UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

# FORM 10-K

Mark one

|X| ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (FEE REQUIRED)

For the fiscal year ended July 31, 1997

or

|_| TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

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 Boulevard, Farmingdale, New York | 11735 |
| (Address of principal executive offices) | (Zip Code) |

(516) 755-5500
(Registrant's telephone number, including area code)

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

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

Yes |X| No |_|

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 registrants 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. |X|

As of October 21, 1997, the Registrant had 23,335,825 shares of Common Stock outstanding.

The aggregate market value of the Common Stock held by nonaffiliates as of October 21, 1997 was approximately $369,063,497.

DOCUMENTS INCORPORATED BY REFERENCE

| | | |
|---|---|---|
| Part III - | Items 11, 12 and 13 | To be included in the Company's Proxy Statement to be filed with the Securities and Exchange Commission no later than November 28, 1997. |
| Part IV - | Certain exhibits listed in response to Item | Included in prior filings made by the Company under the Securities Act of |

PART I

Item 1. Business

Introduction

Enzo Biochem, Inc. (the "Company" or "Enzo") develops, manufactures and markets health care products based on molecular biology and genetic engineering techniques, and also provides diagnostic services to the medical community. Each of the three business activities of the Company is performed by one of the Company's three wholly-owned subsidiaries--Enzo Diagnostics, Inc., Enzo Therapeutics, Inc., and Enzo Clinical Labs, Inc. ("Enzo Diagnostics", "Enzo Therapeutics" and "Enzo Clinical Labs", respectively). These activities are: (1) development, manufacture and marketing of diagnostic and research products through Enzo Diagnostics, (2)therapeutic product research and development through Enzo Therapeutics, and (3)the operation of a clinical reference laboratory through Enzo Clinical Labs. For information relating to the Company's business segments, see Note 11 of the Notes to Consolidated Financial Statements.

For the fiscal year ended July 31, 1997 (fiscal 1997), approximately 38% of the Company's operating revenues was derived from product sales and approximately 62% was derived from clinical reference laboratory services. For the fiscal years ended July 31, 1996 and 1995 (fiscal 1996 and fiscal 1995, respectively), approximately 38% and 30%, respectively, of the Company's operating revenues were derived from product sales and approximately 62% and 70%, respectively, were derived from clinical reference laboratory services.

Product Development Activities

The Company's product development programs incorporate various scientific areas of expertise, including recombinant DNA, monoclonal antibody development, enzymology, microbiology, biochemistry, organic chemistry, and fermentation. The Company's activities in research and development are performed by the Company's professional and scientific staff. To a lesser extent, research and development is pursued in collaboration with outside consultants at research and academic institutions.

The primary focus of the Company's current research is the development of products based on two technology platforms-gene identification and gene regulation. The Company is funding its research programs through its operating cash flows and cash and cash equivalents. It also is seeking joint ventures and collaborative relationships.

Through Enzo Diagnostics, the Company has devoted a major portion of its research and development activities to the development of simple and reliable test formats and protocols for the commercialization of nucleic acid-based products for the diagnostic and medical research markets as well as other diagnostic products. An important system for Enzo is its non-radioactive BioProbe(R) nucleic acid probe system. The Company continued to introduce new products based on this technology into the research market during fiscal 1997.

The product development programs of the Company include developing BioProbe(R) nucleic acid probe products to detect sexually transmitted diseases, such as AIDS, herpes, chlamydia, gonorrhea, and other infectious diseases, such as tuberculosis, cytomegalovirus, hepatitis and Epstein-Barr virus (implicated in mononucleosis). The Company markets several product lines containing BioProbe(R) nucleic acid probe products.

The Company, through Enzo Therapeutics, is developing therapeutic applications of nucleic acids. In May 1987, the Company entered into an agreement with the Research Foundation of the State University of New York which grants the Company certain exclusive rights to a genetic engineering technology for generating antisense RNA repressors. As a result of the technology covered by such agreement, the Company has obtained three (3) patents. Although the Company has not derived revenues from any of the foregoing three antisense patents, the Company believes that this technology will be the basis for the Company to derive meaningful revenues in the future.



Whenever the Company complements its internal research and development activities with collaborative research arrangements with academic and private research institutions or consultants on specific projects, the Company typically supplies funds to cover salaries, materials, certain laboratory equipment and a portion of the overhead. In all such collaborative research arrangements, the Company reserves the patent and commercial rights to any product or process developed. The location of the Company in the greater New York area affords the Company access to and interaction with a large number of research institutions

and qualified scientists.

In the fiscal years ended July 31, 1997, 1996 and 1995, the Company incurred costs of approximately $3,562,000, $3,083,000 and $2,366,000, respectively, for research and development activities.

Clinical Reference Laboratory

The Company, through Enzo Clinical Labs, operates a clinical reference laboratory which offers full diagnostic services to the greater New York medical community. The services Enzo Clinical Labs provides include chemistry, blood tests, cytology studies, tissue pathology, hormone studies, and diagnostic procedures which seek to detect, among others, precancerous conditions, cancers in cervical specimens and sexually transmitted diseases. Enzo Clinical Labs provides these services primarily to physicians as well as to clinics, nursing homes and other clinical laboratories. Enzo Clinical Labs operates a regional clinical reference laboratory on Long Island and also operates fourteen satellite patient service centers in the greater New York area, including a "stat" laboratory in Manhattan. The patient service center collects the specimens as requested by the physician. The specimens are sent through the Company's in-house courier system to the Company's laboratory for testing. A "STAT" lab is a laboratory that has the ability to perform certain routine tests quickly and report results to the physician immediately.

Patient specimens are delivered to the Company accompanied by a test request form. These forms, which are completed by the physician, indicate the tests to be performed and provide the necessary billing information. Once this information is entered into the computer system, the tests are performed and the results are entered primarily through computer interface or manually. Most routine testing is completed by early the next morning, and test results are printed and prepared for distribution. Some physicians have local printer capability and have reports printed out directly in their offices. Physicians who request that they be called with a result are so notified in the morning.

The Company currently offers over 2,000 different clinical laboratory tests or procedures. Several hundred of these are frequently used in general patient care by physicians to establish or support a diagnosis, to monitor treatment or medication or to search for an otherwise undiagnosed condition. These routine procedures are most often used by practicing physicians in their outpatient office practices.

Approximately 93% and 86% at July 31, 1997 and 1996, respectively, of the Company's net accounts receivable relate to its clinical reference laboratory business which operates in the New York Metropolitan area. The Company believes that the concentration of credit risk with respect to accounts receivable are limited due to the diversity of the Company's client base. However, the Company provides services to certain patients covered by various third-party payors, including the Federal Medicare program. Revenue, net of contractual allowances, from direct billings under the Federal Medicare program during each of the fiscal years ended July 31, 1997, 1996 and 1995 approximated 12%, 14% and 12%, respectively of the Company's total revenue. For the year ended July 31, 1997, 1996 and 1995 no other payor accounted for more than 10% of Enzo Clinical Labs revenues.

In addition, the Company utilizes its clinical reference laboratory to evaluate and demonstrate the benefits of the Company's diagnostic products (see Note 11 of the Notes to Consolidated Financial Statements for segment information and operating revenues and profits).



Business Objectives

The current business objectives of the Company are (1) to develop, manufacture and market on a worldwide basis, medical research, diagnostic and therapeutic products based on the Company's technology platforms of gene identification and gene regulation, and (2) to perform diagnostic tests for the U.S. health care community. The Company's research and development efforts are directed to both short and long-term projects. Diagnostic products require less time to commercialize than therapeutic products because the requirements for attaining government clearance are less time consuming. Therapeutic products, once developed, require extensive clinical testing and compliance. This process can range from three to five years and, in some instances, longer.

At such time as the Company's initial self-funded research demonstrates technical feasibility and potential commercial importance, the Company will have the option to pursue the opportunity on its own or to associate with another entity for development and ultimate marketing of the product. Unless there is a business reason to license products or processes developed by the Company, the Company intends to retain ownership with respect to development and marketing of a product or process.

Marketing Strategy

Product Development Activities

Enzo's initial commercialization program for the BioProbe(R) nucleic acid probe systems included filing major U.S. and foreign patent applications, clinical evaluation, and Food and Drug Administration (FDA) submissions. The

Company through Enzo Diagnostics has obtained clearance by the FDA for the sale of a number of in-vitro diagnostic products. BioProbe(R) nucleic acid probe products are also sold to the research market, where FDA clearance is not required. The Company has been successful in obtaining FDA clearance for four totally Enzo-developed DNA probe products. The Company believes that significant delays will not be encountered with any future probe product submissions to the FDA since products based on the BioProbe(R) nucleic acid probe system have been FDA cleared. However, there can be no assurance that delays will not be incurred.

Through Enzo Diagnostics, the Company manufactures and markets its BioProbe(R) nucleic acid probe products for research applications. These BioProbe(R) research products include products which allow researchers to make their own non-radioactive DNA probes as well as complete DNA probe kits which contain all reagents necessary for detecting various disease pathogens in clinical samples.

Enzo Diagnostics markets a variety of IN-SITU hybridization kits. PathoGene(R) DNA probe kits detect specific pathogens including human papillomavirus (HPV), herpes simplex virus, cytomegalovirus, Epstein-Barr virus, adenovirus, hepatitis B virus and Chlamydia trachomatis. Its BioPap(R) DNA probe kits detect certain types of HPV in Pap smear samples. An enhanced detection procedure that will enable the pathologist to identify the presence of fewer virus particles by increasing the sensitivity of the assay was developed by the Company. These products compete directly with products labeled with various radioactive isotopes. In addition to the in situ hybridization kits, Enzo Diagnostics also markets kits based on its proprietary microplate hybridization format. Microplate Hybridization Assays have been developed for the detection of the AIDS-causing virus (HIV-1). Kits are also available to detect HIV-2, another strain of the AIDS virus, hepatitis virus, the bacteria causing tuberculosis(TB) and members of the Mycobaterium tuberculosis (MTB) complex.

Enzo's HIV test was one of the first commercial DNA probe tests for this pathogen in this format. Unlike many AIDS tests which detect antibodies for HIV, Enzo's HIV Microplate Hybridization Assay detects DNA unique to HIV. Since individuals can carry the HIV infection for up to 12 months before developing antibodies to it, a test directed at the virus can provide earlier detection. Because this product can also measure virus concentrations, it is easier for researchers to determine HIV levels in patients and look for relationships between these levels and other disease indicators such as antibody production or appearance of symptoms. This product is currently marketed to the research community. An enhanced version of the Microplate Hybridization Assay, has been developed to detect the hepatitis virus directly in serum and is aimed at the blood bank market.



In early stages of infection, the pathogen may be present in very small amounts and may be difficult to detect. Samples, however, can be treated in a way that produces copies of targeted DNA, if it is present. This amplification process is one possible approach to detect very low levels of infection. All of Enzo's Microplate Assays can be used to detect these pathogens in amplified as well as unamplified samples. In order to fully integrate its technology, Enzo has developed a new simplified amplification process for multicopy production of nucleic acid. A patent application was filed in January 1994 and this proprietary amplification process was incorporated into the microplate assay format, thus providing a totally integrated assay system. This approach is being developed for use with the hepatitis assay system and will form the basis for all Enzo's microplate assays.

In addition to nucleic acid-based products, the Company also produces and sells other types of research products, such as monoclonal antibodies. The products are marketed through direct sales, an extensive product catalog, advertising in scientific and trade journals and U.S. and foreign distributors. In fiscal 1993, Enzo Diagnostics began to expand its non-exclusive distribution arrangements for its proprietary products in both the U.S. and foreign markets with various companies having worldwide distribution and with companies having local foreign distribution. In fiscal 1994, the Company continued to expand these distribution arrangements and began a policy of using joint labels on all products marketed by its distributors. In April 1994, the Company signed a multi-year non-exclusive worldwide distribution and supply agreement with Boehringer Mannheim Biochemicals. Under the terms of this agreement, Boehringer Mannheim distributes to the global medical research market, a broad range of biochemical products and reagents manufactured and supplied by Enzo. The agreement includes products based on nonradioactive DNA probe technology and includes products that were developed and marketed by Boehringer Mannheim prior to the agreement, as well as products developed by the Company, all of which are covered by Enzo patents. The agreement took effect in April 1994 and extends for the life of the last patent to expire for products involved. In February 1995, a multi-year non-exclusive distribution agreement was signed with Amersham International which provides for Amersham to market a broad group of products developed and marketed by Amersham, as well as products developed by Enzo Diagnostics. All products are based on nonradioactive DNA labeling technologies covered by Enzo patents. A multi-year non-exclusive distribution agreement, also covering the Company's line of proprietary DNA labeling products and reagents was concluded in May 1995 with Dako A/S, a privately-held international company with headquarters in Copenhagen, Denmark and subsidiaries worldwide, including the Dako Corporation based in Carpinteria, California. In September 1995 a similar multi-year non-exclusive distribution agreement was concluded with VWR

Scientific Products, a leader in the medical research market that was formerly an operating unit of Baxter Health Care. In fiscal 1997 a previous distribution agreement with Sigma Chemical Co. was expanded and an additional multi-year nonexclusive distributing agreement was concluded with Wako Clinical Co., a leader in the medical research market in Japan. The Company continues to have discussions with other potential distributors.

At July 31, 1997 and 1996, 5% and 12% of the Company's net accounts receivable relate to amounts due from Boehringer Mannheim and Amersham, collectively. Operating revenues from Boehringer Mannheim represented approximately 25% of consolidated operating revenues in each of fiscal 1997 and 1996.

The Company had previously entered into distribution agreements with certain Johnson & Johnson, Inc. (J&J) subsidiaries in Europe, one of which continues to be in effect. Ortho Diagnostics continues to be the Company's distributor for marketing, distribution and sale in Italy for the Company's BioProbe(R) and other products.

The Company, because of its various proprietary diagnostic technologies, may enter into joint ventures with other biotechnology companies or other health care companies with marketing resources and/or complementary technology or products to more fully take advantage of market opportunities.

Clinical Reference Laboratory

Enzo Clinical Labs is a major regional clinical reference laboratory offering full service diagnostic testing in the greater New York marketplace. Its services are marketed by a professional sales force who serve client physicians, clinics, nursing homes and other clinical laboratories in the area. A key marketing strategy has been the strategic placement of a network of patient service centers, where patients can go to have samples taken upon the



request of their physicians. The Company operates a stat laboratory at its Manhattan patient service center, affording its client physicians rapid test turnaround. The diagnostic service business provides Enzo Diagnostics with a practical application of its products, making it possible to more appropriately tailor diagnostic products to the end-user. The Company's BioProbe(R) nucleic acid probe products offer Enzo Clinical Labs a marketing tool by establishing it among the first to offer nucleic acid based tests.

The Company offers its services through direct sales representatives. Sales representatives market the laboratory services primarily to physicians, clinics, hospitals and other laboratories. The Company's sales representatives are compensated through a combination of salaries, commissions and bonuses, at levels commensurate with each individual's qualifications and responsibilities. Commissions are primarily based upon the individual's productivity in generating new business for the Company.

The Company also employs customer service representatives ("CSR's") to interact with clients on an ongoing basis. CSR's monitor the status of the services being provided to clients, act as problem solvers, provide information on new testing developments and serve as the client's regular point of contact with the Company. CSR's are compensated with a salary commensurate with each individual's qualifications and responsibilities.

Health care reform, the shift to managed care and increased competition by hospitals all had an impact on the clinical laboratory testing industry. The Company expects these trends to continue and plans to respond by shifting additional sales staff to support the managed care market segment.

Technology and Product Development

The major focus of the Company's product development program has been toward the commercialization of nucleic acid probe-based in vitro diagnostics for specific pathogens. Initially, nucleic acid probes were radioactive and required complex protocols to perform. To develop them into useful commercial products required making such products easy-to-use, easy to interpret, readily automatable and sensitive enough to detect the presence of low levels of pathogen. As a result of this product development effort, the Company has developed a broad technology base for the labeling, detection, sensitivity enhancement, signal amplification and testing formats of nucleic acid probe products. Patent protection has been aggressively pursued for this technology base. At the end of fiscal 1997 some 171 patents issued worldwide had been granted to or licensed by the Company in this area of technology. In fiscal 1996 and continuing during fiscal 1997, the Company began to receive revenues from the distribution agreements related to these patents and believes that the patents have positioned the Company to derive considerably more revenues in the future as the markets for these products continue to develop. These patents cover a variety of BioProbe(R) nucleic acid probe products, chelation technology for easy radioactive labeling, signal amplification methods, sensitivity enhancements, and automatable formats.

BioProbe(R) Nucleic Acid Probe Labeling and Signal Generating Systems

Nucleic acid probes used traditionally in biomedical research and recombinant DNA technology have been radioactively labeled with isotopes of

hydrogen, phosphorous, carbon or iodine. Radioactive materials have historically provided researchers with the most sensitive and, in many cases, the only means to perform many important experimental or analytical tests. However, limitations and drawbacks are associated with the use of radioactive compounds. For example, radioactive materials are often very unstable and have a limited shelf-life. Because of the potentially hazardous nature of radioactive materials, their use must be licensed and elaborate safety precautions must be maintained during the preparation, utilization and disposal of radioisotopes. In addition, radioactive nucleotides are extremely expensive and their instability increases usage cost.

To overcome the limitations of radioactively labeled probes, the Company starting with basic technology licensed from Yale University ("Yale"), has developed a proprietary technology which allows DNA probes to be used effectively without the use of radioactivity. This development permits the application of genetic analysis in a clinical setting without the shelf-life, licensing and disposal problems associated with radioactively labeled probes.



In December 1987, a primary patent for the technology that is essential to the development of nonradioactive DNA probe diagnostics was issued to Yale. In July 1994 and in September 1995 additional patents, broadening the coverage of the primary patent were also issued to Yale. The Company has an exclusive license for both patents from Yale for the life of the patents. Pursuant to such license agreement, the Company is obligated to pay Yale royalties equal to a percentage of sales. The Company is obligated to pay Yale an annual minimum royalty fee of $200,000 which shall continue through the end of the term of the exclusive license.

The near term application of the BioProbe(R) nucleic acid probe system in the human health care area is in bacterial and viral diagnostics. Nucleic acid probe diagnostics can be developed for any organism. Advantages of the nucleic acid probes for the direct detection of pathogens in human diagnostics are speed(less than an hour for test results as compared to days), greater specificity and the capability of diagnosing a disease in an early or latent stage of development.

Radioactive Labeling Systems

The Company has developed a new method for labeling molecules with radioisotopes that is safer, faster, simpler and more cost effective than traditional methods of radiolabeling. This method is to be used in those applications requiring more sensitivity than non-radioactive materials permit. This method permits radiolabeling of a wide range of molecules for use in a variety of applications, including in vivo imaging, therapeutics, and clinical assays. With this technology stable products are radiolabeled just prior to use, thereby overcoming inherent limitations of classical radiolabeling technologies. The Company's method for radiolabeling maximizes the sensitivity while minimizing radiation exposure and radioactive waste.

In November 1987, the Company received two U.S. patents protecting aspects of its versatile technology for linking radioactive ions or biotin to various biologically active molecules for diagnostic and therapeutic uses. Since that time additional patents covering aspects of this technology have been issued to the Company.

Automatable Test Formats

In February 1991, the Company was granted a U.S. patent for its nucleic acid probe testing technology that generates a signal in solution. This technology allows the development of nucleic acid probe-based tests that can be readily automated and measured or identified instrumentally. Using this technology, probes can be detected with either chemiluminescent, fluorescent or colorimetric methods. The Company is developing test kits employing this technology and launched two of them to the research market during fiscal 1992. These included a test for the HIV virus which causes AIDS, and a test for the bacteria causing tuberculosis. In fiscal 1993 tests for other viruses, including HIV-2, and hepatitis, were introduced to researchers. In fiscal 1994 a more sensitive assay that can detect hepatitis B virus directly in serum and geared to the blood banking market was developed and in fiscal 1995 the Company's amplification technology was integrated with the enhanced hepatitis assay. The Company is developing an instrument-based automatable system employing this and other proprietary Enzo technologies.

Rapid, On-Site Diagnostics

The Company also has developed a diagnostic test technology which makes possible accurate, rapid and one-step tests. The ease of performing and interpreting tests using this proprietary gel technology suits them well for at-home and doctor office use. Using the gel technology, the Company has developed a fecal occult blood test used to screen for colorectal cancer. The Company has received FDA clearance to market this occult blood test to physician offices and plans to develop other tests utilizing the gel technology for aiding consumer health maintenance.

Monoclonal Antibodies

The Company markets a panel of monoclonal antibodies that are being used in pathology laboratories to help identify the original source of a

metastatic cancer and the type of cancer in undifferentiated cancer cells. The ability



to identify the origin and type of cancer aids in the diagnosis of cancer and assists physicians in prescribing therapy. In order to offer a full line of state-of-the-art research products, the Company is actively engaged in expanding its line of monoclonal antibodies.

Therapeutic Technology and Product Development

Through Enzo Therapeutics, the Company is applying its technological capabilities for manipulating genetic material towards the development of therapeutic treatments for a variety of cancers and infections. Enzo is exploring applications of antisense nucleic acids employing various proprietary technologies . During fiscal 1997, the Company improved a newgene delivery system that is designed to provide universal and efficient delivery of any gene to any cell. The GenSert(TM) Universal Delivery System is being combined with Enzo's antisense technology in its therapeutic development program. Also, the Company has developed techniques for stably attaching drugs and radioisotopes to proteins and DNA. The Company is working towards, inter alia, the development of products relating to HIV, certain cancers and hepatitis, however, no products have been finalized.

In May 1987, Enzo entered into an agreement with The Research Foundation of the State of New York (SUNY) granting the Company certain exclusive rights to a genetic antisense technology. Because this antisense technology offers a way to control the expression of any gene in any organism, the Company believes it has broad therapeutic and agricultural applications. For example, this technology should make possible a new approach to controlling viral diseases and cancers in humans. It may also be used to control viral diseases in animals and agriculturally important plants and may lead to a variety of other desirable traits in agricultural crops and animals. This technology has been proven to be effective in a variety of organisms, including plants, animals and bacteria. For example, researchers have developed transgenic mice that are resistant to murine leukemia virus and tomato plants which produce tomatoes that do not spoil upon ripening. However, to date the Company has not developed any commercial products utilizing this technology. Because this technology has such broad application, the Company is exploring collaborative business relationships of various types with other companies to develop the applications which Enzo is not interested in retaining for its own activities. Three U.S. patent applications were subsequently issued as patents by the U.S. Patent and Trademark Office. The first patent issued in March 1993; a second patent issued in May 1993; the third patent issued in December 1993.

In January 1995, the Company signed a collaborative research agreement with Cornell University on behalf of its Medical College, aimed at evaluating the Company's genetic antisense technology for use in managing the treatment of HIV, the AIDS-causing virus. Early research results indicated, that this technology could be applied to inhibiting the function of genes necessary for the HIV virus to grow within the cell. In preclinical studies currently underway, Enzo scientists and collaborators were able to demonstrate stable resistance to HIV in human immune cells in culture that were treated with the Company's HIV product. These results were published in the Journal of Virology, in May 1997, a peer-reviewed publication of the American Society for Microbiology. The ability of Enzo's genetic antisense construct to enable immune cells to withstand the effects of infection by HIV is an extremely important step in the development of an effective clinical product. A key element in the success was the development by Enzo scientists of the Stealth Vector TM antisense construct designated to localize in the cell nucleus, where it could be most effective. The Stealth Vector TM was also designed to be "invisible" to the human immune system, so as not to trigger an immune response. The Company is now preparing for human clinical trials of its Stealth Vector TM antisense construct for HIV therapy and Hepatitis.

In February 1996, the Company initiated a joint research program with scientists at the Albert Einstein College of Medicine in New York City, geared towards the development of a specific therapeutic product for the treatment of hepatitis B based on the Company's novel gene regulation and delivery technologies.

Manufacturing

The Company's BioProbe(R) nucleic acid probe products contained in its PathoGene(R) and BioPap(TM) product lines are manufactured by using recombinant DNA techniques and traditional chemical synthesis methods. The DNA sequence which codes for a specific infectious agent or particular trait is isolated by cloning. The sequence is then introduced into a plasmid, commonly one that grows in E.coli bacteria, and the bacteria



serves as a reproduction vehicle with the application of standard fermentation procedures. The reproduced quantities of the specific DNA sequences are purified from the bacteria and then labeled so they can be detected. The detection system usually employs a non-radioactive visualization molecule, such as a color-changing enzyme-substrate or a fluorescent substance. The production of DNA probes does not require large manufacturing facilities because the yields from the bacteria are high and only small quantities of nucleic acids are

required.

Monoclonal antibodies specific to certain substances are produced by fusing a type of mouse cancer cell with certain antibody-producing white blood cells from the spleens of mice that had been immunized with the targeted substance. The hybrid cells which make antibodies with the desired characteristics are then cultured to produce large quantities of that one discrete type of antibody. Monoclonal antibody production does not require extensive facilities.

The Company's manufacturing operation uses exempt quantities of tritium (3H) in its research and development activities and manufacturing operations. For the fiscal year ended July 31, 1997, the Company has not had an accumulation of tritium to be disposed.

Information Systems

The Company believes that with respect to its clinical reference laboratory business, the health care provider's need for data will continue to place high demands on its information systems staff. The Company believes that the efficient handling of information involving clients, patients, payors and other parties will be a critical factor in the Company's future success.

Quality Assurance

The Company considers the quality of its clinical reference laboratory tests to be of critical importance, and it has established a comprehensive quality assurance program designed to help assure accurate and timely test results. In addition to the compulsory external inspections and proficiency programs demanded by HCFA and other regulatory agencies, Enzo Clinical Labs has in place systems to emphasize and monitor quality assurance. The Company's laboratory is subject to on-site evaluation, the College of American Pathologies ("CAP") proficiency testing program, New York State survey and the Company's own internal quality control programs.

External Proficiency/Accreditations

Enzo Clinical Labs participates in numerous externally-administered, blind quality surveillance programs, including the CAP program. The blind programs supplement all other quality assurance procedures and give Enzo Clinical Labs' management the opportunity to review its technical and service performance from the client's perspective.

The CAP accreditation program involves both on-site inspections of the laboratory and participation in the CAP's proficiency testing program for all categories in which the laboratory is accredited by the CAP. The CAP is an independent non-governmental organization of board certified pathologists which offers an accreditation program to which laboratories can voluntarily subscribe. A laboratory's receipt of accreditation by the CAP satisfies the Medicare requirement for participation in proficiency testing programs administered by an external source. The Company's laboratory is accredited by the CAP.

Regulation and Reimbursement

The Company's present and proposed activities are regulated by the federal government to a significant extent. This regulation applies to research, development, manufacturing, and also to the marketing of products, for diagnostic or therapeutic applications.



Regulation of Pharmaceutical Products

New drugs are subject to regulation under the Federal Food, Drug, and Cosmetic Act, and biological products, in addition to being subject to certain provisions of that Act, are regulated under the Public Health Service Act. The Company believes that products developed by it or its collaborators will be regulated either as biological products or as new drugs. Both statutes and the regulations promulgated thereunder govern, among other things, the testing, manufacturing, safety, efficacy, labeling, storage, record keeping, advertising and other promotional practices involving biologics or new drugs, as the case may be. FDA approval or other clearances must be obtained before clinical testing, and before manufacturing and marketing, of biologics and drugs. At the FDA, the Center for Biological Evaluation and Research ("CBER") is responsible for the regulation of new biologics and the Center for Drug Evaluation and Research ("CDER") is responsible for the regulation of new drugs.

Any gene therapy products (which is one of the areas in which the Company is develop products) developed by the Company will require regulatory clearances prior to clinical trials and additional regulatory clearances prior to commercialization. New human gene therapy products as are new drugs are subject to regulation by the FDA and comparable agencies in other countries. The precise regulatory requirements with which the Company will have to comply are uncertain at this time due to the novelty of the human gene therapies currently under development. Currently, each protocol is reviewed by the FDA on a case-by-case basis. The FDA has published "Points to Consider" guidance documents with respect to the development of gene therapy protocols.

Obtaining FDA approval has historically been a costly and time consuming process. Generally, in order to gain FDA pre-market approval, a

developer first must conduct pre-clinical studies in the laboratory and, if appropriate, in animal model systems, to gain preliminary information on safety and efficiency. The results of these studies are submitted as a part of an investigational new drug ("IND") application, which the FDA must review before human clinical trials of an investigational drug can start. The IND application includes a detailed description of the clinical investigations to be undertaken.

In order to commercialize any products, the Company (sponsor) and files an IND and will be responsible for initiating and overseeing the clinical studies to demonstrate the safety and efficacy that are necessary to obtain FDA approval of any such products. For Company or sponsored INDs, the Company as sponsor its will be required to select qualified clinical sites (usually physicians within medical institutions) to supervise the administration of the products, and ensure that the investigations are conducted and monitored in accordance with FDA regulations and the general investigational plan and protocols contained in the IND. Clinical trials are normally done in three phases, although the phases may overlap. Phase I trials are concerned primarily with the safety and preliminary effectiveness of the drug, involve fewer than 100 subjects. Phase II trials normally involve a few hundred patients and are designed primarily to demonstrate effectiveness in treating or diagnosing the disease or condition for which the drug is intended, although short-term side effects and risks in people whose health is impaired may also be examined. Phase III trials are expanded clinical trials with larger numbers of patients which are intended to gather the additional information for proper dosage and labeling of the drug. Clinical trials generally take two to five years, but the period may vary. Recent regulations promulgated by the FDA may shorten the time periods and reduce the number of patients required to be tested in the case of certain life-threatening diseases which lack available alternative treatments.

The FDA receives reports on the progress of each phase of clinical testing, and it may require the modification, suspension, or termination of clinical trials if an unwarranted risk is presented to patients. Human gene therapy products (which is one of the areas in which the Company may develop products)are a new category of therapeutics, and there can be no assurance as to the length of the clinical trial period, the number of patients the FDA will require to be enrolled in the clinical trials in order to establish the safety, efficacy and potency of human gene therapy products, or that the clinical data generated in these studies will be acceptable to the FDA to support marketing approval.



After completion of clinical trials of a new product, FDA marketing approval must be obtained. If the product is regulated as a new biologic, CBER will require the submission and approval of both a Product License Application ("PLA") and an Establishment License Application before commercial marketing of the biologic. If the product is classified as a new drug, the Company must file a New Drug Application ("NDA") with CDER and receive approval before commercial marketing of the drug. The NDA or PLA must include results of product development, pre-clinical studies and clinical trials. The testing and approval processes require substantial time and effort and there can be no assurance that any approval will be granted on a timely basis, if at all. NDAs and PLAs submitted to the FDA can take, on average, two to five years to receive approval. If questions arise during the FDA review process, approval can take more than five years. Notwithstanding the submission of relevant data, the FDA may ultimately decide that the NDA or PLA does not satisfy its regulatory criteria for approval and require additional clinical studies. Even after FDA regulatory clearances are obtained, a marketed product is subject to continual review, and later discovery of previously unknown problems or failure to comply with the applicable regulatory requirements may result in restrictions on the marketing of a product or withdrawal of the product from the market as well as possible civil or criminal sanctions. In addition, the FDA may condition marketing approval on the conduct of specific post-marketing studies to further evaluate safety and effectiveness.

If a developer obtains designations by the FDA of a biologic or drug as an "orphan" drug for a particular use, the developer may request grants from the federal government to defray the costs of qualified testing expenses in connection with the development of such drug. Orphan drug designation is given to drugs for rare diseases, including many genetic diseases. The first applicant who has obtained designation of a drug as an orphan drug and who obtains approval of a marketing application for such drug is entitled to marketing exclusivity for a period of seven years. This means that no other company can market a molecularly identical orphan drug for the use approved by the FDA for seven years after the approval.

Regulation of Diagnostics

The diagnostic products developed by the Company or its collaborators are likely to be regulated by the FDA as medical devices. The nature of the FDA requirements applicable to such diagnostic devices depends on their classification by the FDA. A diagnostic device developed by the Company or its collaborators would be automatically classified as a Class III device, requiring pre-market approval, unless the sponsor could demonstrate to the FDA, in the required pre-market notification procedure, that the device was substantially equivalent to an existing device that has been classified in Class I or Class II or to a pre-1976 device that has not yet been classified. If the Company or its collaborators were unable to demonstrate such substantial equivalence, it would be required to undertake the time consuming process, comparable to that for new

drugs, of conducting pre-clinical studies, obtaining an investigational device exemption to conduct clinical tests, filing a pre-market approval application, and obtaining FDA clearance.

If the Company or its collaborators can demonstrate substantial equivalence to a Class I product, the "general controls" of the Food, Drug, and Cosmetic Act - chiefly adulteration, misbranding, and good manufacturing practice requirements - will apply. If substantial equivalence to a Class II device can be shown, the general controls plus "special controls" - such as performance standards, guidelines for safety and effectiveness, and postmarket surveillance - will apply. While demonstrating substantial equivalence to a Class I or Class II product is not as costly or time-consuming as the pre-market approval process for Class III devices, it also involves conducting clinical tests to demonstrate, equivalence, or that any differences between the new device and devices already on the market do not affect safety or effectiveness.

Other

In addition to the foregoing, the Company's business is and will be subject to regulation under various state and federal environmental laws, including the Occupational Safety and Health Act, the Recourse Conservation and Recovery Act and the Toxic Substances Control Act. These and other laws govern the Company's use, handling and disposal of various biological, chemical and radioactive substances used in and wastes generated by its operations. The Company believes that it is in material compliance with applicable environmental laws and that its continual



compliance therewith will not have a material adverse effect on its business. The Company cannot predict, however, whether new regulatory restrictions on the production, handling and marketing of biotechnology products will be imposed by state or federal regulators and agencies.

The Company has in-house personnel to expedite the preparation and filing of documentation necessary for FDA clearances and approvals, patent issuance's and licensing agreements. The Company has received clearance from the FDA to market five of its diagnostic products. The Company also has several products in various stages of clinical trial evaluation which, if successful, are expected to be carried thru the FDA process.

Clinical Laboratory Activities

The clinical laboratory industry is also subject to significant governmental regulation at the Federal, state and local levels. Under the Clinical Laboratory Improvement Act of 1967 and the Clinical Laboratory Improvement Amendments to 1988 (collectively, as amended, "CLIA"), virtually all clinical laboratories, including the Company's, must be certified by the Federal government. Many clinical laboratories also must meet governmental standards, undergo proficiency testing and are subject to inspection. Certificates or licenses are also required by various state and local laws.

The health care industry is undergoing significant change as third-party payors, such as Medicare (which principally serves patients 65 and older) and Medicaid (which principally serves indigent patients) and insurers, increase their efforts to control the cost, utilization and delivery of health care services. In an effort to address the problem of increasing health care costs, legislation has been proposed or enacted at both the Federal and state levels to regulate health care delivery in general and clinical laboratories in particular. Some of the proposals include managed competition, global budgeting and price controls. Although the Clinton Administration's health care reform proposal, initially advanced in 1994, was not enacted, such proposal or other proposals may be considered in the future. 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. 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.

In 1992, the U.S. Department of Health and Human Services ("HHS") published regulations implementing CLIA. The quality standards and enforcement procedure regulations became effective in 1992, although certain personnel, quality control and proficiency testing requirements are currently being phased in by HHS. The quality standards regulations divide all tests into three categories (waivered, moderate complexity and high complexity) and establish varying requirements depending upon the complexity of the test performed. A laboratory that performs high complexity tests must meet more stringent requirements than a laboratory that performs only moderate complexity tests, while those that perform only one or more of either routine "waivered" tests may apply for a waiver from most requirements of CLIA. The Company's facility is certified by CLIA to perform high complexity testing. Generally, the HHS regulations require, for laboratories that perform high complexity or moderate complexity tests, the implementation of systems that ensure the accurate performance and reporting of test results, establishment of quality control systems, proficiency testing by approved agencies and biennial inspections.

The sanction for failure to comply with these regulations may be suspension, revocation or limitation of a laboratory's CLIA certificate

necessary to conduct business, significant fines and criminal penalties. The loss of a license, imposition of a fine or future changes in such Federal, state and local laws and regulations (or in the interpretation of current laws and regulations) could have a material adverse effect on the Company.

The Company is also subject to state regulation. CLIA provides that a state may adopt more stringent regulations than Federal law. The State of New York's clinical laboratory regulations contain provisions that are more stringent than Federal law. The Company's laboratory has continuing programs to ensure that their operations meet all applicable regulatory requirements.



Containment of health care costs, including reimbursement for clinical laboratory services, has been a focus of ongoing governmental activity. In 1984, Congress established a Medicare fee schedule for clinical laboratory services performed for patients covered under Part B of the Medicare program. Subsequently, Congress imposed a national ceiling on the amount that can be paid under the fee schedule. Laboratories must accept the scheduled amount as payment in full for most tests performed on behalf of Medicare beneficiaries and must bill the program directly. In fiscal 1997 and 1996, the Company derived approximately 12% and 14%, respectively of its net sales from tests performed for beneficiaries of Medicare and Medicaid programs. In addition, the Company's other business depends significantly on continued participation on these programs because clients often want a single laboratory to perform all of their testing services. Since 1984, Congress has periodically reduced the ceilings on Medicare reimbursement to clinical laboratories from previously authorized levels. Because a significant portion of the Company's costs are relatively fixed, these Medicare reimbursement reductions have a direct adverse effect on the Company's net earnings and cash flows. The Company cannot predict if additional Medicare reductions will be implemented.

On January 1, 1993, numerous changes in the Physicians' Current Procedural Terminology ("CPT") were published. The CPT is a coding system that is published by the American Medical Association. It lists descriptive terms and identifying codes for reporting medical and medically related services. The Medicare and Medicaid programs require suppliers, including laboratories, to use the CPT codes when they bill the programs for services performed. HCFA implemented these CPT changes for Medicare and Medicaid on August 1, 1993. The CPT changes have altered the way the Company bills Medicare and Medicaid for some of its services, thereby reducing the reimbursement the Company receives from those programs for some of its services. In March 1996, the HCFA implemented changes in the policies used to administer Medicare payments to clinical laboratories for the most frequently performed automated blood chemistry profiles. Among other things, the changes established a consistent standard nationwide for the content of the automated chemistry profiles. Another change incorporated in the HCFA proposal requires laboratories performing certain automated blood chemistry profiles to obtain and provide documentation of the medical necessity of tests included in the profiles for each Medicare beneficiary. Reimbursements have been reduced as a result of this change.

Future changes in Federal, state and local regulations (or in the interpretation of current regulations) affecting governmental reimbursement for clinical laboratory testing could have a material adverse effect on the Company. The Company is unable to predict, however, whether and what type of legislation will be enacted into law.Fraud and Abuse Regulations. The Medicare and Medicaid anti-kickback laws prohibit intentionally paying anything of value to influence the referral of Medicare and Medicaid business.

Infectious Wastes and Radioactive Materials.

The Company is subject to licensing and regulation under Federal, state and local laws relating to the handling and disposal of medical specimens, infectious and hazardous waste and radioactive materials as well as to the safety and health of laboratory employees. All Company laboratories are operated in accordance with applicable Federal and state laws and regulations relating to biohazard disposal of all laboratory specimens and the Company utilizes outside vendors for disposal of such specimens. Although the Company believes that it is currently in compliance in all material respects with such Federal, state and local laws, failure to comply could subject the Company to denial of the right to conduct business, fines, criminal penalties and/or other enforcement actions.

Occupational Safety.

In addition to its comprehensive regulation of safety in the workplace, the Federal Occupational Safety and Health Administration("OSHA") has established extensive requirements relating to workplace safety for health care employers, including clinical laboratories, whose workers may be exposed to blood-borne pathogens such as HIV and the hepatitis B virus. These regulations, among other things, require work practice controls, protective clothing and equipment, training, medical follow-up, vaccinations and other measures designed to minimize exposure to, and transmission of, blood-borne pathogens. The use of controlled substances in testing for drugs of abuse is regulated by the Federal Drug Enforcement Administration



Proprietary Technology - Patents

As novel techniques, processes, products or microorganisms are developed during the course of its research and development necessary, foreign patents. At the end of fiscal 1997 the Company owned or licensed 36 U.S. and some 148 foreign patents and had filed approximately 199 U.S. and foreign patent applications covering products, methods and procedures resulting from the Company's research projects. Patents relating to the BioProbe(R) nucleic acid probe system have issued in the U.S. and Europe. Management believes that additional patents will issue shortly and over the next several years with respect to the Company's pending applications. There can be no assurance, however, that patents will be issued on pending applications or that any issued patents will have commercial benefit. The Company does not intend to rely on patent protection as the sole basis for protecting its proprietary technology. It also relies on its trade secrets and continuing technological innovation. All employees involved in the clinical reference laboratory division and the manufacturing operations sign a confidentiality agreement prohibiting the employee from disclosing any confidential information about the Company, including the Company's technology or trade secrets.

In some instances, the Company may enter into royalty agreements with collaborating research parties in consideration for the commercial use by the Company of the developments of their joint research. In other instances a patent may be obtained by the collaborating party with the Company receiving a license to use the patented subject matter. In such cases, the Company will seek to secure exclusive licenses.

In other instances, the Company may have an obligation to pay royalties to, or reach a royalty arrangement with, a third party in consideration of the Company's use of developments of such third party. The Company has an exclusive licensing agreement with Yale for the technology used in the BioProbe(R) nucleic acid probe products. The agreement covers licensed patents owned by Yale and licensed to the Company for the life of the patents which expire not earlier than 2004. See "Business Technology and Product Development - BioProbe(R) Nucleic Acid Probe Labeling and Signal Generating System."

In fiscal 1987, the Company entered into an agreement with The Research Foundation of the State University of New York giving the Company exclusive rights to a genetic engineering technology using antisense nucleic acid control methodologies. This technology is covered by three U.S. patents applications subsequently issued as patents by the U.S. Patent and Trademark Office. The first patent issued in March 1993; a second patent issued in May 1993; the third patent issued in December 1993. (See "Therapeutic Technology and Product Development" section). The term of the license agreement extends through the life of such patents as may issue therefrom. See "Business Technology and Patent Development - Therapeutic Technology and Product Development."

Human Resources

As of July 31, 1997, the Company employed 169 full-time and 41 part-time employees. Of the full-time employees, 28 were engaged in research, development, manufacturing and marketing of research products and 141 at the clinical reference laboratories. The scientific staff of the Company possesses a wide range of experience and expertise in the areas of recombinant DNA, nucleic acid chemistry, molecular biology and immunology. The Company believes that relations with its employees are good.

Competition

The Company's activities compete with pharmaceutical, chemical, energy, and food companies which are diversifying into biotechnology, and with specialized biotechnology firms in the United States and elsewhere. Competition from existing companies and from newly formed private enterprises is expected to increase.

Most of the Company's competitors in the biotechnology industry are performing research in many of the same areas as the Company. Many of these competitors are larger and have greater financial and other resources than the Company. The primary competitive factors in the biotechnology field are the ability to create and maintain



scientifically advanced technology during a period of rapid technological development, to attract and retain a breadth and depth of human resources, to develop proprietary products or processes and to have available adequate financial resources for bridging the often substantial time lag between technical concept and commercial implementation.

The Company's clinical reference laboratories activity, which is conducted in the New York metropolitan area, competes with numerous national and local entities, some of which are larger and have greater financial resources than the Company. Enzo Clinical Labs competes primarily on the basis of the quality and specialized nature of its testing, reporting and information services, its reputation in the medical community, the pricing of its services, its reliability and speed in performing diagnostic tests, and its ability to employ qualified laboratory personnel. The Company also believes that its ability to compete also depends on its ability to make investments in equipment and management information systems.

CAUTIONARY STATEMENT FOR PURPOSES OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

The Private Securities Litigation Reform Act of 1995 provides a new "safe harbor" for forward-looking statements to encourage companies to provide prospective information about their companies without fear of litigation so long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those projected in the statement. The Company desires to take advantage of the new "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 and is including this section herein in order to do so. Accordingly, the Company hereby identifies the following important factors that could cause the Company's actual financial results to differ materially from those projected, forecast, estimated, or budgeted by the Company in forward-looking statements.

(a) Heightened competition, including the intensification of price competition.

(b) Impact of changes in payor mix, including the shift from traditional, fee-for-service medicine to managed-cost health care.

(c) Adverse actions by governmental or other third-party payors, including unilateral reduction of fee schedules payable to the Company.

(d) The impact upon the Company's collection rates or general or administrative expenses resulting from compliance with Medicare administrative policies including specifically the HCFA's recent requirement that laboratories performing certain automated blood chemistry profiles to obtain and provide documentation of the medical necessity of tests included in the profiles for each medicare beneficiary.

(e) Failure to obtain new customers, retain existing customers or reduction in tests ordered or specimens submitted by existing customers.

(f) Adverse results in significant litigation matters.

(g) Denial of certification or licensure of any of the Company's clinical laboratories under CLIA, by Medicare and Medicaid programs or other Federal, state or local agencies.

(h) Adverse publicity and news coverage about the Company or the clinical laboratory industry.

(i) Inability to carry out marketing and sales plans.

(j) Loss or retirements of key executives.



(k) Impact of potential patent infringement by others or the Company.

(l) Inability to obtain patent protection or secure and maintain proprietary positions on its technology.

Item 2. Properties

The following are the principal facilities of the Company:

<TABLE>
<CAPTION>

| LOCATION | PRINCIPAL OPERATIONS | APPROXIMATE FLOOR AREA (SQ. FT.) | APPROXIMATE ANNUAL BASE RENT | APPROXIMATE EXPIRATION DATE |
|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> |
| 60 Executive Blvd. Farmingdale, NY | Corporate headquarters, clinical reference and development facilities (See note 6 of Notes to Consolidated Financial Statements) | 40,000 | $ 777,000 | November 2004 |
| 527 Madison Ave. New York, NY | Executive office | 6,400 | $ 163,000 | December 1998 |

</TABLE>

Management believes that the current facilities will be adequate for current and foreseeable future operating needs.

Item 3. Legal Proceedings

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'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 of invalidy 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, as a whole not infringed, and finding the claims at issue invalid for lack of enablement. Calgene's 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. Enzo intends to appeal from any adverse judgment. 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.



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.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were brought to a vote of the Company's stockholders in the fiscal quarter ended July 31, 1997.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

The common stock of the Company is traded on the American Stock Exchange (Symbol:ENZ). The following table sets forth the high and low price of the Company's Common Stock for the periods indicated as reported on the American Stock Exchange.

| | High | Low |
|---|---|---|
| 1996 Fiscal Year (August 1, 1995 to July 31, 1996): | | |
| 1st Quarter | $ 23 | $ 14 5/8 |
| 2nd Quarter | $ 24 1/2 | $ 15 3/8 |
| 3rd Quarter | $ 20 3/8 | $ 15 1/8 |
| 4th Quarter | $ 21 | $ 13 1/2 |
| 1997 Fiscal Year (August 1, 1996 to July 31, 1997): | | |
| 1st Quarter | $ 19 1/8 | $ 13 1/2 |
| 2nd Quarter | $ 21 | $ 15 1/2 |
| 3rd Quarter | $ 17 3/4 | $ 12 1/4 |
| 4th Quarter | $ 16 3/8 | $ 13 7/8 |

On October 21, 1997, the last sale price of the Common Stock of the Company as reported on the American Stock Exchange was $ 19 7/8.

The Company has not paid a cash dividend on its Common Stock and intends to continue to follow a policy of retaining future earnings to finance its operations. Accordingly, the Company does not anticipate the payment of cash dividends to holders of Common Stock in the foreseeable future.

On June 5, 1995, the Company declared a 5% stock dividend paid July 31, 1995 to shareholders of record as of July 3, 1995. On September 13, 1996, the Company declared another 5% stock dividend payable on October 29, 1996 to shareholders of record on October 8, 1996.



Item 6.

<TABLE>
<CAPTION>

Selected Financial Data
(In thousands, except per share data)
FOR THE YEARS ENDED JULY 31,

| | 1997 | 1996 | 1995 | 1994 | 1993 |
|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> |
| Operating revenues | $ 34,939 | $ 34,490 | $31,701 | $ 22,799 | $ 20,025 |
| Litigation settlement, net of legal fees | --- | --- | 21,860 | --- | --- |
| Writedown of leasehold interest and related costs | --- | 7,613 | 11,400 | 600 | 3,000 |
| Interest income (expense) net | 1,799 | 1,640 | 941 | 87 | (230) |
| Income (loss) before provision (benefit) for taxes on income and extraordinary items | 1,564 | (7,508) | 9,749 | 2,156 | (6,324) |
| Provision (benefit) for taxes on income | 111 | 199 | 4,131 | (2,945) | 52 |
| Income (loss) before extraordinary items | 1,453 | (7,707) | 5,618 | 5,101 | (6,376) |
| Extraordinary items: | | | | | |
| Gain on extinguishment debt | --- | --- | --- | 150 | --- |
| Loss on debt conversion | --- | --- | --- | --- | (466) |
| Net income (loss) | $1,453 | $(7,707) | $5,618 | $5,251 | $(6,842) |
| Per common and common equivalent share(1): | | | | | |
| Income (loss) before extraordinary items | $ 0.06 | $(0.34) | $ 0.24 | $0.22 | $(0.33) |
| Extraordinary items | --- | --- | --- | 0.01 | (0.02) |
| Net income (loss) | $ 0.06 | (0.34) | 0.24 | 0.23 | (0.35) |
| Average common and dilutive common equivalent (1) | 24,245 | 22,593 | 23,075 | 22,628 | 19,407 |

</TABLE>

<TABLE>
<CAPTION>

Selected Financial Data
(In thousands, except per share data and ratios)
AS AT JULY 31,

| | 1997 | 1996 | 1995 | 1994 | 1993 |
|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> |
| Working capital (deficit) | $43,232 | $29,451 | $24,449 | $17,153 | $(2,411) |
| Total assets | 67,419 | 62,838 | 72,458 | 65,043 | 47,569 |
| Long-term debt and obligations under capital lease | 46 | 114 | 4,698 | 4,379 | 4,168 |
| Stockholders' equity | 64,009 | 55,253 | 61,113 | 51,245 | 32,396 |

</TABLE>

(1) In fiscal years 1996 and 1993, common stock equivalents have not been included because the effect of their inclusion would have been anti-dilutive.



Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Liquidity and Capital Resources

The Company, at July 31, 1997, had cash and cash equivalents of $25.3 million, an increase of $7.5 million from July 31, 1996. The Company had net working capital of $43.2 million at July 31, 1997 compared to $29.5 million at July 31, 1996.

The Company's income before taxes was $1,564,000 which includes depreciation and amortization aggregating approximately $1.8 million. 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. The Company believes that its current cash position is sufficient for its foreseeable liquidity and capital resource needs, although there can be no assurance that future events will not alter such view.

Net cash provided by operating activities for the 1997 fiscal year was $7.7 million and includes $5 million of cash received in connection with the litigation settlement as compared to net cash provided by operating activities of $6.1 million for the 1996 fiscal year. The increase in net cash provided by operating activities from fiscal 1996 to fiscal 1997 was primarily due to the Company's net income for 1997, which was partially offset by an decreased provision for uncollectible accounts receivable of $1.1 million, a decrease in writedown of leasehold interest and related costs of $7.6 million offset by a decrease of $ 548,000 in other assets and an increase in account receivable of approximately $ 855,000.

Net cash used by investing activities in fiscal 1997 amounted to $1.2 million as a result of capital expenditures and deferred patent costs as compared to net cash used by investing activities of $1.0 million in fiscal 1996. The increase relates primarily from increased patent cost expenditures in fiscal 1997 compared to fiscal 1996.

Net cash provided by financing activities of $939,000 in fiscal 1997 as compared to $1,618,000 in fiscal 1996 represents a reduction of $679,000. This reduction was attributable primarily to a decrease of stock options and warrants exercised of $891,000 offset by the proceeds from the issuance of common stock of $ 286,000.

The Company's net accounts receivable of $12.0 million and $10.5 million represent 125 average days and 111 average days of operating revenues at July 31, 1997 and 1996 respectively. The change in net accounts receivable is due to an increase in accounts receivable at the clinical reference laboratory of approximately $ 2.1 million and a decrease of research products accounts receivable of approximately $0.6 million. The Company does not believe that the increase in net receivables and the age of such receivables has had a material effect on the Company's liquidity or capital position. The increase in accounts receivable is primarily due to the increase in revenue during the last six months of the fiscal year at the clinical reference laboratory.

On October 19, 1994, the Company executed a settlement agreement with Johnson & Johnson, Inc. (J&J) pursuant to which the Company received $15.0 million and a promissory note requiring J&J 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%. The litigation settlement amounted to approximately $21.9 million, net of legal fees. 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.

Management is not aware of any material claims, disputes or settled matters concerning third-party reimbursements which would have a material effect on the Company's financial statements.



Results of Operations

Fiscal 1997 Compared to Fiscal 1996

Revenues from operations for the fiscal year ended July 31, 1997 ("fiscal 1997") increased by $448,000 over revenues from operations for the fiscal year ended July 31, 1996 ("fiscal 1996"). This increase was due to an increase of $243,000 in revenues from research product sales over revenue for the similar activity in fiscal 1996 and an increase of $205,000 in revenues for the clinical reference laboratory operations. The increase in research product sales resulted primarily from the Company's non-exclusive distribution agreements for the Company's products and generally was the result of higher volume of sales of product. The increase in revenues from the clinical laboratory operations resulted primarily from an increase in volume of

diagnostic screening tests.

Cost of sales increased by $124,000 as a result of the increase of $59,000 in the cost of sales of research products from the Company's distribution agreements activities and an increase in the cost of clinical laboratory services of $65,000. This increase is primarily due to the costs related to the increased volume of tests.

Research and development expenses increased by $479,000 as a result of an increase in research programs and the increased amortization of patent costs.

The provision for uncollectible accounts receivable decreased by $1,069,000 primarily due to an additional provision of $3.5 million in the fourth quarter of fiscal 1996 to reflect the reduced reimbursements received by the Company from Medicare and other third party insurers who generally follow the reimbursement policies of Medicare offset by the continuing effects in 1997 of such reduced reimbursements and collections.

The Company's net accounts receivable from the clinical laboratory operations of $11.1 million and $9.0 million represent an average of 186 and 153 days of operating revenue at July 31, 1997 and 1996, respectively. The Company expects that in the future, as a result of the revised Medicare reimbursement policies, the Company will receive reimbursements and cash flows at the clinical reference laboratory at the lower rates realized in fiscal 1997. The Company will continue its efforts at attempting to control costs associated with the performance of the tests, however, there can be no assurance that such efforts will be successful.

Selling and general and administrative expenses decreased by $385,000 primarily due to a decrease in legal fees in fiscal 1997.

The operating profit from research and development activities and related costs amounts to $409,000 in fiscal 1997, as compared to $449,000 in fiscal 1996. The decrease in the profit is principally related to the increase in research and development expenses from the diagnostic division. The operating profit from the clinical reference laboratories activities amounted to $1,565,000 (7% of operating revenues) as compared to $124,000 (.6% of operating revenues) in fiscal 1996. This increase resulted principally from the decrease in the provision for uncollectible accounts receivable.

Results of Operation

Fiscal 1996 Compared to Fiscal 1995

Revenues from operations for the fiscal year ended July 31, 1996 ("fiscal 1996") increased by $2,790,000 over revenues from operations for the fiscal year ended July 31, 1995 ("fiscal 1995"). This increase was due to an increase of $3,398,000 in revenues from research product sales over revenue for the similar activity in fiscal 1995 offset by a $608,000 decrease in revenues for the clinical reference laboratory operations. The increase in research product sales resulted primarily from the Company's non-exclusive distribution agreements for the Company's products and generally was the result of significantly higher volume of sales of product. The decrease in revenues from the clinical laboratory operations resulted primarily from a decrease in volume of unprofitable diagnostic screening tests.



Cost of sales increased by approximately $1,563,000 as a result of the increase of $2,644,000 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 $1,081,000. This decrease is primarily due from the improved efficiencies of performing certain diagnostic screening tests and the increase in the number of esoteric tests performed actually at the laboratory.

Research and development expenses increased by $717,000 as a result of an increase in research programs and the increased amortization of patent costs.

The provision for uncollectible accounts receivable increased by $2,857,000 primarily due to an additional provision recorded by the Company in the fourth quarter of fiscal 1996 primarily to cover lower collection rates under the Federal Medicare programs and other third-party insurance carriers. Effective March 1, 1996, the Medicare policy of allowing payment for all tests contained in an automated profile when at least one of the tests in the profile was covered was eliminated. When one or more of the tests on the newly standardized list are reported on a claim, carriers are to pay only for medically necessary tests in a profile. The former standard was to allow payment for the entire profile if at least one of the tests was medically necessary. The amount paid for a profile is limited to what would have been paid had only the medically necessary tests been ordered. Based on collection rate data in the fourth quarter of fiscal 1996, which was the first period evidence was available to show the effects of the change in Medicare policy, it became evident that additional reserves were needed to cover these lower collection rates, including reduced reimbursement by Medicare for periods prior to March 1, 1996, the effective date of the policy change. Accordingly, the Company recorded an additional provision of $3.5 million in the fourth quarter of fiscal 1996 to reflect the reduced reimbursements received by the Company from Medicare and other third party insurers who generally follow the reimbursement policies of

Medicare.

The Company's net accounts receivable from the clinical laboratory operations of $9.0 million and $9.2 million represent an average of 150 days of operating revenue at July 31, 1996 and 1995, respectively. The $3.5 million additional provision relates to the increase in the mix of Medicare invoicing in the fourth quarter and the change in reimbursement policy rates on this invoicing.

Selling and general and administrative expenses decreased by $2,463,000 primarily due to a decrease in legal fees in fiscal 1996 and the overall improved efficiencies at the clinical reference laboratory.

In the fourth quarter of fiscal 1995, management decided that it was not in the best interests of the Company to continue further renovations on the leasehold interest since the continuing expenses associated with such renovations were not deemed justifiable in light of the uncertainty of recoupment of such expenses and because the likelihood of occupancy of the leasehold interest was in question. A decision was made to dispose of the leasehold interest as is, and an independent appraisal of the leasehold interest on a current condition basis indicated that a writedown of the leasehold interest was required in the amount of $11,400,000 which was recorded in the fourth quarter of fiscal 1995. During fiscal 1996, the Company made extensive efforts to find a developer for the leasehold interest. In addition, the Company commenced negotiations with the City to also assist the Company in identifying and approving a buyer or developer for the leasehold interest. Simultaneously, the Company commenced negotiations with the City for a full surrender of the leasehold interest back to the City. Based on the limited interest in the leasehold by any developer, the Company determined that it was in the best interest of the Company to negotiate a complete and full settlement with the City. On July 31, 1996, the Company negotiated a settlement with the City of New York (the "City") to relieve the Company from any further obligations related to the lease and to return the building to the City and the Company agreed to pay the City $2,950,000 in full settlement of all of the City's claims for unpaid taxes and rent. The Company issued to the City 213,623 shares (after giving effect to the 5% stock dividend paid in October 1996) of the Company's common stock in August 1996 in consideration of the settlement amount. If the City did not receive the net proceeds of $2.95 million upon the sale of such stock by March 17, 1997, the City would have to return the remaining shares not sold, if any, and the Company would have paid the difference in cash. As a result of this settlement with the City of New York, the Company incurred a charge against earnings in the amount of approximately $7.6 million in the fourth quarter of fiscal 1996.



The operating profit from research and development activities and related costs amounts to $449,000 in fiscal 1996, as compared to an operating profit of $479,000 in fiscal 1995. The decrease in the profit is principally related to the increase in research and development expenses from the diagnostic division. The operating profit from the clinical reference laboratories activities amounted to $124,000 (.6% of operating revenues) as compared to an operating profit of $2,146,000 (10% of operating revenues) in fiscal 1995. This decrease resulted principally from the increase in the provision for uncollectible accounts receivable due to the lower collection rates under Medicare programs and other third-party insurance carriers and offsetting deduction in overall operating expenses in fiscal 1996.

Item 8. Financial Statements and Supplementary Data

The response to this item is submitted in a separate section of this report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable

PART III

Item 10. Directors and Executive Officers of the Registrant

(a) Directors - The following sets forth certain information regarding directors of the Company who are not executive officers of the Company. Information with respect to directors of the Company who are also executive officers of the Company appears below under the subcaption "Executive Officers. "The Company has a classified Board of Directors consisting of three classes.

JOHN B. SIAS (age 70) has been Director of the Company since January 1982. Mr. Sias has been President and Chief Executive Officer of Chronicle Publishing Company since April 1993. From January 1986 until April 1993, Mr. Sias was President of ABC Network Division, Capital Cities/ABC, Inc. From 1977 until January 1986 he was the Executive Vice President, President of the Publishing Division (which includes Fairchild Publications) of Capital Cities Communications, Inc.

JOHN J. DELUCCA (age 54) has been a Director of the Company since January 1982. Since October 1993, Mr. Delucca has been Senior Vice President and Treasurer of RJR Nabisco, Inc. From January 1992 until October 1993, he was

managing director and Chief Financial Officer of Hascoe Associates, Inc. From October 1, 1990 to January 1992 he was President of The Lexington Group. From September 1989 until September 1990 he was Senior Vice President-Finance of the Trump Group. From May 1986 until August 1989, he was senior Vice President-Finance at International Controls Corp. From February 1985 until May 1986, he was a Vice President and Treasurer of Textron, Inc. Prior to that he was a Vice President and Treasurer of the Avco Corporation, which was acquired by Textron.

During the fiscal year ended July 31, 1997, there were four (4) formal meetings of the Board of Directors, several actions by unanimous consent and several informal meetings. The Board of Directors has an Audit Committee and Stock Option Committee. The Audit Committee had one (1) formal meeting and the Stock Option Committee had three formal meetings in fiscal 1997.

The Audit Committee is authorized to review proposals of the Company's auditors regarding annual audits, recommend the engagement or discharge of the auditors, review recommendations of such auditors concerning accounting principles and the adequacy of internal controls and accounting procedures and practices, to review the scope of the annual audit, to approve or disapprove each professional service or type of service other than standard auditing services to be provided by the auditors, and to review and discuss the audited financial statements with the auditors. Its members are Shahram K. Rabbani and Messrs. Sias and Delucca.



The Stock Option Committee has the plenary authority in its discretion to determine the purchase price of the Common Stock issuable upon the exercise of each option, to determine the employees to whom, and the time or times at which, options shall be granted and the number of shares to be issuable upon the exercise of each option, to interpret the plans, to prescribe, amend and rescind rules and regulations relating to them, to determine the term and provisions of the respective option agreements and to make all other determinations deemed necessary or advisable for the administration of the plans. Its members are Messrs. Sias and Delucca.

The Company does not have a formal Executive Committee or Nominating Committee of the Board of Directors.

(b) Executive Officers - The following table sets forth the names and positions of all of the current executive officers of the Company:

<TABLE>
<CAPTION>

| Name | Position |
|---|---|
| <S> | <C> |
| Elazar Rabbani, Ph.D. | Chairman of the Board of Directors and Chief Executive Officer |
| Shahram K. Rabbani | Chief Operating Officer, Secretary |
| Barry W. Weiner | President and Director |
| Norman E. Kelker, Ph.D. | Senior Vice President |
| Dean Engelhardt, Ph.D. | Senior Vice President |
| Herbert B. Bass | Vice President of Finance |
| Barbara E. Thalenfeld, Ph.D. | Vice President, Corporate Development |
| David C. Goldberg | Vice President, Business Development |

</TABLE>

DR. ELAZAR RABBANI (age 53) has served as Chairman of the Board of Directors and Chief Executive Officer of the Company since the Company's inception in 1976 and has served as the Company's President from its incetion to November 1996. Dr. Rabbani received his B.A. degree from New York University in Chemistry and his Ph.D. degree in Biochemistry from Columbia University. He is a member of the American Society for Microbiology.

SHAHRAM K. RABBANI (age 45) has served as Chief Operating Officer and Secretary of the Company since November 1996, as Executive Vice President from September 1981 to November 1996 and as Vice President, Treasurer and a Director since the Company's organization. Mr. Rabbani received a B.A. degree in chemistry from Adelphi University.

BARRY W. WEINER (age 47) has served as President of the Company since November 1996 and as Director of the Company since its organization. Mr. Weiner has served as an Executive Vice President of the Company from September 1981 to November 1996, as a Vice President of the Company from the Company's organization to November 1996 and as Secretary of the Company from March 1980 to November 1996. He was employed by Colgate-Palmolive Company, New York, New York from August 1974 until March 1980, when he joined the Company on a full-time basis. Mr. Weiner received his B.S. degree in Economics from New York University and a M.B.A. from Boston University.

DR. NORMAN E. KELKER (age 58) has been a Vice President of the Company since September 1981. Effective January 1, 1989, he was promoted to Senior Vice President. From 1975 until he joined the Company, Dr. Kelker was an Associate Professor in the Department of Microbiology of the New York University School of Medicine. He holds a Ph.D. from Michigan State University.

DR. DEAN ENGELHARDT (age 57) has been Vice President since September 1981. Effective January 1, 1989, he was promoted to Senior Vice President. Prior to joining the Company he was Associate Professor of Microbiology at Columbia University College of Physicians and Surgeons. He obtained his Ph.D. from Rockefeller University.



HERBERT B. BASS (age 49) is Vice President of Finance of the Company. Prior to his promotion, Mr. Bass was the Corporate Controller of Enzo. Before joining Enzo in 1986, Mr. Bass held various positions at Danziger & Friedman, Certified Public Accountants, from 1979 to 1986, the most recent of which was audit manager. For the preceding seven years he held various positions at Berenson & Berenson, C.P.A.'s. Mr. Bass holds a Bachelor degree in Business Administration from Baruch College.

DR. BARBARA E. THALENFELD (age 57) is Vice President of Corporate Development and has been with Enzo since 1982. Prior to joining the Company she held an NIH research fellowship at Columbia University. She received a Ph.D. from Hebrew University- Hadassah Medical Center and an MS from Yale University.

DAVID C. GOLDBERG (age 40) is Vice President of Business Development. Prior to joining Enzo in 1985, he was employed at DuPont NEN Products. He received an MS from Rutgers University and an MBA from New York University.

Dr. Elazar Rabbani and Shahram K. Rabbani are brothers and Barry W. Weiner is their brother-in-law.

Item 11. Executive Compensation

The information required under this item will be set forth in the Company's proxy statement to be filed with the Securities and Exchange Commission on or before November 28, 1997 and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required under this item will be set forth in the Company's proxy statement to filed with the Securities and Exchange Commission on or before November 28, 1997 and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

The information required under this item will be set forth in the Company's proxy statement to be filed with the Securities and Exchange Commission on or before November 28, 1997 and is incorporated herein by reference.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) (1) Consolidated Financial Statements

Consolidated Balance Sheet - July 31, 1997 and 1996
Consolidated Statement of Operations-
Years ended July 31, 1997, 1996 and 1995
Consolidated Statement of Stockholders' Equity-
Years ended July 31, 1997, 1996 and 1995
Consolidated Statement of Cash Flows-
Years ended July 31, 1997, 1996 and 1995
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:

<TABLE>
<CAPTION>

| Exhibit No | Description |
|---|---|
| <S> 3(a) | <C> 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. (11) |
| 3(d) | Bylaws. (1) |
| 4(d) | Form of Note Indenture. (3) |
| 10(a) | 1980 Stock Option Plan. (1) |
| 10(b) | Investment Agreement between the registrant and Johnson & Johnson Develop Corp. dated June 25, 1982.(4) |
| 10(c) | Agreement between the registrant and Ortho Diagnostic System, Inc. dated June 25, 1982. (5) |
| 10(d) | 1983 Incentive Stock Option Plan.(6) |
| 10(e) | Letter Agreement between the Company and Ortho Diagnostic Systems, Inc. dated a of January 1, 1985.(7) |
| 10(f) | Lease Agreement dated as of December 1, 1985. (8) |
| 10(g) | Indenture of Mortgage and Trust dated as of December 1, 1985. (8) |
| 10(h) | Letter of Credit Agreement dated as of December 1, 1985.(8) |
| 10(i) | Leasehold Mortgage and Security Agreement dated as of February 5,1986. (8) |
| 10(j) | Loan Agreement dated as of December 31, 1985. (8) |
| 10(k) | Restricted Stock Plan. (8) |
| 10(p) | Agreement with First New York Bank for Business. (14) |
| 10(q) | Agreement with BioHealth Laboratories, Inc. shareholders filed herewith. (15) |
| 10(r) | Agreement with Johnson & Johnson, Inc. filed herewith. (16) |
| 10(s) | 1993 Incentive Stock Option Plan. (16) |

</TABLE>



<TABLE>

<S> <C>

| | |
|---|---|
| 10(t) | Employment Agreement with Elazar Rabbani. (16) |
| 10(u) | Employment Agreement with Shahram Rabbani. (16) |
| 10(v) | Employment Agreement with Barry Weiner. (16) |
| 10(w) | 1994 Stock Option Plan (17). |
| 10(x) | Stipulation of Settlement with the City of New York (18). |
| 10(y) | Agreement with Corange International Limited (Boehringer Mannheim) effective April 1994. (19) |
| 10(z) | Agreement with Amersham International effective February 1995. (18)(19) |
| 10(aa) | Agreement with Dako A/S effective May 1995. (18) (19) |
| 10(bb) | Agreement with Baxter Healthcare Corporation (VWR Scientific Products) effective September 1995. (18) (19) |
| 10(cc) | Agreement with Yale University and amendments thereto. (19) |
| 10(dd) | Agreement with The Research Foundation of the State of New York effective May 1987. (18) (19) |

</TABLE>

| | |
|---|---|
| 11 | Computation of per-share earnings filed herewith. |
| 21 | Subsidiaries of the registrant:<br>Enzo Clinical Labs, Inc., a New York Corporation<br>Enzo Diagnostics, Inc., a New York Corporation<br>Enzo Therapeutics, Inc., a New York Corporation |
| 23 | Consent of Independent Auditors filed herewith. |
| 25 | Financial Data Schedule filed herewith. |

Notes to (a)(3)

(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.

(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) These exhibits were filed as exhibits to the Company's Current Report on Form 8-K dated April 4, 1986 and are incorporated herein by reference.

(4) This exhibit was filed as an exhibit to the Company's Current Report on Form 8-K dated June 29, 1982 and is incorporated herein by reference.

(5) This exhibit was filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended July 31, 1983 and is incorporated herein by reference.



(6) This exhibit was filed with the Company's definitive proxy statement dated February 4, 1983 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, 1985 and is incorporated herein by reference.

(8) These exhibits were filed as exhibits to the Company's Quarterly Report on Form 10- Q for the quarter ended January 31, 1986 and are incorporated herein by reference.

(9) This exhibit was filed as an exhibit to the Company's Registration Statement on Form S-2(33-7657) and is incorporated herein by reference.

(10) This exhibit was filed as an exhibit to the Company's Current Report on Form 8-K dated July 12, 1990 and is incorporated herein by reference.

(11) 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.

(12) This exhibit was filed with the Company's Annual Report on Form 10-K for the year ended July 31, 1990 and is incorporated herein by reference.

(13) This exhibit was filed with the Company's Annual Report on Form 10-K for the year ended July 31, 1991 and is incorporated herein by reference.

(14) This exhibit was filed with the Company's Annual Report on Form 10-K for the year ended July 31, 1992 and is incorporated herein by reference.

(15) This exhibit was filed as an exhibit to the Company's Registration Statement on Form S-3 (33-72170) and is incorporated herein by reference.

(16) 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.

(17) 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.

(18) 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 by reference.

(19) These exhibits are subject to a confidential treatment request pursuant to Securities Exchange Act Rule 24b-2
(b) The Company's Current Reports on Form 8-K filed during the quarter ended July 31, 1997 -- none.
(c) See Item 14(a)(3), above.
(d) See Item 14(a)(2), above.

**********



S I G N A T U R E S

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: October 28, 1997

/s/ Elazar Rabbani
---
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.

/s/ Elazar Rabbani
- ---
Elazar Rabbani,
Chairman of the Board of Directors
(Principal Executive Officer)

October 28, 1997

/s/ Shahram K. Rabbani, October 28, 1997
- ------------------
Shahram K. Rabbani,
Chief Operating Officer, Secretary
and Director (Principal Financial
and Accounting Officer)

/s/ Barry W. Weiner, October 28, 1997
- ------------------
Barry W. Weiner,
President and Director

- ------------------------------------
John B. Sias, Director

- ------------------------------------
John J. Delucca, Director

FORM 10-K, ITEM 14(A) (1) AND (2)
ENZO BIOCHEM, INC.

LIST OF CONSOLIDATED FINANCIAL STATEMENTS AND
FINANCIAL STATEMENT SCHEDULES

The following consolidated financial statements and financial statement schedules of Enzo Biochem, Inc. are included in Item 14(a):



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.



Report of Independent Auditors

Board of Directors and Stockholders
Enzo Biochem, Inc.

We have audited the accompanying consolidated balance sheets of Enzo Biochem, Inc. (the "Company") as of July 31, 1997 and 1996, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended July 31,1997. Our audits also included the financial statement schedule listed in the Index at Item 14(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 generally accepted auditing standards. 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Enzo Biochem, Inc. at July 31, 1997 and 1996 and the consolidated results of their operations and their cash flows for each of the three years in the period ended July 31, 1997, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth herein.

/s/ Ernst & Young LLP

Melville, New York
October 10, 1997



<TABLE>
<CAPTION>

ENZO BIOCHEM, INC.

CONSOLIDATED BALANCE SHEET
July 31, 1997 and 1996

| ASSETS | 1997 | 1996 |
|---|---|---|
| Current assets: | | |
| <S> | <C> | <C> |
| Cash and cash equivalents | $25,250,400 | $17,792,700 |
| Accounts receivable, less allowance for doubtful accounts of $4,105,000 in 1997 and $5,398,000 in 1996 | 11,985,400 | 10,488,200 |
| Current portion of note receivable -- litigation settlement | 5,000,000 | 5,000,000 |
| Inventories | 1,559,000 | 1,810,500 |
| Other | 1,811,400 | 822,900 |
| Total current assets | 45,606,200 | 35,914,300 |
| Property and equipment, at cost, less accumulated depreciation and amortization | 2,909,900 | 3,106,800 |
| Long-term portion of note receivable - litigation settlement | 4,688,600 | 9,113,600 |
| Cost in excess of fair value of net tangible assets acquired, less accumulated amortization of $3,499,000 in 1997 and $3,128,000 in 1996 | 9,304,700 | 9,675,100 |
| Deferred patent costs, less accumulated amortization of $2,763,000 in 1997 and $2,176,000 in 1996 | 4,757,600 | 4,878,600 |
| Other | 152,400 | 149,700 |
| | $67,419,400 | $62,838,100 |

<CAPTION>

| LIABILITIES AND STOCKHOLDERS' EQUITY | 1997 | 1996 |
|---|---|---|
| Current liabilities: | | |
| <S> | <C> | <C> |
| Trade accounts payable | $1,088,900 | $1,281,700 |
| Accrued legal fees | 56,000 | 1,392,000 |
| Accrued leasehold costs | --- | 2,950,000 |
| Other accrued expenses | 1,161,500 | 776,400 |
| Current portion of long-term debt | 37,700 | 34,600 |
| Current portion of obligations under capital leases | 30,200 | 28,700 |
| Total current liabilities | 2,374,300 | 6,463,400 |
| Long-term debt | 8,900 | 46,600 |
| Obligations under capital leases | 36,800 | 67,100 |
| Other deferred liabilities | 990,500 | 1,008,000 |
| Commitments and contingencies (Notes 6, 7 and 10) | | |
| 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: 23,329,900 in 1997 and 21,624,900 in 1996 | 233,300 | 216,400 |
| Additional paid-in capital | 90,736,200 | 83,450,000 |
| Accumulated deficit | (26,960,600) | (28,413,400) |
| Total stockholders' equity | 64,008,900 | 55,253,000 |
| | $67,419,400 | $62,838,100 |

</TABLE>

See accompanying notes.



<TABLE>
<CAPTION>

ENZO BIOCHEM, INC.
CONSOLIDATED STATEMENT OF OPERATIONS
Years ended July 31, 1997 1996 and 1995

| | 1997 | 1996 | 1995 |
|---|---|---|---|
| Revenues: | | | |
| <S> | <C> | <C> | <C> |
| Research product revenues | $ 13,189,600 | $ 12,946,300 | $ 9,548,400 |
| Clinical laboratory services | 21,748,900 | 21,544,000 | 22,152,500 |
| | 34,938,500 | 34,490,300 | 31,700,900 |
| Costs and expenses: | | | |
| Cost of research product revenues | 8,410,200 | 8,351,000 | 5,706,400 |
| Cost of laboratory services | 7,153,400 | 7,088,700 | 8,170,100 |
| Research and development expense | 3,561,900 | 3,083,000 | 2,366,400 |
| Selling expense | 2,718,800 | 2,714,800 | 2,754,200 |
| Provision for uncollectable accounts receivable | 5,633,600 | 6,702,900 | 3,845,600 |
| General and administrative expense | 7,696,100 | 8,085,100 | 10,509,300 |
| Litigation settlement, net of legal fees | --- | --- | (21,859,700) |
| Writedown of leasehold interest and related costs | --- | 7,613,400 | 11,400,000 |
| | 35,174,000 | 43,638,900 | 22,892,300 |
| Income (loss) before interest income, net and | | | |

| | | | |
|---|---|---|---|
| provision for taxes on income | (235,500) | (9,148,600) | 8,808,600 |
| Interest income, net | 1,799,300 | 1,640,200 | 940,700 |
| Income (loss) before provision for taxes on income | 1,563,800 | (7,508,400) | 9,749,300 |
| Provision for taxes on income | 111,000 | 199,100 | 4,131,200 |
| Net income (loss) | $1,452,800 | ($7,707,500) | $5,618,100 |
| Per common and common equivalent share: | | | |
| Net income (loss) | $ .06 | $(.34) | $.24 |
| Weighted average common shares | 24,245,000 | 22,593,000 | 23,075,100 |

</TABLE>

See accompanying notes.



<TABLE>
<CAPTION>

ENZO BIOCHEM, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
Years ended July 31, 1997, 1996 and 1995

| <S> | COMMON STOCK SHARES <C> | COMMON STOCK AMOUNT <C> | ADDITIONAL PAID-IN CAPITAL <C> |
|---|---|---|---|
| Balance at July 31, 1994 | 19,822,200 | $198,200 | $71,752,600 |
| Net income for the year ended July 31, 1995 | --- | --- | --- |
| Increase in common stock and paid-in capital due to exercise of stock options and warrants | 210,800 | 2,200 | 1,393,400 |
| Increase in common stock and paid-in capital due to exchange of stock for debt | 285,600 | 2,900 | 2,851,100 |
| Increase in common stock and paid-in capital due to 5% stock dividend | 1,016,000 | 10,200 | 5,607,900 |
| Balance at July 31, 1995 | 21,334,600 | $213,500 | $81,605,000 |
| Issuance of stock for employee 401(k) plan | 10,200 | 100 | 145,700 |
| Net loss for the year ended July 31, 1996 | --- | --- | --- |
| Increase in common stock and paid-in capital due to exercise of stock options and warrants | 280,100 | 2,800 | 1,699,300 |
| Balance at July 31, 1996 | 21,624,900 | $216,400 | $83,450,000 |
| Increase in common stock and paid-in capital due to 5% stock dividend | 1,080,000 | 10,800 | (10,800) |
| Net income for the year ended July 31, 1997 | --- | --- | --- |
| Increase in common stock and paid-in capital due to exercise of stock options and warrants | 203,000 | 2,000 | 809,100 |
| Increase in common stock and paid-in capital due to exchange of stock for debt, net of offering costs | 415,000 | 4,000 | 6,072,800 |
| Issuance of stock for employee 401(k) plan | 7,000 | 100 | 128,800 |
| Proceeds from the issuance of common stock | --- | --- | 286,300 |
| Balance at July 31, 1997 | 23,329,900 | $233,300 | $90,736,200 |

<CAPTION>

| ACCUMULATED DEFICIT | TOTAL SHAREHOLDERS' EQUITY |
|---|---|

| <S> | <C> | <C> |
|---|---|---|
| Balance at July 31, 1994 | $(20,705,900) | $51,244,900 |
| Net income for the year ended July 31, 1995 | 5,618,100 | 5,618,100 |
| Increase in common stock and paid-in capital due to exercise of stock options and warrants | --- | 1,395,600 |
| Increase in common stock and paid-in capital due to exchange of stock for debt | --- | 2,854,000 |
| Increase in common stock and paid-in capital due to 5% stock dividend | (5,618,100) | --- |
| Balance at July 31, 1995 | $(20,705,900) | $61,112,600 |
| Issuance of stock for employee 401(k) plan | --- | 145,800 |
| Net loss for the year ended July 31, 1996 | (7,707,500) | (7,707,500) |
| Increase in common stock and paid-in capital due to exercise of stock options and warrants | --- | 1,702,100 |
| Balance at July 31, 1996 | $(28,413,400) | $55,253,000 |
| Increase in common stock and paid-in capital due to 5% stock dividend | --- | --- |
| Net income for the year ended July 31, 1997 | 1,452,800 | 1,452,800 |
| Increase in common stock and paid-in capital due to exercise of stock options and warrants | --- | 811,100 |
| Increase in common stock and paid-in capital due to exchange of stock for debt, net of offering costs | --- | 6,076,800 |
| Issuance of stock for employee 401(k) plan | --- | 128,900 |
| Proceeds from the issuance of common stock | --- | 286,300 |
| Balance at July 31, 1997 | $(26,960,600) | $64,008,900 |

</TABLE>

See accompanying notes.



<TABLE>
<CAPTION>

ENZO BIOCHEM, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS
Years ended July 31, 1997, 1996 and 1995

| | 1997 | 1996 | 1995 |
|---|---|---|---|
| <S> | <C> | <C> | <C> |
| Cash flows from operating activities: | | | |
| Net income (loss) | $1,452,800 | $(7,707,500) | $5,618,100 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | |
| Depreciation and amortization of property and equipment | 887,900 | 894,400 | 862,600 |
| Amortization of costs in excess of fair value of net tangible assets acquired | 370,400 | 370,600 | 369,600 |
| Amortization of deferred patent costs | 586,800 | 547,200 | 484,300 |
| Provision for uncollectible accounts receivable | 5,633,600 | 6,702,900 | 3,845,600 |
| Writedown of leasehold interest and related costs | --- | 7,613,400 | 11,400,000 |
| Deferred income tax provision | --- | --- | 2,849,300 |
| Legal expenses converted into stock | 142,300 | --- | 1,455,700 |
| Accretion of interest on note receivable | (575,000) | (992,600) | (494,000) |
| Issuance of stock for employee 401K plan | 128,900 | 145,800 | --- |

| | | | |
|---|---|---|---|
| Deferred liabilities | (17,500) | 168,200 | 167,300 |
| Changes in operating assets and liabilities: | | | |
| Note receivable - litigation settlement | 5,000,000 | 5,000,000 | (17,627,000) |
| Accounts receivable before provision for uncollectable amounts | (7,130,800) | (6,275,900) | (5,488,900) |
| Research contract receivable | --- | --- | 6,500,000 |
| Inventories | 251,500 | 387,000 | (94,800) |
| Other assets | 710,300 | 161,900 | (184,900) |
| Trade accounts payable, accrued leasehold costs and other accrued expenses | 242,300 | 143,900 | (3,449,400) |
| Income taxes payable | --- | (1,074,000) | 1,074,000 |
| Accrued legal fees | (5,300) | 64,200 | 1,834,300 |
| Accrued interest payable | --- | --- | (30,000) |
| | ------ | ------ | ---- |
| Total adjustments | 6,225,400 | 13,857,000 | 3,473,700 |
| | --------- | ---------- | ----- |
| Net cash provided by operating activities | 7,678,200 | 6,149,500 | 9,091,800 |

</TABLE>

(Continued on following page.)



<TABLE>
<CAPTION>

ENZO BIOCHEM, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
Years ended July 31, 1997, 1996, and 1995

| | 1997 | 1996 | 1995 |
|---|---|---|---|
| Cash flows from investing activities: | | | |
| <S> | <C> | <C> | <C> |
| Capital expenditures | $(691,000) | $(651,100) | $(1,033,300) |
| Patent costs deferred | (465,800) | (363,000) | (392,600) |
| (Increase) decrease in security deposits | (2,700) | (28,400) | 52,400 |
| | --------- | --------- | --------- |
| Net cash used by investing activities | (1,159,500) | (1,042,500) | (1,373,500) |
| Cash flows from financing activities: | | | |
| Payments of obligations under capital leases | (28,800) | (52,600) | (78,400) |
| Proceeds from the exercise of stock options and warrants | 811,100 | 1,702,100 | 1,395,600 |
| Payment of loans payable to bank and long term debt | (34,600) | (31,700) | (2,118,500) |
| Proceeds from the issuance of common stock | 286,300 | --- | --- |
| Payment for common stock offering costs | (95,000) | --- | --- |
| | ------ | ------ | ----- |
| - | | | |
| Net cash provided (used) by financing activities | 939,000 | 1,617,800 | (801,300) |
| | ---------- | ---------- | -------- |
| -- | | | |
| Net increase in cash and cash equivalents | 7,457,700 | 6,724,800 | 6,917,000 |
| Cash and cash equivalents at the beginning of the year | 17,792,700 | 11,067,900 | 4,150,900 |
| | ---------- | ---------- | ------- |
| -- | | | |
| Cash and cash equivalents at the end of the year | $25,250,400 | $17,792,700 | $11,067,900 |
| | ---------- | ---------- | -------- |
| -- | | | |
| | ---------- | ---------- | -------- |
| -- | | | |

</TABLE>

See accompanying notes.



ENZO BIOCHEM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 1997, 1996 and 1995

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 diagnostic products will allow for the diagnosis of and/or screening for infectious diseases, cancers, genetic defects and other medically pertinent diagnostic information. The Company operates a clinical reference laboratory which offers and provides diagnostic medical testing services to the health care community. The Company also is conducting research and development activities in the development of therapeutic products.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid debt instruments purchased with maturities of three months or less to be cash equivalents.

Cash equivalents consist of short-term debt securities of the U.S. government that the Company intends to hold to maturity which range from August 1997 to September 1997. The market values of these securities, as determined by quoted sources, approximated cost at July 31, 1997 and 1996.

CONCENTRATION OF CREDIT RISK

Approximately 93% and 86% at July 31, 1997 and 1996, respectively, of the Company's net accounts receivable relate to its clinical reference laboratory business which operates in the New York Metropolitan area. Concentration of credit risk with respect to accounts receivable are limited due to the diversity of the Company's client base. However, the



ENZO BIOCHEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 1997, 1996 and 1995

Note 1 - BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

CONCENTRATION OF CREDIT RISK (CONT'D)

Company provides services to certain patients covered by various third-party payors, including the Federal Medicare program. Revenue, net of contractual allowances, from direct billings under the Federal Medicare program during each of the fiscal years ended July 31, 1997, 1996 and 1995 approximated 12%, 14% and 12%, respectively of revenue. In fiscal 1996 the Company recorded an additional provision for uncollectable accounts receivable of $ 3,500,000 based on trends that became evident in the fourth quarter, that additional reserves were needed primarily to cover lower collection rates under the Federal Medicare program and other third-party payors. Management is not aware of any material claims, disputes or settled matters concerning third-party reimbursements which would have a material effect on the Company's financial statements.

At July 31, 1997 and 1996, 5% and 12% of the Company's net accounts receivable relate to amounts due from Boehringer Mannheim and Amersham collectively under non-exclusive distribution and supply agreements. Operating revenues from

Boehringer Mannheim represented approximately 25% of consolidated operating revenues in fiscal 1997 and 1996, respectively.

INVENTORIES

Inventories are stated at the lower of cost (first-in, first-out method) or market.

PROPERTY AND EQUIPMENT

Equipment is being depreciated on the straight-line and accelerated methods over the estimated useful lives of the assets. Leasehold improvements are amortized over the term of the related leases or estimated useful lives of the assets, whichever is shorter.

AMORTIZATION OF INTANGIBLE ASSETS

The cost in excess of fair value of net tangible assets acquired is being amortized on the straight-line method over periods of twenty or forty years.

PATENT COSTS

The Company has filed applications for United States and foreign patents covering certain aspects of its technology. The costs incurred in filing such applications have been deferred and are amortized over the estimated useful lives of the patents beginning upon issue. Costs related to unsuccessful patent applications are expensed.





Note 1 - BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

REVENUE RECOGNITION

Revenues from services from the clinical reference laboratory are recognized when services are provided. The Company's revenue is based on amounts billed or billable for services rendered, net of contractual adjustments and other arrangements made with third-party payors to provide services at less than established billing rates. Revenues from research product sales are recognized when the products are shipped.

REIMBURSEMENT CONTINGENCIES

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation for which action for noncompliance includes fines, penalties and exclusion from the Medicare and Medicaid 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.

NET INCOME (LOSS) PER SHARE

Net income (loss) per share has been computed based upon the weighted average number of common shares and dilutive common stock equivalents outstanding during the year. In fiscal 1996, common stock equivalents have not been included because the effect of their inclusion would have been anti-dilutive. The net income (loss) per share amounts for fiscal 1996 and 1995 have been retroactively adjusted to reflect the 5% stock dividend declared in fiscal 1995 and for the 5% stock dividend declared in September 1996.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles 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.

RECENTLY ISSUED ACCOUNTING STANDARDS

In fiscal 1997, the Company adopted 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". SFAS No. 121 establishes the accounting for the impairment of long-lived

Note 1 - BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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. The adoption of SFAS No. 121 did not have a material effect on the consolidated results of operations or financial condition of the Company.

In fiscal 1997, the Company adopted the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." The new standard defines a fair value method of accounting for the issuance of stock options and other equity instruments. Under the fair value method, compensation cost is measured at the grant date based on the fair value of the award and is recognized over the service period, which is usually the vesting period. Pursuant to SFAS No. 123, companies are encouraged, but are not required, to adopt the fair value method of accounting for employee stock-based transactions. Companies are also permitted to continue to account for such transactions under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," but are required to disclose in a note to the consolidated financial statements proforma net income and per share amounts as if the Company had applied the new method of accounting. SFAS No. 123 also requires increased disclosures for stock-based compensation arrangements.

In February 1997, SFAS No. 128, "Earnings Per Share" was issued and it is effective for both interim and annual financial statements for periods ending after December 15, 1997. At that time, the Company will be required to change the method currently 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 impact of adopting SFAS No. 128 is not expected to be material.

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 Companies determination of its operating segments.

Note 2 - SUPPLEMENTAL DISCLOSURE FOR STATEMENT OF CASH FLOWS

In the years ended July 31, 1997, 1996 and 1995, the Company paid cash for interest of approximately $ 17,000, $ 27,000 and $ 166,000, respectively.





Note 2 - SUPPLEMENTAL DISCLOSURE FOR STATEMENT OF CASH FLOWS (CONT'D)

In the years ended July 31, 1997, 1996 and 1995, the Company paid cash for income taxes of approximately $ 20,000, $ 1,323,000 and $ 232,000 respectively, and received refunds of income taxes previously paid of approximately $ 45,000 in fiscal 1997 and $ 35,000 in fiscal 1996.

OTHER NONCASH ITEMS:

During fiscal 1995, the Company acquired property and equipment in the amount of $ 129,500, which was financed through capital lease obligations.

During fiscal 1996 and 1995, approximately $ 1,418,000 and $ 1,082,000, respectively, has been accrued for construction costs, rent and legal fees related to the New York City leasehold. Interest accretion on the capital lease obligation for the New York City leasehold was approximately $ 318,000 for fiscal 1995.

In fiscal 1995, the Company issued approximately 286,000 shares of common stock in exchange for approximately $2,900,000 in legal fees of which approximately $1,456,000 related to legal fees incurred in fiscal 1995. In fiscal 1997, the Company issued 415,000 shares of common stock in exchange for approximately $6,172,000 in accured legal fees and costs related to the sale of the New York City leasehold.

Note 3 - INVENTORIES

At July 31, 1997 and 1996 inventories consist of:

| | 1997 | 1996 |
|---|---|---|

| | | |
|---|---|---|
| Raw materials | $56,800 | $74,000 |
| Work in process | 1,095,300 | 1,232,000 |
| Finished products | 406,900 | 504,500 |
| | $1,559,000 | $1,810,500 |

Note 4 - PROPERTY AND EQUIPMENT

At July 31, 1997 and 1996 property and equipment consist of:

| | 1997 | 1996 |
|---|---|---|
| Laboratory machinery and equipment | $2,189,400 | $1,964,100 |
| Leasehold improvements | 2,223,200 | 2,194,300 |
| Office furniture and equipment | 3,940,100 | 3,639,000 |
| | 8,352,700 | 7,797,400 |
| Accumulated depreciation and amortization | 5,442,800 | 4,690,600 |
| | $2,909,900 | $3,106,800 |





Note 4 - PROPERTY AND EQUIPMENT (CONT'D)

During fiscal 1996, the Company made extensive efforts to find a developer for its leasehold interest in a building in New York City and the Company commenced negotiations with the City of New York to also assist the Company in identifying a buyer or developer for the leasehold interest. Simultaneously, the Company commenced negotiations with the City for a full surrender of the leasehold interest back to the City. Based on the limited interest in the leasehold by any developer, the Company determined that it was in the best interest of the Company to negotiate a complete and full settlement with the City. On July 31, 1996, the Company negotiated a settlement with the City of New York to relieve the Company from any further obligations related to the lease and to return the building to the City and the Company agreed to pay the City $2,950,000 in full settlement of all of the City's claims for unpaid taxes and rent. The Company issued to the City 213,623 shares of the Company's common stock in August 1996 in consideration of the settlement amount. If the City did not receive the net proceeds of $2,950,000 upon the sale of such stock by March 17, 1997, the City would return the remaining shares not sold, if any, and the Company would have paid the difference in cash. The Company would receive the net proceeds in excess of $ 2,950,000. The excess or deficiency of the net proceeds received by the Company or paid to the City shall be recorded to additional paid-in capital. On March 18,1997, the Company received approximately $286,000 in excess of the settlement price of $ 2,950,000 and such excess was recorded as additional paid-in capital. As a result of this settlement with the City, the Company incurred a charge against earnings in the amount of approximately $ 7,613,000 in the fourth quarter of fiscal 1996 which was comprised of $6.2 million in writedown of net book value of the leasehold property and the balance of $1.4 million is related to the final settlement for unpaid rent and real estate taxes on the property.

Note 5 - LOAN PAYABLE AND LONG-TERM DEBT

At July 31, 1997 and 1996, long-term debt consists of the following:

| | 1997 | 1996 |
|---|---|---|
| 8.75% loan payable to bank at $3,360 per month through 1998 | $46,600 | $81,200 |
| Less current portion | 37,700 | 34,600 |
| Total long-term debt | $8,900 | $46,600 |

Note 6 - LEASE OBLIGATIONS

CAPITAL LEASES

The Company leases certain office equipment and computers under capital leases. The cost

Note 6 - LEASE OBLIGATIONS (CONT'D)

and accumulated amortization of assets acquired under capitalized leases is approximately $ 259,000 and $ 171,000 at July 31, 1997 and $ 259,000 and $ 144,000 at July 31, 1996, respectively.

Minimum annual rentals under capital lease obligations for fiscal years ending July 31 are as follows.

| | EQUIPMENT LEASES |
|---|---|
| 1998 | $36,300 |
| 1999 | 31,300 |
| 2000 | 8,400 |
| Total of future annual minimum lease payments | 76,000 |
| Less amount representing interest | 9,000 |
| Present value of minimum lease payments | $ 67,000 |

OPERATING LEASES

Enzo Clinical Labs, Inc. ("Enzo Clinical Labs"), a wholly-owned subsidiary of the Company, leases its office and laboratory space under several leases which expire between September 1, 1997 and November 30, 2004. Certain officers of the Company own the building which Enzo Clinical Labs uses as its main facility. In addition to the minimum annual rentals of space, this lease is subject to an escalation clause. Rent expense under this lease approximated $791,000, $751,000 and $ 684,000 in fiscal 1997, 1996 and 1995, respectively.

Total consolidated rent expense incurred by the Company during fiscal 1997, 1996 and 1995 was approximately $1,149,000, $1,227,000 and $1,132,000, respectively. Minimum annual rentals under operating lease commitments for fiscal years ending July 31 are as follows:

| | |
|---|---|
| 1998 | $ 1,030,000 |
| 1999 | 1,007,000 |
| 2000 | 1,032,000 |
| 2001 | 1,058,000 |
| 2002 | 1,088,000 |
| Thereafter | 2,698,000 |
| | $7,913,000 |





Note 7 - LITIGATION

On October 19, 1994, the Company executed an agreement in settlement of various disputes in relation to research and development agreements between the Company and Ortho Diagnostic Systems Inc.("Ortho"), a subsidiary of Johnson & Johnson(J&J). Pursuant to this settlement agreement, the Company received $ 15.0 million in cash, of which $6.5 million related to amounts due under the agreements referred to above, and a promissory note requiring J&J and Ortho to pay a total of $ 5.0 million a year for each of the four successive anniversaries of said date. 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. These future payments are recorded at their net present value of $ 9.7 million at July 31, 1997 in the accompanying consolidated balance sheet, using a discount rate of 5.25%.

CALGENE, INC.

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. 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, alleging 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 Patent Office. The Complaint further charges that Hutchinson is infringing and inducing Calgene to infringe the Company's antisense patents.

On February 2, 1996, the Delaware Court issued an opinion ruling against Enzo and in favor of Calgene, finding certain Enzo claims infringed, but the patent, as a whole not infringed, and finding the claims at issue for lack of enablement. Calgene's 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. Enzo intends to appeal from any adverse judgment. There can be no assurance that the Company will be successful in any of the foregoing matters or that Calgene, Inc. 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.





NOTE 8 - INCOME TAXES

The tax provision (benefit) is calculated under the provisions in Statement of Financial Accounting Standards (SFAS) No. 109 "Accounting for Income Taxes".

<TABLE>
<CAPTION>

| | 1997 | 1996 | 1995 |
|---|---|---|---|
| Current | | | |
| <S> | <C> | <C> | <C> |
| Federal | $38,000 | $ --- | $400,000 |
| State and local | 73,000 | 199,100 | 881,900 |
| Deferred | | | |
| Federal | --- | --- | 5,650,000 |
| State and local | --- | --- | 1,799,300 |
| Change in deferred tax asset valuation reserve related to net operating losses | --- | --- | (4,600,000) |
| Provision for income taxes | $ 111,000 | $199,100 | $4,131,200 |

</TABLE>

Current Federal income taxes provided for in fiscal 1997 are based on the alternative minimum tax method.

Current State and local income taxes provided for in fiscal 1997 and 1996 relate primarily to state and local taxes computed based upon capital.

Income taxes of approximately $ 1,300,000 provided for in the fourth quarter of fiscal 1995 are primarily calculated on the alternative minimum tax method.

Deferred income taxes arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. The components of deferred income taxes are as follows:





NOTE 8- INCOME TAXES (CONT'D)

<TABLE>
<CAPTION>

| | 1997 | 1996 | 1995 |
|---|---|---|---|
| Deferred tax liability: | | | |
| <S> | <C> | <C> | <C> |

| | | | |
|---|---|---|---|
| Deferred patent costs | $(1,986,000) | $(2,037,000) | $(2,076,000) |
| Other | --- | --- | (310,000) |
| Total deferred tax liabilities | (1,986,000) | (2,037,000) | (2,386,000) |
| Deferred tax assets: | | | |
| Writedown of leasehold interest | --- | --- | 7,573,000 |
| Provision for uncollectable accounts receivable | 1,163,000 | 1,240,000 | 574,000 |
| Net operating loss carryforwards | 8,656,000 | 9,543,000 | 36,000 |
| Alternative minimum tax credits | 577,000 | 403,000 | 600,000 |
| Other | 414,000 | 422,000 | 352,000 |
| | 10,810,000 | 11,608,000 | 9,135,000 |
| Valuation allowance for deferred tax assets | (8,824,000) | (9,571,000) | (6,749,000) |
| Net deferred tax asset | $ 0 | $ 0 | $ 0 |

</TABLE>

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax asset will be realized. The ultimate realization of the deferred tax asset is dependent upon the generation of future taxable income. Management considers scheduled reversals of deferred tax liabilities, projected future taxable income and tax planning strategies which can be implemented by the Company in making this assessment. The Company has provided a full valuation allowance for the net deferred tax asset at July 31, 1997, 1996 and 1995.

The Company has net operating loss carryforwards of approximately $ 20,726,000 which are due to expire in 2011. The Company also has alternative minimum tax credits which do not expire.

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

<TABLE>
<CAPTION>

| | 1997 | 1996 | 1995 |
|---|---|---|---|
| <S> | <C> | <C> | <C> |
| Federal statutory rate | 34% | 34% | 34% |
| Expenses not deductible for income tax return purposes | 13% | (2%) | 2% |
| State income taxes, net of federal | 4% | (2%) | 10% |
| Federal alternative minimum tax | 3% | --- | --- |
| No benefit of net operating losses | --- | (33%) | 44% |
| Change in valuation reserve related to benefits from operating losses | (47%) | --- | (48%) |
| | 7% | (3%) | 42% |

</TABLE>





NOTE 9 - STOCK OPTIONS AND WARRANTS

The Company has a nonqualified stock option plan, an incentive stock option plan and a restricted stock incentive plan and has issued other options and warrants, as described below. All share information has been adjusted to reflect the 5% stock dividends declared on September 13, 1996 and June 5, 1995.

NONQUALIFIED STOCK OPTION PLAN

The Company has a nonqualified stock option plan (the "Plan") under which options for up to 793,800 shares of Common Stock may be issued. No additional options may be granted under such plan. The exercise price of options granted under the terms of the Plan will be determined by the Board of Directors.

A summary of nonqualified stock option transactions for the three years ended July 31, 1997 is as follows:

| | NUMBER OF SHARES | EXERCISE PRICE |
|---|---|---|

| | | |
|---|---|---|
| Outstanding - July 31, 1994 and 1995 | 154,492 | $3.07 |
| Exercised | (21,525) | $3.07 |
| Outstanding - July 31, 1996 | 132,967 | $3.07 |
| Exercised | (132,967) | $3.07 |
| Outstanding - July 31, 1997 | --- | |

The options granted are generally exercisable at 25% per year after one year and expire ten years after the date of grant.

INCENTIVE STOCK OPTION PLAN

The Company has an incentive stock option plan ("1983 plan") under which the Company may grant options for up to 992,250 shares of common stock. No additional options may be granted under the 1983 plan. The exercise price of options granted under such plan is equal to or greater than fair market value of the common stock on the date of grant. The Company has stock option plans ("1993 plan" and "1994 plan") under which the Company may grant options for up to 1,653,750 shares (1993 plan) and for up to 1,047,375 shares (1994 plan) of common stock. The options granted pursuant to the plans may be either incentive stock options or nonstatutory options. To date, the Company has only granted incentive stock options under these plans.





NOTE 9 - STOCK OPTIONS AND WARRANTS (CONT'D)

The Company has elected to comply with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related Interpretations, in accounting for its stock options because, as discussed below, the alternative fair value accounting provided for under SFAS No. 123, requires use of option valuation models which were not developed for use in valuing employee stock options. Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the data of grant, no compensation expense is recognized.

Pro-forma information regarding net income and net income per share is required by FAS 123, and has been determined as if the Company had accounted for its stock options under the fair value method of that statement. The fair value for these options was estimated at the date of grant using a Black-Sholes option pricing model with the following weight-average assumptions: risk free interest rates, ranging from 5.57% to 6.88%; no dividend yield; volatility factor of the expected market price of the Company's Common Stock of 72% and a weighted-average expected life of the options of 7 years at July 31, 1997 and 1996.

The Black-Sholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions incliding the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information is as follows:

| | 1997 | 1996 |
|---|---|---|
| Pro forma net income (loss) | $ 477,000 | $ (8,225,000) |
| Pro forma net income (loss) per share | $ 0.02 | $ (0.36) |

The FAS 123 method of accounting has not been applied to options granted prior to Aug 1, 1995. As a result, the pro forma compensation cost may not be representative of that to be expected in future years.





NOTE 9 - STOCK OPTIONS AND WARRANTS (CONT'D)

A summary of the information pursuant to the Company's stock options plans for the years ended July 31, 1997 and 1996 under FAS 123 and for the year ended July 31,1995 under APB 25 are as follows:

<TABLE>
<CAPTION>

| | 1997 | | 1996 | | 1995 | |
|---|---|---|---|---|---|---|
| | OPTIONS | WEIGHTED AVERAGE EXERCISE PRICE | OPTIONS | WEIGHTED AVERAGE EXERCISE PRICE | OPTIONS | EXERCISE PRICE |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| Outstanding at beginning of year | 2,046,439 | $ 8.12 | 1,874,085 | $ 7.05 | 1,694,001 | |
| Granted | 111,000 | 15.53 | 357,525 | 14.16 | 298,778 | 8.73 - 10.31 |
| Exercised | (70,113) | 6.15 | (117,210) | 4.34 | (115,938) | 1.36 - 7.03 |
| Terminated | (63,527) | 11.15 | (67,961) | 7.57 | (2,756) | 3.07 |
| Outstanding at end of year | 2,023,799 | $ 8.52 | 2,046,439 | $ 8.12 | 1,874,085 | $ 1.36 - 14.52 |
| Exercisable at end of year | 1,377,384 | | 1,049,837 | | 868,534 | |
| Weighted average fair value of options granted during year | $ 11.40 | | $ 10.29 | | | |

</TABLE>

The following table summarizes information for stock options outstanding at July 31, 1997:

| EXERCISE PRICE | OPTIONS OUTSTANDING | OPTIONS EXERCISABLE |
|---|---|---|
| $ 1.36 - 3.13 | 364,096 | 364,096 |
| 3.13 - 7.19 | 264,600 | 264,600 |
| 7.19 - 16.54 | 1,361,853 | 744,750 |
| 16.54 - 38.05 | 33,250 | 3,938 |
| | 2,023,799 | 1,377,384 |

The weighted average remaining contractual life of these options is 6.5 years.

Incentive stock options generally become exercisable at 25% per year after one year and expire tens years after the date of grant.





Note 9 - STOCK OPTIONS AND WARRANTS (CONT'D)

RESTRICTED STOCK INCENTIVE PLAN

The Company has a restricted stock incentive plan whereby the Company may award up to 220,500 shares of its common stock. Under the terms of the plan, any shares issued are restricted in regard to sales and transfers for a period of five years after award. Such restrictions begin to expire at 25% per year after the second year of ownership. As of July 31, 1997, the Company has not awarded any shares of common stock under this plan.

OTHER OPTIONS AND WARRANTS

In fiscal 1982, the Company issued 33,736 warrants in connection with the sale of stock. These warrants were exercisable at $8.31 per share through June 1996 of which 16,868 warrants were exercised in fiscal 1994 and in fiscal 1996. As part of the restructuring of the Debenture in November 1991, the Company issued additional warrants to purchase 283,343 shares of common stock with an exercise price of $1.81 per share expiring ten years after the date of issue. In fiscal 1996 and 1995, 7,140 and 4,410 of these warrants were exercised, respectively. In connection with the issuance of newly issued shares of the Company's Common Stock to a private investor in fiscal 1994, the Company issued warrants to purchase 275,625 shares of common stock with exercise prices ranging from $7.26

to $10.89 per share. In fiscal 1996 and 1995, 121,275 and 110,250 of these warrants were exercised, respectively and as of July 31, 1996, all of these warrants have been exercised. In fiscal 1996, the Company issued warrants to purchase 85,575 shares of common stock with an exercise price ranging from $9.51 to $16.67 per share which expire five years after the date of issue. In fiscal 1996, 9,975 of these warrants were exercised and 12,075 were canceled.

* * * * * *

As of July 31, 1997, the Company has reserved 4,130,978 shares under the arrangements described above.

NOTE 10 - COMMITMENTS

The Company has an exclusive licensing agreement to an invention covered by licensed patents. Under this agreement, the Company is required to make certain minimum royalty payments of $200,000 per year through the life of the patents.





Note 11 - Lines of business

The Company operates two lines of business: (i) conducting research and development activity and selling products derived from such research and (ii) operating a clinical reference laboratory which provides diagnostic services to the health care community. The following financial information (in thousands) with respect to such lines of business (industry segments) is based on the guidelines contained in Statement of Financial Accounting Standards No. 14.

<TABLE>
<CAPTION>

| | AT JULY 31, 1997 AND FOR THE YEAR THEN ENDED | | | AT JULY 31, 1996 AND FOR THE YEAR THEN ENDED | |
|---|---|---|---|---|---|
| | RESEARCH AND DEVELOPMENT | CLINICAL REFERENCE LABORATORIES | TOTAL | RESEARCH AND DEVELOPMENT | CLINICAL REFERENCE LABORATORIES |
| Operating revenues: | | | | | |
| <S> | <C> | <C> | <C> | <C> | <C> |
| Sales and diagnostic services | $13,190 | $21,749 | $34,939 | $12,946 | $21,544 |
| Operating profit (loss) | $409 | $1,565 | $1,974 | $449 | $124 |
| Investment income | | | 1,817 | | |
| Corporate expenses | | | (2,227) | | |
| Writedown of leasehold interest and related costs | | | --- | | |
| Litigation settlement, net of legal fees | | | --- | | |
| | | | ----- | | |
| Income (loss) before provision for taxes on income | | | $1,564 | | |
| Identifiable assets | $18,034 | $24,097 (a) | $42,131 | $22,309 | $22,731(a) |
| Corporate assets, principally cash and cash equivalents, short-term investments and building under capital leases | | | 25,288 | | |
| | | | $67,419 | | |
| Depreciation and amortization | $629 | $1,216 | $1,845 | $576 | $1,236 |
| Property and equipment expenditures | $86 | $605 | $691 | $45 | $388 |
| Corporate property and equipment expenditures | | | --- | | |
| | | | --- | | |
| | | | $691 | | |

<CAPTION>

| | AT JULY 31, 1995 AND FOR THE YEAR THEN ENDED | |
|---|---|---|
| | RESEARCH AND | CLINICAL REFERENCE |

| | TOTAL | DEVELOPMENT | LABORATORIES | TOTAL |
|---|---|---|---|---|
| Operating revenues: | | | | |
| <S> | <C> | <C> | <C> | <C> |
| Sales and diagnostic services | $34,490 | $9,548 | $22,152 | $31,700 |
| Operating profit (loss) | $573 | $479 | $2,146 | $2,625 |
| Investment income | 1,667 | | | 1,077 |
| Corporate expenses | (2,135) | | | (4,413) |
| Writedown of leasehold interest and related costs | (7,613) | | | (11,400) |
| Litigation settlement, net of legal fees | --- | | | 21,860 |
| Income (loss) before provision for taxes on income | $(7,508) | | | $9,749 |
| Identifiable assets | $45,040 | $27,196 | $23,867 (a) | $51,063 |
| Corporate assets, principally cash and cash equivalents, short-term investments and building under capital leases | 17,798 | | | 21,395 |
| | $62,838 | | | $72,458 |
| Depreciation and amortization | $1,812 | $514 | $1,202 | $1,716 |
| Property and equipment expenditures | $433 | $41 | $989 | $1,030 |
| Corporate property and equipment expenditures | 266 | | | 132 |
| | $699 | | | $1,162 |

</TABLE>

(a) Includes cost in excess of fair value of net tangible assets acquired of $9,305 in 1997, $9,675 in 1996 and $10,046 in 1995.



ENZO BIOCHEM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 1997, 1996 and 1995

NOTE 12 - 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, 1997, 1996 and 1995, the Company has authorized employer contributions of 50%, 25% and 25%, respectively, of the employees' contribution up to 6% of the employees' compensation in Enzo Biochem, Inc. common stock. The 401(k) employer contributions expense converted into the Company's common stock was $ 129,000 and $ 146,000 in fiscal year 1997 and 1996, respectively.

NOTE 13 - STOCK DIVIDEND

On June 5, 1995, the Company declared a 5% stock dividend paid July 31, 1995 to shareholders of record as of July 3, 1995. The stock price on the date of declaration was $10.125. The dividend has been charged against accumulated deficit to the extent of net income in fiscal 1995. On September 13, 1996, the Company declared another 5% stock dividend payable on October 29, 1996 to shareholders of record as of October 8, 1996. The stock price on the date of declaration was $ 16.875. The dividend was not charged against accumulated deficit due to the net loss in fiscal 1996.



ENZO BIOCHEM, INC.
SCHEDULE II - VALUATION
AND QUALIFYING ACCOUNTS
Years ended July 31, 1997, 1996 and 1995

<TABLE>
<CAPTION>

| | | ADDITIONS | |
|---|---|---|---|

| DESCRIPTION | BALANCE AT BEGINNING OF PERIOD | CHARGED TO COSTS AND EXPENSES | CHARGED TO OTHER ACCOUNTS | (ADDITIONS) DEDUCTIONS | BALANCE AT END OF PERIOD |
|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> |
| 1997 | | | | | |
| Allowance for doubtful accounts receivable | $5,398,000 | $5,633,600 | --- | $ 6,926,600 (1) | $4,105,000 |
| Allowance for deferred tax valuation | $9,571,000 | --- | --- | $ 747,000 | $8,824,000 |
| 1996 | | | | | |
| Allowance for doubtful accounts receivable | $2,127,000 | $6,702,900 | --- | $3,431,900 (1) | $5,398,000 |
| Allowance for deferred tax valuation | $6,749,000 | --- | --- | $(2,822,000) | $9,571,000 |
| 1995 | | | | | |
| Allowance for doubtful accounts receivable | $1,956,000 | $3,845,600 | --- | $3,674,600 (1) | $2,127,000 |
| Allowance for deferred tax valuation | $7,092,000 | --- | --- | $ 343,000 | $6,749,000 |

</TABLE>

(1) Write-off of uncollectable accounts receivable.



INDEX

OF

EXHIBITS FILED WITH

FORM 10-K FOR FISCAL YEAR ENDED

JULY 31, 1997

OF

ENZO BIOCHEM, INC.

EXHIBIT 11

ENZO BIOCHEM, INC.
COMPUTATION OF PER-SHARE EARNINGS
Years ended July 31, 1997, 1996 and 1995

<TABLE>
<CAPTION>

| | 1997 | 1996* | 1995* |
|---|---|---|---|
| Primary | | | |
| <S> | <C> | <C> | <C> |
| Average shares outstanding | 23,028,000 | 22,593,000 | 22,005,200 |
| Net effect of dilutive stock options and warrants -- based on the treasury stock method using average market price | 1,217,000 | --- | 1,069,900 |
| Total | 24,245,000 | 22,593,000 | 23,075,100 |
| Net income (loss) | $1,452,800 | $(7,707,500) | $5,618,100 |
| Per common and common equivalent share | | | |
| Net income (loss) | $.06 | ($.34) | $.24 |

</TABLE>

*Shares and per share amounts have been adjusted for the 5% stock dividend declared in fiscal 1995 and for the 5% stock dividend declared in September 1996.

EXHIBIT 23

Consent of Independent Auditors

We consent to the incorporation by reference in the Registration Statements (Forms S-3, No. 333-15533, 33-58736, 33-60229, 33-78760, 33-72170, 33-68542 and Forms S-8 No. 33-45348, 33-75466 and 33-88826) of Enzo Biochem, Inc. and in the related Prospectus of our report dated October 10, 1997, with respect to the consolidated financial statements and schedule of Enzo Biochem, Inc. included in this Annual Report (Form 10-K) for the fiscal year ended July 31, 1997.

/s/ Ernst & Young LLP

Melville, New York
October 29, 1997

<TABLE> <S> <C>

<ARTICLE> 5
<CIK> 0000316253
<NAME> ENZO BIOCHEM, INC.
<MULTIPLIER> 1,000

| <S> | <C> | |
|---|---|---|
| <PERIOD-TYPE> | YEAR | |
| <FISCAL-YEAR-END> | | JUL-31-1997 |
| <PERIOD-START> | | AUG-01-1996 |
| <PERIOD-END> | | JUL-31-1997 |
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| <OTHER-SE> | | 90,736 |
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| <CGS> | | 15,563 |
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| <INCOME-PRETAX> | | 1,564 |
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<FN>
<F1>Not applicable.
</FN>

</TABLE>