs, less accumulated amortization	4,581	4,757
Other	148	152
	-----	-----
	\$69,325	\$67,419
	-----	-----
	-----	-----

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ENZO BIOCHEM, INC.
LIABILITIES AND STOCKHOLDERS' EQUITY

<TABLE>
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	April 30, 1998 (unaudited)	July 31, 1997

	(in Thousands)	
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Current liabilities:		
Trade accounts payable	\$1,256	\$ 1,089
Accrued legal fees	11	56
Other accrued expenses	782	1,162
Current portion of long-term debt	19	37
Current portion of obligations under capital leases	---	31
	-----	-----
Total current liabilities	2,068	2,375
Long-term debt	---	9
Obligations under capital leases	---	37
Other deferred liabilities	990	990
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; 24,520,000 shares at April 30,1998 and 23,329,900 shares at July 31,1997	245	233
Additional paid-in capital	90,999	90,736
Accumulated deficit	(24,977)	(26,961)
	-----	-----
Total stockholders' equity	66,267	64,008
	-----	-----
	\$69,325	\$ 67,419
	-----	-----
	-----	-----

</TABLE>

See accompanying notes

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

<TABLE>
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	Nine Months Ended April 30,	
	1998	1997

	(In thousands, except per share data)	
	<C>	<C>
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Revenues:		
Research product revenues	\$9,457	\$9,542
Clinical laboratory services	20,880	15,079
	-----	-----
Total operating revenues	30,337	24,621
Costs and expenses:		
Cost of research product revenues	5,442	5,716
Cost of clinical laboratory services	6,048	5,248
Research and development expense	2,931	2,694
Selling expense	2,039	1,978
Provision for uncollectable accounts receivable	7,658	3,802
General and administrative expenses	5,537	5,775
	-----	-----
Total costs and expenses	29,655	25,213
	-----	-----
Income (loss) before interest income and provision for taxes on income	682	(592)
Interest income - net	1,403	1,551
	-----	-----
Income before provision for taxes on income	2,085	959
Provision for taxes on income	(101)	(25)
	-----	-----
Net income	\$1,984	\$934
	-----	-----
Net income per common equivalent share-Basic & diluted		
	\$.08	\$.04
	-----	-----
	-----	-----

Weighted average common shares-Basic	24,483	24,335
	-----	-----
	-----	-----
Weighted average common equivalent shares-Diluted	25,550	25,188
	-----	-----
	-----	-----

</TABLE>

See accompanying notes

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

<TABLE>
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	Three Months Ended April 30,	
	1998	1997

	(In thousands, except per share data)	
	<C>	<C>
Revenues:		
Research product revenues	\$3,441	\$3,426
Clinical laboratory services	7,256	5,461
	-----	-----
Total operating revenues	10,697	8,887
Costs and expenses:		
Cost of research product revenues	2,082	2,006
Cost of clinical laboratory services	2,086	1,865
Research and development expense	809	837
Selling expense	685	711
Provision for uncollectible accounts receivable	2,675	1,236
General and administrative expenses	1,912	2,123
	-----	-----
Total costs and expenses	10,249	8,778
	-----	-----
Income (loss) before interest income and provision for taxes on income	448	109
Interest income - net	508	511
	-----	-----
Income before provision for taxes on income	956	620
Provision for taxes on income	(53)	(6)
	-----	-----
Net income	\$903	\$614
	-----	-----
	-----	-----
Net income per common equivalent share-Basic	\$.04	\$.03
	-----	-----
	-----	-----
Net income per common equivalent share-Diluted	\$.04	\$.02
	-----	-----
	-----	-----
Weighted average common shares-Basic	24,463	24,328
	-----	-----
	-----	-----
Weighted average common shares-Diluted	25,530	25,062
	-----	-----
	-----	-----

</TABLE>

See accompanying notes

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

<TABLE>
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Nine Months Ended April 30,
1998 1997

	(In Thousands, except per share data)	
	<C>	<C>
<S>		
Cash flows from operating activities:		
Net income	\$1,984	\$934
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	638	644
Amortization of costs in excess of fair value of tangible assets acquired	278	278
Amortization of deferred patent costs	510	450
Provision for uncollectable accounts receivable	7,658	3,802
Accretion of interest on note receivable	(215)	(650)
Other	119	271
Change in operating assets and liabilities:		
Note receivable - J & J settlement	5,000	5,000
Accounts receivable before provision for uncollectable amounts	(9,270)	(4,841)
Inventories	75	90
Other	780	494
Trade accounts payable and other accrued expenses	(212)	(301)
Accrued legal fees	(45)	(40)
Total adjustments	5,316	5,197
Net cash provided by operating activities	\$7,300	\$6,131

</TABLE>

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

<TABLE>
<CAPTION>

	Nine Months Ended April 30,	
	1998	1997
	(In Thousands)	
	<C>	<C>
<S>		
Cash flows from investing activities:		
Capital expenditures	(322)	(430)
Patent costs deferred	(334)	(315)
Security deposits	4	(2)
Net cash used in investing activities	(652)	(747)
Cash flows from financing activities:		
Payments of obligations under capital lease and long term debt	(37)	(47)
Proceeds from exercise of stock options	163	344
Proceeds from stock sale	-	286
Payment of security registration fees	-	(95)
Net cash provided by financing activities	126	488
Net increase in cash and cash equivalents	6,774	5,872
Cash and cash equivalents at the beginning of the year	25,250	17,793
Cash and cash equivalents at the end of the period	\$32,024	\$23,665

</TABLE>

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1. The consolidated balance sheet as of April 30, 1998 the consolidated statement of operations for the three and nine months ended April 30, 1998 ("1998 Period") and 1997 ("1997 Period") and the consolidated statement of cash flows for the three and nine months ended April 30, 1998 and 1997 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, 1998 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 1997 Annual Report on Form 10-K. The results of operations for the three and nine months ended April 30, 1998 are not necessarily indicative of the results that may be expected for the full year.

In February 1997, the Financial Accounting Standards Board issued a statement of Financial Accounting standards ("SFAS") No. 128, "Earnings Per Share" which is effective for both interim and annual financial statements for periods ending after December 15, 1997. The Company is required to change the method previously used to compute earnings per share and restate all periods. Under the new requirements for calculating basic earnings per share, the dilutive effect of stock options and warrants will be excluded. The Company adopted the provisions of SFAS No.128 the quarterly ended January 31, 1998.

In June 1997, the Financial Accounting Standards Board issued SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information" which will be required to be adopted for fiscal year 1999. Under the statements' "management approach", public companies will report financial and descriptive information about their operating segments. Management does not expect that adoption of SFAS No. 131 will have any impact on the Company's determination of its operating segments.

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ENZO BIOCHEM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1998
(Unaudited)

The following table sets forth the computation of basic and diluted earnings per share.

<TABLE>
<CAPTION>

	Nine Months Ended April 30, 1998	1997	Three Months Ended April 30, 1998	1997
	-----		-----	
	(In Thousands, except per share data)			
<S>	<C>	<C>	<C>	<C>
Numerator:				
Net income for numerator for basic and diluted earnings per common equivalent share	\$1,984	\$ 934	\$ 898	\$ 614
	-----	-----	-----	-----
Denominator:				
Denominator for basic earnings per common equivalent share during the period	24,483	24,335	24,463	24,328
Effect of dilutive securities				
Employee and director stock options and warrants	1,067	853	1,067	734
	-----	-----	-----	-----
Denominator for diluted earnings per common equivalent share and assumed conversions	25,550	25,188	25,530	25,062
	-----	-----	-----	-----
Basic earnings per share	\$.08	\$.04	\$.04	\$.03

	-----	-----	-----	-----
	-----	-----	-----	-----
Diluted earnings per share	\$.08	\$.04	\$.04	\$.02
	-----	-----	-----	-----
	-----	-----	-----	-----

</TABLE>

The Company declared a 5% stock dividend on December 12, 1997 payable January 23, 1998 to shareholders of record as of January 9, 1998. The shares and per share data have been adjusted to retroactively reflect this stock dividend.

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ENZO BIOCHEM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
April 30, 1998
(Unaudited)

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 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 of Delaware charging patent infringement and acts of unfair competition against Calgene, Inc. and seeking a declaratory judgment of invalidity concerning Calgene'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 belonging to the Company. Calgene filed a counterclaim in the second Delaware action seeking a declaration of invalid on a third patent belonging to the Company. The two Delaware actions were consolidated and were tried to the Court in April 1995. In addition, the Company filed suit on March 22, 1994 in the United States District Court for the Western District of Washington against Calgene and the Fred Hutchinson Cancer Research Center, asserting that the defendants had conspired to issue a false and misleading press release regarding a supposed "patent license" from Hutchinson to Calgene, and conspired to damage the Company's antisense patents by improperly using confidential information to challenge them in the U.S. Patent Office. The complaint further charged Hutchinson with infringing and inducing Calgene to infringe the Company's antisense patents.

On February 2, 1996 the Delaware Court issued an opinion ruling against the Company and in favor of Calgene, finding certain claims infringed, but the patent was found valid (non-obvious) over the prior art. On February 29, 1996, the Delaware Court issued an Order withdrawing its February 2, 1996 Opinion.

On April 3, 1997, the European Patent Office rejected Calgene's opposition that had been lodged against the Company's related European antisense patent, thereby upholding the patent's validity. On May 23, 1997 the Japanese Patent Office issued a related antisense patent owned by the Company.

On June 1, 1998, the Court issued its revised decision maintaining its finding that two Enzo Patents in-suit were invalid for non-enablement and were not infringed by Calgene. Enzo intends to appeal the decision concerning the invalidity of the two Enzo Patents. The Delaware Court did not find invalid a third

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Enzo Patent in-suit, citing a lack of evidence. There can be no assurance that the Company will be successful in any of the foregoing matters or that Calgene and/or Hutchinson will not be successful. However, even if the Company is not successful, management does not believe there will be a significant monetary impact.

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

Liquidity and Capital Resources

The Company at April 30, 1998, had cash and cash equivalents of \$32,024,000 an increase of \$6,774,000 from July 31, 1997. The Company had working capital of \$50,973,000 at April 30, 1998 compared to \$43,231,000 at July

31,1997.

The Company's income before taxes for the nine months ended April 30,1998 was \$2,085,000 which includes depreciation and amortization aggregating approximately \$1,426,000. 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 30,1998 was approximately \$7,300,000 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 \$6,131,000 for the 1997 period which also includes \$ 5.0 million of cash received in connection with the litigation settlement with Johnson & Johnson, Inc. The increase in net cash provided by operating activities from the 1997 period to the 1998 period was primarily due to the Company's increase in net income offset by a net increase in the accounts receivable.

Net cash used in investing activities decreased by \$95,000 from the 1997 period primarily as a result of a decrease in capital expenditures.

Net cash provided by financing activities decreased by \$362,000 from the 1997 period primarily as a result of the decrease in proceeds from the exercise of stock options.

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Results of Operations

Nine months ended April 30,1998 compared with nine months ended April 30, 1997

Revenues from operations for the period ended April 30, 1998 increased by \$5,716,000 compared to revenues from operations for the nine month period ended April 30, 1998. This increase was due to an increase of \$5,801,000 in revenue from the clinical reference laboratory operation offset by the decrease of \$85,000 in research products revenues resulting primarily from the Company's non-exclusive distribution agreements for the Company's products. The increase in revenues from the clinical reference laboratory operations resulted primarily from an increase in volume of higher priced screening tests.

Cost of sales increased by approximately \$526,000 as a result of a decrease of \$274,000 in the cost of sales of research products from the Company's distribution agreements activities offset by an increase in the cost of clinical laboratory services of \$800,000, due to the increased volume of esoteric tests.

Research and development expenses increased by approximately \$237,000 as a result of an increase in research programs and to a lesser extent the increase in the amortization of patent costs.

The provision for uncollectable accounts receivable increased by \$3,856,000 primarily due to the increased revenues at the clinical reference laboratory and that additional reserves were needed during the nine months ended April 30, 1998 primarily to cover lower collection rates under the Federal Medicare programs 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.

Selling expenses increased approximately by \$61,000, primarily due to an increase in the marketing programs at the clinical reference laboratory.

General and Administrative expenses decreased by approximately \$238,000 due to a decrease in legal fees.

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Results of Operations

Three months ended April 30,1998 compared with three months ended April 30, 1997

Revenues from operations for the period ended April 30,1998 increased by \$1,810,000 compared to revenues from operations for the three month period ended April 30, 1998. This increase was due to an increase of \$1,795,000 in revenue from the clinical reference laboratory operation and by an increase of \$15,000 in research products revenues resulting primarily from the Company's

non-exclusive distribution agreements for the Company's products. The increase in revenues from the clinical reference laboratory operations resulted primarily from an increase in the volume of higher priced screening tests.

Cost of sales increased by approximately \$297,000 as a result of a increase of \$76,000 in the cost of sales of research products from the Company's distribution agreements activities and by an increase in the cost of clinical laboratory services of \$221,000, due to the increased volume of esoteric tests.

Research and development expenses decreased by approximately \$28,000 as a result of an decrease in the amortization of patent costs.

The provision for uncollectible accounts receivable increased by \$1,439,000 primarily due to the increased revenues at the clinical reference laboratory and that additional reserves were needed during the three months ended April 30, 1998 primarily to cover lower collection rates under the Federal Medicare programs 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.

Selling expenses decreased approximately by \$26,000, primarily due to an decrease in the marketing programs at the clinical reference laboratory.

General and administrative expenses decreased by approximately \$211,000 due to a reduction in legal fees.

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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 9, 1998

by: /s/ Shahram K. Rabbani

Chief Operating Officer,
Secretary and Treasurer

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE QUALIFIED PERIOD ENDED APRIL 30, 1998 AND IS QUALIFIED BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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