ENZO BIOCHEM INC
Form 10-Q
June 09, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Mark one

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

For the quarterly period ended April 30, 2010

or

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

For the transition period from ___________________ to ___________________

Commission File Number 001-09974

ENZO BIOCHEM, INC.

(Exact name of registrant as specified in its charter)

New York	13-2866202
(State or Other Jurisdiction of Incorporation or Organization)	(IRS. Employer Identification No.)
527 Madison Ave, New York, New York	10022
(Address of Principal Executive office)	(Zip Code)
212-583-0100	

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

Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 45 of Regulation S-T (§232.405 of that chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files).

Yes o No o

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

Large accelerated filer o Accelerated filer x Non-accelerated filer o Smaller reporting company o

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

Yes o No x

As of June 1, 2010 the Registrant had approximately 38,150,800 shares of common stock outstanding.

ENZO BIOCHEM, INC.
FORM 10-Q
April 30, 2010

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PART I - FINANCIAL INFORMATION

Part 1 Financial Information
Item 1 Financial Statements

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

	April 30, 2010 (unaudited)	July 31, 2009 (audited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 8,597	$ 6,929
Short term investments	25,805	43,306
Accounts receivable, net of allowances	12,038	12,480
Inventories	10,191	9,264
Prepaid expenses and other	2,101	2,482
Total current assets	58,732	74,461
Property, plant and equipment, net	11,927	11,323
Goodwill	24,773	24,896
Intangible assets, net	20,664	22,009
Other	392	439
Total assets	$ 116,488	$ 133,128
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable trade	$ 4,531	$ 4,242
Accrued liabilities	6,526	8,426
Other current liabilities	1,048	1,062
Deferred taxes	195	213
Total current liabilities	12,300	13,943
Deferred revenue		38
Deferred taxes	2,148	2,366
Commitments and contingencies		
Stockholders equity:		
Preferred Stock, $.01 par value; authorized 25,000,000 shares; no shares issued or outstanding		
Common Stock, $.01 par value; authorized 75,000,000 shares; shares issued: 38,774,611 at April 30, 2010 and 38,589,880 at July 31, 2009	388	386
Additional paid-in capital	306,242	306,280
Less treasury stock at cost: 623,848 shares at April 30, 2010 and 735,554 at July 31, 2009	(8,854)	(10,440)
Accumulated deficit	(196,441)	(179,721)
Accumulated other comprehensive income	705	276
Total stockholders equity	102,040	116,781
Total liabilities and stockholders equity	$ 116,488	$ 133,128

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

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

	Three Months Ended April 30, 2010	Three Months Ended April 30, 2009	Nine Months Ended April 30, 2010	Nine Months Ended April 30, 2009
Revenues:				
Product revenues	$ 11,089	$ 10,479	$ 32,599	$ 29,952
Royalty and license fee income	1,894	1,963	7,044	6,783
Clinical laboratory services	10,805	10,619	32,494	28,306
	23,788	23,061	72,137	65,041
Operating expenses:				
Cost of product revenues	5,394	6,812	15,771	20,208
Cost of clinical laboratory services	7,588	6,543	21,623	19,115
Research and development	2,479	2,425	7,273	6,645
Selling, general, and administrative	12,070	10,026	36,841	29,633
Provision for uncollectible accounts receivable	650	715	2,073	3,949
Legal	(127)	859	1,030	3,356
Litigation settlement and related legal costs			3,698	
Total operating expenses	28,054	27,380	88,309	82,906
Operating loss	(4,266)	(4,319)	(16,172)	(17,865)
Other income (expense):				
Interest	(1)	17	13	569
Other	84	(43)	39	108
Foreign currency (loss) gain	(216)	119	(384)	(837)
Loss before income taxes	(4,399)	(4,226)	(16,504)	(18,025)
Provision for income taxes	(177)	(16)	(216)	(260)
Net loss	$ (4,576)	$ (4,242)	$ (16,720)	$ (18,285)
Net loss per common share:				
Basic and Diluted	$ (0.12)	$ (0.11)	$ (0.44)	$ (0.49)
Weighted average common shares outstanding:				
Basic and Diluted	38,095	37,484	37,950	37,423

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

ENZO BIOCHEM, INC
CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY
AND COMPREHENSIVE LOSS
Nine months ended April 30, 2010
(UNAUDITED)
(In thousands, except share data)

	Common Stock Shares	***Treasury Stock Shares***	**Common Stock Amount**	**Additional Paid-in Capital**	**Treasury Stock Amount**	**Accumulated Deficit**	**Accumulated Other Comprehensive Income**	**Total Stockholders Equity**	**Comprehensive Loss**
Balance at July 31, 2009	*38,589,880*	*735,554*	$ 386	$ 306,280	$ (10,440)	$ (179,721)	$ 276	$ 116,781	
Net loss for the period ended April 30, 2010						(16,720)		(16,720)	$ (16,720)
Vesting of restricted stock	184,731		2					2	
Stock based compensation charges				851				851	
Issuance of treasury stock for employee 401(k) plan match		*(111,706)*		(889)	1,586			697	
Foreign currency translation adjustments							429	429	429
Comprehensive loss									$ (16,291)
Balance at April 30, 2010	38,774,611	*623,848*	$ 388	$ 306,242	$ (8,854)	$ (196,441)	$ 705	$ 102,040	

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

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

	Nine Months Ended April 30, 2010	2009
Cash flows from operating activities:		
Net loss	$ (16,720)	$ (18,285)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization of property, plant and equipment	2,050	1,533
Amortization of intangible assets	1,174	818
Provision for uncollectible accounts receivable	2,073	3,949
Write off and/or reserve taken for obsolete inventory	(9)	175
Deferred income tax benefit	(136)	(237)
Share based compensation charges	851	1,016
Deferred revenue recognized	(337)	(358)
Foreign currency loss on intercompany loan	237	813
Issuance of treasury stock for 401(k) employer match	697	582
Changes in operating assets and liabilities:		
Accounts receivable	(1,574)	(2)
Inventories	(798)	1,649
Prepaid expenses	388	721
Accounts payable trade	336	(1,836)
Accrued liabilities	(1,759)	883
Other current liabilities	286	(158)
Total adjustments	3,479	9,548
Net cash used in operating activities	(13,241)	(8,737)
Cash flows from investing activities:		
Purchases of short term investments	(177,028)	(273,956)
Maturities of short term investments	194,529	226,253
Capital expenditures	(2,569)	(2,156)
Decrease in security deposits and other assets	25	368
Acquisition, including costs paid		(12,738)
Net cash provided by (used in) investing activities	14,957	(62,229)
Cash flows from financing activities:		
Proceeds from the exercise of stock options		348
Net cash provided by financing activities		348
Effect of exchange rate changes on cash and cash equivalents	(48)	(150)
Increase (decrease) in cash and cash equivalents	1,668	(70,768)
Cash and cash equivalents - beginning of period	6,929	78,322
Cash and cash equivalents - end of period	$ 8,597	$ 7,554

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

ENZO BIOCHEM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of April 30, 2010
and for the nine month period ended
April 30, 2010 and 2009
(Unaudited)

Note 1 Basis of Presentation

The accompanying consolidated financial statements include the accounts of Enzo Biochem, Inc. and its wholly-owned subsidiaries, Enzo Clinical Labs, Enzo Life Sciences, Enzo Therapeutics and Enzo Realty LLC, collectively referred to as the Company or Companies . The consolidated balance sheet as of April 30, 2010, the consolidated statement of stockholders equity and comprehensive loss for the nine months ended April 30, 2010, the consolidated statements of cash flows for the nine months ended April 30, 2010 and 2009, and the consolidated statements of operations for the three and nine months ended April 30, 2010 and 2009, are unaudited. In the opinion of management, all adjustments (which include normal recurring adjustments) necessary to present fairly the financial position and operating results for the interim periods have been made. Certain information and footnote disclosure, normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States, have been condensed or omitted. The consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended July 31, 2009 and notes thereto contained in the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission. The consolidated balance sheet at July 31, 2009 has been derived from the audited financial statements at that date. The results of operations for the three and nine months ended April 30, 2010 are not necessarily indicative of the results that may be expected for the fiscal year ending July 31, 2010.

Recent Accounting Pronouncements

Effective August 1, 2009, the Company adopted The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC or Codification) of Generally Accepted Accounting Principles Overall . The Codification established one source for all U.S. GAAP and became the source of authoritative accounting principles for nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification is not intended to change existing GAAP and as such did not have an impact on the consolidated financial statements of the Company.

The adoption of the following accounting standards and updates during the first nine months of fiscal 2010 did not result in a significant impact to our consolidated financial statements.

Effective August 1, 2009, we adopted the revised accounting standard relating to business combinations, including assets acquired and liabilities assumed arising from contingencies. This standard requires the use of the acquisition method of accounting, defines the acquirer, establishes the acquisition date and applies to all transactions and other events in which one entity obtains control over one or more other businesses. Upon our adoption of this standard, we will be required to expense certain transaction costs and related fees associated with business combinations that were previously capitalized. In addition, with the adoption of this standard, changes to valuation allowances for acquired deferred income tax assets and adjustments to unrecognized tax benefits acquired generally are to be recognized as adjustments to income tax expense rather than goodwill.

Effective August 1, 2009, we adopted the accounting standard regarding the determination of the useful life of intangible assets that removes the requirement to consider whether an intangible asset can be renewed without substantial cost or material modifications to the existing terms and conditions, and replaces it with a requirement that an entity consider its own historical experience in renewing similar arrangements, or a consideration of market participant assumptions in the absence of historical experience. This standard also requires entities to disclose information that enables users of financial statements to assess the extent to which the expected future cash flows associated with the asset are affected by the entity s intent and/or ability to renew or extend the arrangements.

Reclassifications

Certain amounts in fiscal 2009 have been reclassified to conform to current year presentation. In fiscal 2009, the Company reclassified certain payroll taxes and employee benefits included in selling, general and administrative expense to cost of sales. The payroll taxes and benefits reclassified were approximately $401,000 and $1,162,000, respectively for the three and nine months ended April 30, 2009.

Note 2 Short-term Investments

At April 30, 2010 and July 31, 2009, the Company s short-term investments, whose fair value approximates cost, are in U.S. Government Treasury bills, which are purchased at discounts with remaining maturities of less than ninety days.

The Company has adopted the accounting pronouncement that establishes a common definition for fair value to be applied to existing GAAP that require the use of fair value measurements, establishes a framework for measuring fair value and expands disclosure about such fair value measurements. The adoption of the pronouncement did not have an impact on the Company s financial position or operating results, but did expand certain disclosures.

The pronouncement defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Additionally, the pronouncement requires the use of valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized below:

Level 1: Observable inputs such as quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs for which there is little or no market data, which require the use of the reporting entity s own assumptions.

At April 30, 2010 and July 31, 2009, the Company s short-term investments are classified as Level 1 assets.

Note 3 Acquisitions

Assay Designs, Inc.

On March 12, 2009, Enzo Life Sciences, Inc. and Enzo Life Sciences Acquisition, Inc., a newly formed wholly owned subsidiary of Enzo Life Sciences, Inc. (Acquisition Sub), entered into an asset purchase agreement (Purchase Agreement) with Assay Designs, Inc. (Assay Designs). Assay Designs, a privately owned company with annual sales of approximately $11 million, was engaged in researching, developing, manufacturing, distributing, marketing and selling specialty immunological and biochemical protein detection kits, assays, reagents, antibodies, recombinant proteins and related products and providing related services for use in the biotechnology, pharmaceutical and life sciences research industries (Business). Under the terms of the Purchase Agreement, Acquisition Sub purchased from Assay Designs substantially all of its assets, including trade accounts receivable, inventory, fixed assets, and intellectual property, used in or related to the Business and assumed certain of Assay Designs liabilities, including trade accounts payable, capital lease obligations and certain other current liabilities.

The execution of the Purchase Agreement and the closing of the transaction occurred simultaneously on March 12, 2009. The purchase price consisted of $12,228,000 in cash, exclusive of acquisition costs of approximately $540,000, and was subject to an upward or downward post-closing purchase price adjustment based on Assay Designs working capital as of the closing date, $100,000 of which was held in escrow for approximately 60-90 days to secure the payment of any downward post-closing purchase price adjustment and $750,000 of which was held in escrow for 12 months to secure the payment of any indemnification obligations of Assay Designs under the Purchase Agreement. The $100,000 and $750,000 were released by the escrow agent in June 2009 and March 2010, respectively. Subsequent to the acquisition date, the Company paid $270,000 in additional purchase price in connection with the working capital adjustment and released the escrow amounts. The cost of the acquisition included costs to consolidate a leased facility and the involuntary termination of certain employees, which occurred during the measurement period. The Assay Designs Acquisition strengthened the Company s position as a global provider of life sciences reagents by broadening our product offerings and manufacturing capabilities.

The acquisition was funded with the Company s cash. Effective March 12, 2009, Assay Designs became a wholly-owned subsidiary of Enzo Life Sciences. The consolidated financial statements include the results of operations for Assay Designs from the date of acquisition.

The following table presents the fair values of the assets acquired and liabilities assumed (in thousands):

Current assets	$	4,235
Property and equipment		1,747
Other assets		11
Intangible assets		6,360
Goodwill		1,823
Total assets acquired		14,176
Less:		
Current liabilities		1,115
Total liabilities assumed		1,115
Net assets acquired	$	13,061

The purchase price allocation is based on a valuation of acquired tangible and intangible assets based on the final valuation completed in fiscal 2010. The Company determined the fair value of the identifiable intangible assets based on various factors including: cost, discounted cash flow and relief from royalty approaches in determining the purchase price allocation. The excess of the total purchase price over the fair value of the net assets acquired, including the estimated fair value of the identifiable intangible assets, has been allocated to goodwill.

Biomol International, L.P.

On May 8, 2008, Enzo Life Sciences, Inc. acquired substantially all of the U.S. based assets and certain liabilities of Biomol International, LP (Biomol LP) through a newly formed US subsidiary Biomol International, Inc. and all of the stock of Biomol s wholly-owned United Kingdom subsidiary, Affinity Limited, through Axxora UK, a wholly-owned subsidiary of Enzo Life Sciences, collectively referred to as Biomol for approximately $18.1 million in cash and stock, subject to adjustment, exclusive of acquisition costs of approximately $800,000 and two contingent earn-out payments accounted for as additional purchase consideration if and when the contingencies are resolved beyond a reasonable doubt. At closing, the purchase price was satisfied as follows: $12.9 million in cash was paid to Biomol LP, issuance of 352,000 shares of Enzo common stock, at fair market value, to Biomol LP, $1.5 million in cash was paid to an escrow agent for the two-year period following the closing to satisfy any indemnification obligations of the sellers under the Agreement and $550,000 was paid to an escrow agent, for the 60 day period following the closing to satisfy any specified purchase price adjustments. The $550,000 and $1.5 million were released by the escrow agent in August 2008 and May 2010, respectively. The earn-outs of $2.5 million on each of the next two anniversaries of the acquisition date will be based on attaining certain revenue and EBITDA targets, as defined. The Agreement provides for the delivery of the earn-out statement within 75 days of the respective anniversary dates. Biomol was a privately owned, closely held global manufacturer and marketer of specialty life sciences research products. Effective May 8, 2008, Biomol became a wholly-owned subsidiary of Enzo Life Sciences. The acquisition was financed with the Company s cash and cash equivalents and Enzo common stock. The consolidated financial statements include the results of operations for Biomol from the date of acquisition. Effective February 2, 2009, the names of Biomol International, Inc. and Affinity Limited were changed to Enzo Life Sciences International, Inc. and Enzo Life Sciences (UK) Ltd., respectively.

In June 2009, the conditions for the first annual earn-out of $2.5 million were met and the Company recorded $2.5 million of additional goodwill. The Company issued 202,196 shares of Enzo common stock at fair value and paid $1.5 million in cash to satisfy the $2.5 million earn-out liability. As of June 9, 2010, the calculation of the second and final earn-out has not been finalized.

The following table presents the fair values of the assets acquired and liabilities assumed (in thousands):

Current assets	$	5,167
Property and equipment		939
Other assets		18
Intangible assets		7,660
Goodwill		9,226
Total assets acquired		23,010
Less:		
Current liabilities		1,100
Deferred tax liabilities		609
Total liabilities assumed		1,709
Net assets acquired	$	21,301

The purchase price allocation is based on a valuation of acquired tangible and intangible assets based on the final valuation completed in fiscal 2009. The Company determined the fair value of the identifiable intangible assets based on various factors including: cost, discounted cash flow and relief from royalty approaches in determining the purchase price allocation. The excess of the total purchase price over the fair value of the net assets acquired, including the estimated fair value of the identifiable intangible assets, has been allocated to goodwill.

For financial reporting purposes, useful lives for the intangibles acquired in the acquisitions have been assigned as follows:

Customer relationships	8-15 years
Trademarks	Indefinite
Other intangibles	4-5 years

The following unaudited pro forma financial information presents the combined results of operations of the Company and the acquisition completed in fiscal 2009 as if the acquisition had occurred as of August 1, 2008. The pro forma financial information reflects appropriate adjustments primarily for amortization of intangible assets and interest expense. The pro forma financial information presented is not necessarily indicative of either the actual consolidated operating results had the acquisitions been completed at the beginning of each period or future operating results of the consolidated entities.

In thousands (except per share amounts)		**Three months ended April 30, 2009**		**Nine months ended April 30, 2009**
Net revenues	$	24,444	$	73,079
Net loss		(4,258)		(18,752)
Net loss per common share basic and diluted	$	(0.11)	$	(0.50)

Note 4 Net loss per share

Basic net income (loss) per share represents net income (loss) divided by the weighted average number of common shares outstanding during the period. The dilutive effect of potential common shares, consisting of outstanding stock options and unvested restricted stock, is determined using the treasury stock method. Diluted weighted average shares outstanding for the three and nine months ended April 30, 2010 and 2009 do not include the potential common shares from stock options and unvested restricted stock because to do so would have been antidilutive. Accordingly, basic and diluted net loss per share is the same during these periods.

The following table summarizes the potential number of shares issued from exercise of in the money stock options, net of shares repurchased with the option exercise proceeds and potential shares from restricted stock awards, which are excluded from the computation of diluted net loss per share.

(In thousands)	Three months ended April 30, 2010	Three months ended April 30, 2009	Nine months ended April 30, 2010	Nine months ended April 30, 2009
Potential net shares, issued from exercise of in the money employee and director stock options and restricted stock awards, excluded from diluted net loss per share calculation				39

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The following table summarizes the number of out of the money options excluded from the computation of diluted net loss per share because the effect of their potential exercise is anti-dilutive.

(In thousands)	Three months ended April 30, 2010	2009	Nine months ended April 30, 2010	2009
Out of the money employee and director stock options	1,132	1,785	1,163	1,743

Note 5 Share-based compensation

The following table sets forth the amount of expense related to share-based payment arrangements included in specific line items in the accompanying statements of operations:

In thousands	Three months ended April 30, 2010	2009	Nine months ended April 30, 2010	2009
Cost of clinical laboratory services	$ 3	$	$ 9	$ 3
Research and development	4	2	10	30
Selling, general and administrative	264	299	832	983
	$ 271	$ 301	$ 851	$ 1,016

No excess tax benefits were recognized during the three and nine month periods ended April 30, 2010 and 2009.

Stock option plans

A summary of the activity relating to the Company s stock option plans for the nine month period ended April 30, 2010 is as follows:

	Options	Weighted Average Exercise Price	Aggregate Intrinsic Value
Outstanding at August 1, 2009	1,191,519	$ 14.41	$
Exercised		$	
Cancelled	(59,069)	$ 16.14	
Outstanding and exercisable at end of period	1,132,450	$ 14.32	$

As of April 30, 2010, there was no unrecognized compensation cost related to unvested stock option-based compensation.

During the nine months ended April 30, 2009, the Company received cash proceeds of approximately $348,000 from the exercise of 44,586 stock options. The aggregate intrinsic value of stock options exercised during the nine months ended April 30, 2009, including the non-cash transactions (Note 6) was approximately $1.4 million.

Restricted Stock Awards

A summary of the activity pursuant to the Company s restricted stock awards for the nine months ended April 30, 2010 is as follows:

	Awards	Weighted Average

		Award Price
Unvested at August 1, 2009	377,400	$ 6.05
Awarded	220,110	$ 5.60
Vested	(184,731)	$ (6.25)
Forfeited	(5,100)	$ (11.64)
Unvested at end of period	407,679	$ 5.65

The fair value of a restricted stock award is determined based on the closing stock price on the award date. As of April 30, 2010, there was approximately $2.0 million of total unrecognized compensation cost related to unvested restricted stock-based compensation to be recognized over a weighted average remaining period of twenty two months.

The total number of shares available for grant as stock options or award as restricted stock is approximately 186,700 as of April 30, 2010.

Note 6 Supplemental disclosure for statement of cash flows

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

	Nine months ended April 30, 2010	Nine months ended April 30, 2009
Taxes paid net	$ 162	$ 181

During the nine months ended April 30, 2009, certain officers of the Company exercised 206,576 stock options in a non-cash transaction. The officers surrendered 99,985 shares of previously acquired common stock to exercise the stock options. The Company recorded approximately $1.1 million, the market value of the surrendered shares, as treasury stock. There were no stock options exercises during the nine months ended April 30, 2010.

Note 7 Comprehensive loss and Accumulated Other Comprehensive Income

During the three months ended April 30, 2010 and 2009, total comprehensive loss was approximately $4.4 million and $4.0 million, respectively. During the nine months ended April 30, 2010 and 2009, total comprehensive loss was approximately $16.3 million and $20.1 million, respectively.

Note 8- Inventories

At April 30, 2010 and July 31, 2009 inventories, net of reserves of $1.0 million consist of:

In thousands	April 30, 2010	July 31, 2009
Raw materials	$ 840	$ 499
Work in process	2,174	1,801
Finished products	7,177	6,964
	$ 10,191	$ 9,264

Note 9 Goodwill and intangible assets

The Company s change in the net carrying amount of goodwill by business segment is as follows (in thousands):

	Enzo Life Sciences	Enzo Clinical Labs	Total
Balance August 1, 2009	$ 17,444	$ 7,452	$ 24,896
Other	20		20
Foreign currency translation	(143)		(143)
Balance April 30, 2010	$ 17,321	$ 7,452	$ 24,773

Intangible assets, all of which are included in the Life Sciences segment, consist of the following (in thousands):

April 30, 2010		July 31, 2009	
Gross	Net	Gross	Net

		Accumulated Amortization			Accumulated Amortization	
Finite-lived intangible assets:						
Patents	$ 11,027	$ (10,122)	$ 905	$ 11,027	(10,030)	$ 997
Customer relationships	12,019	(1,920)	10,099	12,125	(1,190)	10,935
Non-compete and employment agreements	469	(365)	104	469	(280)	189
Website and acquired content	1,001	(442)	559	1,005	(303)	702
Licensed technology and other	617	(256)	361	588	(83)	505
Indefinitely-lived intangible assets:						
Trademarks	8,636		8,636	8,681		8,681
Total	$ 33,769	$ (13,105)	$ 20,664	$ 33,895	$ (11,886)	$ 22,009

At April 30, 2010, the weighted average useful life of finite-lived intangible assets was approximately nine and a half years.

Note 10 Accrued Liabilities and Other Current Liabilities

At April 30, 2010 and July 31, 2009, accrued liabilities consist of:

In thousands	April 30, 2010	July 31, 2009
Legal	$ 394	$ 1,095
Payroll, benefits, and commissions	2,429	2,737
Research and development	702	656
Professional fees	1,868	1,752
Other	1,133	2,186
	$ 6,526	$ 8,426

At April 30, 2010 and July 31, 2009, other current liabilities consist of:

In thousands	April 30, 2010	July 31, 2009
Deferred revenue	550	850
State and local taxes, tax on capital	330	
Other	168	212
	$ 1,048	$ 1,062

Self-Insured Medical Plan - In an attempt to help offset the cost of rising health care expenses, beginning in February 2010, the Company began self-funding medical insurance coverage for certain of its U.S. based employees. The risk to the Company is being limited through the use of individual and aggregate stop loss insurance. As of April 30, 2010, the Company has established a reserve of $0.4 million, which is included in accrued liabilities, for claims that have been reported but not paid and incurred but not reported. The reserve is based upon the Company s historical claim experience and will be adjusted based on actual claim settlements and reported claims.

Note 11 - Income taxes

At the end of each interim reporting period, the Company estimates its effective income tax rate expected to be applicable for the full year. This estimate is used to determine the income tax provision or benefit on a year-to-date basis and may change in subsequent interim periods.

The Company s effective tax rate provision for the three months ended April 30, 2010 was 4.0% compared to 0.4% during the three months ended April 30, 2009. The tax provision for the three months ended April 30, 2010 and 2009 was based on state and local taxes, domestic and foreign tax for tax deductible goodwill and indefinite lived intangibles, and book to tax differences for acquired inventory.

The Company s effective tax rate provision for the nine months ended April 30, 2010 was 1.3% compared to 1.4% during the nine months ended April 30, 2009. The tax provision for the nine months ended April 30, 2010 and 2009 was based on state and local taxes, domestic and foreign tax for tax deductible goodwill and indefinite lived intangibles, and book to tax differences for acquired inventory.

The Company s effective tax rate for both periods differed from the expected net operating loss carryforward benefit at the U.S. federal statutory rate of 34% primarily due to the inability to recognize such benefit. The carryforward benefit cannot be recognized because of uncertainties relating to future taxable income in terms of both its timing and its sufficiency, which would enable the Company to realize the federal carryforward benefit.

The Company files a consolidated Federal income tax return. The Company files a combined California, and New York State and City return with certain subsidiaries. Other subsidiaries file separate state and foreign tax returns. With few exceptions, the periods that remain subject to examination are fiscal years ended July 31, 2007 through 2009. In connection with a business combination, the Company recorded as of May 31, 2007 approximately $300,000 for an uncertain tax position, including accrued interest of $39,000, with respect to a deemed dividend. During the nine months ended April 30, 2010, the Company reduced the balance of this liability by approximately $106,000 and recognized a corresponding tax benefit as a result of the expiration of the statute of limitations. The Company s policy is to recognize interest and penalties accrued on any uncertain tax positions as a component of income tax expense.

Note 12 Royalty and licensing income

In fiscal 2005, the Company as plaintiff finalized and executed a settlement and license agreement with Digene Corporation to settle a patent litigation lawsuit (the Agreement). Digene Corporation was acquired by QIAGEN. The license agreement with the Company was assigned to QIAGEN Gaithersburg Inc. (Qiagen).

The Agreement provides for the Company to receive quarterly running royalties on the net sales of Qiagen products subject to the license until the expiration of the patent in April 2018. During the three months ended April 30, 2010 and 2009, the Company recorded royalties from the Agreement of approximately $1.1 million and $1.3 million, respectively, and during both nine month periods ended April 30, 2010 and 2009 recorded approximately $4.8 million.

During both three months periods ended April 30, 2010 and 2009, the Company recorded $0.7 million of royalties and license fee income under a licensing agreement with Abbott Molecular, Inc. (Abbott) entered into in fiscal 2007. During the nine months ended April 30, 2010 and 2009, the Company recorded $2.2 million and $2.0 million in royalties and license fee income respectively, from this agreement.

Note 13 Segment reporting

The Company has three reportable segments: Life Sciences, Therapeutics, and Clinical Labs. The Company s Life Sciences segment develops, manufactures, and markets products to research and pharmaceutical customers. The Company s Therapeutic segment conducts research and development activities for therapeutic drug candidates. The Clinical Labs segment provides diagnostic services to the health care community. The Company evaluates segment performance based on segment income (loss) before taxes. Costs excluded from segment income (loss) before taxes and reported as Other, consist of corporate general and administrative costs which are not allocable to the three reportable segments.

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

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

Three months ended April 30, 2010

	Life Sciences	Therapeutics	Clinical Labs	Other	Consolidated
Revenues:					
Product revenues	$ 11,089				$ 11,089
Royalty and license fee income	1,894				1,894
Clinical laboratory services			$ 10,805		10,805
	12,983		10,805		23,788
Operating expenses:					
Cost of product revenues	5,394				5,394
Cost of clinical laboratory services			7,588		7,588
Research and development	1,858	$ 621			2,479
Provision for uncollectible accounts receivable			650		650
Selling, general and administrative and legal	5,054		4,801	$ 2,088	11,943
Total operating expenses	12,306	621	13,039	2,088	28,054
Operating income (loss)	677	(621)	(2,234)	(2,088)	(4,266)
Other income (expense)					
Interest	(2)			1	(1)
Other	77		7		84
Foreign exchange loss	(216)				(216)
Income (loss) before income taxes	$ 536	$ (621)	$ (2,227)	$ (2,087)	$ (4,399)
Depreciation and amortization included above	$ 744	$ 12	$ 249	$ 33	$ 1,037

Share-based compensation included in above:					
Cost of clinical laboratory services	$		3		$ 3
Research and development	4	$			4
Selling, general and administrative and legal	16		$ 21	$ 227	264
Total	$ 20		$ 24	$ 227	$ 271
Capital expenditures	$ 257	$	$ 268	$	$ 525

Three months ended April 30, 2009

	Life Sciences	Therapeutics	Clinical Labs	Other	Consolidated
Revenues:					
Product revenues	$ 10,479				$ 10,479
Royalty and license fee income	1,963				1,963
Clinical laboratory services			$ 10,619		10,619
	12,442		10,619		23,061
Operating expenses:					
Cost of product revenues	6,812				6,812
Cost of clinical laboratory services			6,543		6,543
Research and development	1,572	$ 853			2,425
Provision for uncollectible accounts receivable			715		715
Selling, general, and administrative and legal	3,909		3,781	$ 3,195	10,885
Total operating expenses	12,293	853	11,039	3,195	27,380
Operating income (loss)	149	(853)	(420)	(3,195)	(4,319)
Other income (expense):					
Interest				17	17
Other	(54)		11		(43)
Foreign exchange gain	119				119
Income (loss) before income taxes	$ 214	$ (853)	$ (409)	$ (3,178)	$ (4,226)
Depreciation and amortization included above	$ 548	$ 13	$ 230	$ 38	$ 829
Share-based compensation included in above:					
Cost of clinical laboratory services	$	$	$	$	$
Research and development		2			2
Selling, general and administrative and legal	22	8	26	243	299
Total	$ 22	$ 10	$ 26	$ 243	$ 301
Capital expenditures	$ 504	$ 1	$ 79	$ 14	$ 598

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Nine months ended April 30, 2010

	Life Sciences	Therapeutics	Clinical Labs	Other	Consolidated
Revenues:					
Product revenues	$ 32,599				$ 32,599
Royalty and license fee income	7,044				7,044
Clinical laboratory services			$ 32,494		32,494
	39,643		32,494		72,137
Operating expenses:					
Cost of product revenues	15,771				15,771
Cost of clinical laboratory services			21,623		21,623
Research and development	5,348	$ 1,925			7,273
Provision for uncollectible accounts receivable			2,073		2,073
Selling, general, and administrative and legal	15,254		13,859	$ 8,758	37,871
Litigation settlement and related legal costs				3,698	3,698
Total operating expenses	36,373	1,925	37,555	12,456	88,309
Operating income (loss)	3,270	(1,925)	(5,061)	(12,456)	(16,172)
Other income (expense):					
Interest				13	13
Other			39		39
Foreign exchange loss	(384)				(384)
Income (loss) before income taxes	$ 2,886	$ (1,925)	$ (5,022)	$ (12,443)	$ (16,504)
Depreciation and amortization included above	$ 2,352	$ 39	$ 739	$ 94	$ 3,224
Share-based compensation included in above:					
Cost of clinical laboratory services	$	$	$ 9	$	$ 9
Research and development	10				10
Selling, general and administrative and legal	82		62	688	832
Total	$ 92	$	$ 71	$ 688	$ 851
Capital expenditures	$ 1,082	$	$ 1,425	$ 62	$ 2,569

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Nine months ended April 30, 2009

	Life Sciences	Therapeutics	Clinical Labs	Other	Consolidated
Revenues:					
Product revenues	$ 29,952				$ 29,952
Royalty and license fee income	6,783				6,783
Clinical laboratory services			$ 28,306		28,306
	36,735		28,306		65,041
Operating expenses:					
Cost of product revenues	20,208				20,208
Cost of clinical laboratory services			19,115		19,115
Research and development	4,006	$ 2,639			6,645
Provision for uncollectible accounts receivable			3,949		3,949
Selling, general, and administrative and legal	10,286		11,399	$ 11,304	32,989
Total operating expenses	34,500	2,639	34,463	11,304	82,906
Operating income (loss)	2,235	(2,639)	(6,157)	(11,304)	(17,865)
Other income (expense):					
Interest			57	512	569
Other	76		32		108
Foreign exchange loss	(837)				(837)
Income (loss) before income taxes	$ 1,474	$ (2,639)	$ (6,068)	$ (10,792)	$ (18,025)
Depreciation and amortization included above	$ 1,503	$ 36	$ 714	$ 98	$ 2,351
Share-based compensation included in above:					
Cost of clinical laboratory services	$	$	$ 3	$	$ 3
Research and development	13	17			30
Selling, general and administrative and legal	86	24	120	753	983
Total	$ 99	$ 41	$ 123	$ 753	$ 1,016
Capital expenditures	$ 1,073	$ 78	$ 973	$ 32	$ 2,156

Note 14 Contingencies

1. On April 30, 2009, Shahram K. Rabbani (Mr. Rabbani), former Secretary, Treasurer and member of the board of directors of the Company and the former President of Enzo Clinical Labs, Inc., in connection with the termination of his employment, submitted a demand for arbitration and related statement of claim to the American Arbitration Association. The statement of claim named the Company, Dr. Elazar Rabbani, the Chairman of the Board and Chief Executive Officer of the Company, and Barry W. Weiner, the President, Chief Financial Officer of the Company and a member of the Board, as respondents and alleged, among other things, claims relating to the termination of Mr. Rabbani s employment as President of Clinical Labs. The statement of claim purported to allege claims for breach of contract against the Company, unlawful retaliation under the Sarbanes-Oxley s whistleblower statute (the Claims) against the Company, Dr. Rabbani and Mr. Weiner, and tortious interference with contract against Dr. Rabbani and Mr. Weiner. Mr. Rabbani sought damages of no less than $10 million consisting of contractually prescribed severance payments (approximately $2.5 million), plus additional base salary and bonus going forward for several years, compensatory damages, and punitive damages, including attorneys fees and costs in connection with these proceedings. Subsequent to April 30, 2009, the

Company conducted a review, as directed by a special committee of the Board of Directors, relating to the aforementioned Claims pertaining to Enzo Clinical Labs. The review concluded that the purported Claims were unsubstantiated.

On January 28, 2010, the Company reached an agreement with Mr. Rabbani, to settle all of the Claims as well as all of his claims against Dr. Rabbani and Mr. Weiner. Under the terms of the agreement, Mr. Rabbani discontinued all actions he commenced against the Company, Dr. Rabbani and Mr. Weiner. In exchange, the Company agreed to pay Mr. Rabbani a lump sum payment of $2.7 million. The parties also agreed to execute mutual general releases. On February 7, 2010 the parties executed the mutual general releases and the Company paid the aforementioned settlement of $2.7 million. During the three months ended January 31, 2010 and nine months ended April 30, 2010, the Company recorded a settlement expense of approximately $3.7 million, consisting of the lump sum payment of $2.7 million and approximately $1.0 million of legal expenses incurred in connection with the Claims.

2. On January 8, 2010, Mr. Rabbani commenced, as plaintiff, an action (the Action) in the Supreme Court of the State of New York, County of New York, seeking a temporary restraining order and a preliminary and permanent injunction to enjoin the Company from convening the Annual Meeting on January 29, 2010. On January 11, 2010, the Company petitioned to remove the Action to the U.S. District Court for the Southern District of New York (the Court), which petition was granted. A hearing on the matter was held on January 12, 2010. On January 27, 2010, the Court entered an order denying Mr. Rabbani s motion for a preliminary injunction to enjoin the Company from convening the Annual Meeting on January 29, 2010.

3. In connection with the suit filed by the Company and Enzo Life Sciences, Inc., in the United States District Court for the District of Connecticut on June 6, 2004 against Applera Corporation and its wholly-owned subsidiary Tropix, Inc. for alleged infringement of certain patents in which the Company was seeking an appeal, on March 26, 2010, the Federal Circuit issued an order concluding that the claims of U.S. Patent Nos. 5,328,824 and 5,449,767 were not indefinite and that there were genuine issues of material fact as to anticipation. The Court reversed the district court s summary judgment of invalidity of those two patents and remanded the case back to the Connecticut Court. Applera and Tropix then filed a combined petition for panel rehearing and rehearing en banc. On May 26, 2010, the Federal Circuit issued an order denying both petitions. (See Note 16 to the Form 10-K for the fiscal year ended July 31, 2009.)

4. There have been no other material developments with respect to other previously reported legal proceedings discussed in the annual report on Form 10-K for the fiscal year ended July 31, 2009 filed with the Securities and Exchange Commission.

Note 15 Subsequent Events

The Company has evaluated events and transactions subsequent to April 30, 2010. No subsequent events require recognition in the consolidated financial statements or in the notes to the consolidated financial statements by the Company.

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

The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes and other information included elsewhere in this Quarterly Report on Form 10-Q.

Forward-Looking Statements

Our disclosure and analysis in this report, including but not limited to the information discussed in this Item 2, contain forward-looking information about our Company s financial results and estimates, business prospects and products in research that involve substantial risks and uncertainties. From time to time, we also may provide oral or written forward-looking statements in other materials we release to the public. Forward-looking statements give our current expectations or forecasts of future events. You can identify these statements by the fact that they do not relate strictly to historic or current facts. They use words such as anticipate, estimate, expect, project, intend, plan, believe, will, and other words and terms of similar meaning in connection with any discussion of future operations or financial performance. In particular, these include statements relating to future actions, prospective products or product approvals, future performance or results of current and anticipated products, sales efforts, expenses, interest rates, foreign exchange rates, intellectual property matters, the outcome of contingencies, such as legal proceedings, and financial results.

We cannot guarantee that any forward-looking statement will be realized, although we believe we have been prudent in our plans and assumptions. Achievement of future results is subject to risks, uncertainties and inaccurate assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from past results and those anticipated, estimated or projected. As a result, investors are cautioned not to place undue reliance on any of our forward-looking statements. Investors should bear this in mind as they consider forward-looking statements.

We do not assume any obligation to update or revise any forward-looking statement that we make, even if new information becomes available or other events occur in the future. We are also affected by other factors that may be identified from time to time in our filings with the Securities and Exchange Commission, some of which are set forth in Item 1A - Risk Factors in our Form 10-K filing for the 2009 fiscal year. You are advised to consult any further disclosures we make on related subjects in our Forms 10-Q, 8-K and 10-K reports to the Securities and Exchange Commission. Although we have attempted to provide a list of important factors which may affect our business, investors are cautioned that other factors may prove to be important in the future and could affect our operating results. You should understand that it is not possible to predict or identify all such factors or to assess the impact of each factor or combination of factors on our business. Consequently, you should not consider any such list to be a complete set of all potential risks or uncertainties.

Overview

The Company is a life sciences and biotechnology company focused on harnessing genetic processes to develop research tools and therapeutics and the provision of diagnostic services to the medical community. Since its founding in 1976, Enzo s strategic focus has been on the development, for commercial purposes, of enabling technologies in the life sciences field. Enzo s pioneering work in genomic analysis coupled with its extensive patent estate and enabling platforms have strategically positioned Enzo to play a crucially important role in the rapidly growing life sciences and molecular medicine marketplaces.

We are comprised of three operating companies that have evolved out of our core competence: the use of nucleic acids as informational molecules and the use of compounds for immune modulation. These wholly owned operating companies conduct their operations through three reportable segments. Below are brief descriptions of each of the three operating segments (see Note 13 in the notes to consolidated financial statements):

Enzo Life Sciences is a company that manufactures, develops and markets functional biology and cellular biochemistry products and tools to research and pharmaceutical customers world-wide and has amassed a large patent and technology portfolio. The company s sources of revenues are from the direct sales of products consisting of labeling and detection reagents for the genomics and sequencing markets and royalty and licensing fee income. The pioneering platforms developed by Enzo Life Sciences enable the development of a wide range of products in the research products marketplace.

The division is internationally recognized and acknowledged as a leader in manufacturing, in-licensing, and commercialization of over 12,000 innovative high quality research reagents in the primary key research areas of epigenetics, live cell analysis, protein degradation pathways and metabolism. The division is an established source for a comprehensive panel of products to scientific experts in the fields of Antibiotics, Autophagy, Cancer, Cell Cycle, Cell Death, Cell Signaling, Cell trafficking, Genomics/Molecular Biology, Immunology, Inflammation, Lipid Signaling, Neurobiology, Protein Degradation, ROS/RNS and Stress/Heat Shock.

Enzo Clinical Labs is a regional clinical laboratory serving the greater New York and New Jersey medical community. The Company believes having clinical diagnostic services allows us to capitalize firsthand on our extensive advanced molecular and cytogenetic capabilities and the broader trends in predictive and personalized diagnostics. We offer a menu of routine and esoteric clinical laboratory tests or procedures used in general patient care by physicians to establish or support a diagnosis, monitor treatment or medication, or search for an otherwise undiagnosed condition. We operate a full-service clinical laboratory in Farmingdale, New York, a network of 30 patient service centers throughout greater New York and New Jersey, a stand alone stat or rapid response laboratory in New York City, and a full-service phlebotomy department. Payments for clinical laboratory testing services are made by the Medicare program, healthcare insurers and patients.

Enzo Therapeutics is a biopharmaceutical company that has developed multiple novel approaches in the areas of gastrointestinal, infectious, ophthalmic and metabolic diseases, many of which are derived from the pioneering work of Enzo Life Sciences. The Company has focused its efforts on developing treatment regimens for diseases and conditions in which current treatment options are ineffective, costly, and/or cause unwanted side effects. This focus has generated a clinical and preclinical pipeline, as well as more than 40 patents and patent applications.

Recent Developments

Assay Designs, Inc.

On March 12, 2009, Enzo Life Sciences, Inc. and Enzo Life Sciences Acquisition, Inc., a wholly owned subsidiary of Enzo Life Sciences, Inc. (Acquisition Sub), entered into an asset purchase agreement (Purchase Agreement) with Assay Designs, Inc. (Assay Designs or ADI). Assay Designs, a privately owned company with annual sales of approximately $11 million, was engaged in researching, developing, manufacturing, distributing, marketing and selling specialty immunological and biochemical protein detection kits, assays, reagents, antibodies, recombinant proteins and related products and providing related services for use in the biotechnology, pharmaceutical and life sciences research industries (Business). Under the terms of the Purchase Agreement, Acquisition Sub purchased from Assay Designs substantially all of its assets, including trade accounts receivable, inventory, fixed assets, intellectual property and goodwill, used in or related to the Business and assumed certain of Assay Designs liabilities, including trade accounts payable, capital lease obligations and certain other accrued and other current liabilities.

The execution of the Purchase Agreement and the closing of the transaction occurred simultaneously on March 12, 2009. The purchase price consisted of $12,228,000 in cash exclusive of acquisition costs of approximately $540,000, subject to an upward or downward post-closing purchase price adjustment based on Assay Designs working capital as of the closing date, $100,000 of which was held in escrow for approximately 60-90 days to secure the payment of any downward post-closing purchase price adjustment and $750,000 of which was held in escrow for 12 months to secure the payment of any indemnification obligations of Assay Designs under the Purchase Agreement. Subsequent to the acquisition date, the Company paid $270,000 in additional purchase price in connection with the working capital adjustment and released the escrow amounts. The $100,000 and $750,000 were released by the escrow agent in June 2009 and March 2010, respectively. The cost of the acquisition included the cost to consolidate a leased facility and the involuntary termination of certain employees, which occurred during the measurement period.

The Assay Designs acquisition strengthens the Company s position as a global provider of life sciences reagents by broadening our product offerings and manufacturing capabilities. Effective March 12, 2009, Assay Designs became a wholly-owned subsidiary of Enzo Life Sciences. The acquisition was funded with the Company s cash. The consolidated financial statements include the results of operations for Assay Designs from the date of acquisition.

Biomol International L.P.

On May 8, 2008, Enzo Life Sciences, Inc. acquired substantially all of the U.S. based assets and certain liabilities of Biomol International, LP (Biomol LP) through a newly formed US subsidiary Biomol International, Inc. and all of the stock of Biomol s wholly-owned United Kingdom subsidiary, Affinity Limited, through Axxora UK, a wholly-owned subsidiary of Enzo Life Sciences, collectively referred to as Biomol for approximately $18.1 million in cash and stock, subject to adjustment, exclusive of acquisition costs of approximately $800,000 and two contingent earn-out payments which will be accounted for as additional purchase consideration over the next two years if and when the contingencies are resolved beyond a reasonable doubt. At closing, the purchase price was satisfied as follows: $12.9 million in cash was paid to Biomol LP, issuance of 352,000 shares of Enzo common stock, at fair market value, to Biomol LP, $1.5 million in cash was paid to an escrow agent for the two-year period following the closing to satisfy any indemnification obligations of the sellers under the Agreement and $550,000 was paid to an escrow agent, for the 60 day period following the closing to satisfy any specified purchase price adjustments. The $550,000 and $1.5 million were released by the escrow agent in August 2008 and May 2010, respectively. The earn-outs of $2.5 million on each of the first two anniversaries of the acquisition date will be based on attaining certain revenue and EBITDA targets, as defined.

In June 2009, the conditions for the first annual earn-out of $2.5 million were met and the Company recorded $2.5 million of additional goodwill. The Company issued 202,196 shares of Enzo common stock at fair value and paid $1.5 million in cash to satisfy the $2.5 million earn-out liability. As of June 9, 2010, the calculation of the second and final earn-out has not been finalized.

Results of Operations
Three months ended April 30, 2010 as compared to April 30, 2009

Comparative Financial Data for the Three Months Ended April 30.

(In thousands)

	2010	2009	Increase (Decrease)	% Change
Revenues:				
Product revenues	$ 11,089	$ 10,479	$ 610	6%
Royalty and license fee income	1,894	1,963	(69)	(4)
Clinical laboratory services	10,805	10,619	186	2
Total revenues	23,788	23,061	727	3
Operating expenses:				
Cost of product revenues	5,394	6,812	(1,418)	(21)
Cost of clinical laboratory services	7,588	6,543	1,045	16
Research and development	2,479	2,425	54	2
Selling, general, and administrative	12,070	10,026	2,044	20
Provision for uncollectible accounts receivable	650	715	(65)	(9)
Legal	(127)	859	(986)	(115)
Total operating expenses	28,054	27,380	674	2
Operating loss	(4,266)	(4,319)	53	(1)
Other income (expense):				
Interest	(1)	17	(18)	(106)
Other	84	(43)	127	(295)
Foreign currency	(216)	119	(335)	(282)
Loss before income taxes	$ (4,399)	$ (4,226)	$ (173)	(4)

Consolidated Results:

The 2010 period and the 2009 period refer to the three months ended April 30, 2010 and 2009, respectively. The 2010 period includes the three months results of ADI which was acquired on March 12, 2009. The 2009 period includes the results of ADI from March 12, 2009 to April 30, 2009.

Product revenues increased overall by $0.6 million or 6% in 2010 to $11.1 million as compared to the 2009 period. Acquisition growth from the recently acquired ADI business was $1.2 million or 11% which was partially offset by an organic decline of $0.8 million or 7% due to a decline in low margin, third-party distribution business. Foreign currency fluctuation positively affected revenues by $0.2 million or 2%.

Royalty and license fee income during the 2010 period was $1.9 million compared to $2.0 million in the 2009 period, a decrease of $0.1 million or 4%. Royalties are primarily earned from the reported net sales of Qiagen products subject to a license agreement and from a license agreement with Abbott. During the 2010 period, the Company recognized royalties of approximately $1.1 million from Qiagen and royalties and license fees under the Abbott License Agreement of approximately $0.8 million. There are no direct expenses relating to royalty and license fee income.

Clinical laboratory revenues during the 2010 period were $10.8 million compared to $10.6 million in the 2009 period. The 2010 period s increase over the 2009 period was $0.2 million or 2%. During the 2010 period revenue increased due to higher priced esoteric testing volume, despite being adversely affected by severe winter weather in the Northeast in February affecting service volume by approximately 5%, a general slowdown in physician office visits impacting service volume by approximately 4% and a

1.9% decrease in Medicare reimbursement rates effective January 1, 2010.

The cost of product revenues during the 2010 period was $5.4 million compared to $6.8 million in the 2009 period, a decrease of $1.4 million or 21%. The decrease is primarily due to the impact of $0.7 million in lower costs from low margin third party distribution business, reduced fair value accounting adjustments of $0.8 million in accordance with purchase accounting rules and reclassification of $0.8 million in costs relating to the realignment of manufacturing facilities and personnel. Such amounts in 2010 were partially offset by product cost increases relating to ADI of $0.6 million.

We believe that cost of product revenues for future periods will be affected by, among other things, the further integration of acquired businesses in addition to sales volumes, competitive conditions and foreign currency rates.

The cost of clinical laboratory services during the 2010 period was $7.5 million as compared to $6.5 million in the 2009 period, an increase of $1.0 million or 16%. Increases occurred in reagent costs and supplies of $0.5 million, and laboratory personnel costs of $0.5 million. Laboratory personnel and related benefit costs increased primarily due to additional headcounts in phlebotomists to expand patient collection sites and other personnel to manage expanded operations and the development of esoteric and gene-based test capabilities.

Research and development expenses were approximately $2.5 million during the 2010 period, compared to $2.4 million in the 2009 period, an increase of $0.1 million or 2%. The increase was principally attributed to higher costs of $0.3 million at Enzo Life Sciences primarily from the acquired ADI offset by $0.2 million in lower clinical trial and related activities at the Therapeutics segment.

Selling, general and administrative expenses were approximately $12.0 million during the 2010 period as compared to $10.0 million in the 2009 period, an increase of $2.0 million or 20%. The increase was primarily due to the net increase at the Enzo Life Sciences segment of $1.1 million in the 2010 period which included approximately $0.2 million of selling, general and administrative expenses related to ADI operations, the impact of realigning manufacturing facilities and certain personnel of $0.5 million and additional payroll and benefit costs of $0.3 million. The Clinical Lab segment s selling general and administrative increased $1.0 million primarily due to increased payroll and related benefits attributed to increases in headcounts in our sales force and management personnel partially related to the marketing and development of esoteric and gene based testing capabilities.

The provision for uncollectible accounts receivable, primarily relating to the Clinical Labs segment was $0.6 million for the 2010 period as compared to $0.7 million in the 2009 period, a decrease of $0.1 million or 9% due to improved collections.

Legal expense was a credit of $0.1 million during the 2010 period compared to an expense of $0.8 million in the 2009 period, a decrease of $0.9 million, due to reduction in legal services provided relating to certain patent litigation and general matters and decreases in fees recorded due to negotiated fee settlements and other adjustments of $0.5 million.

Interest expense was $1,000 during the 2010 period as compared to $17,000 interest income during the 2009 period. The low level of interest during both periods is attributed to the decline in interest rates in response to monetary policy actions taken by the U.S. Federal Reserve. Furthermore, the Company had higher average invested balances during the 2009 period. The Company earns interest by investing primarily in short term US treasury bills, and money market accounts.

The loss on foreign currency was $0.2 million during the 2010 period was primarily due to a non-cash loss on an intercompany term loan denominated in British pounds sterling and the fluctuations of other foreign currencies relative to the US dollar during the period and the impact that had on settled transactions during the period. During the 2009 period, the gain on foreign currency transactions was $0.1 million primarily due to a non-cash gain on the intercompany term loan denominated in British pounds sterling. The British currency appreciated against the US dollar during the 2009 period and depreciated during the 2010 period.

The Company s effective income tax rate provision for the 2010 period was 4.0% compared to 0.4% during the 2009 period. The tax provisions for the 2010 and 2009 periods were based on state and local taxes, domestic and foreign tax for tax deductible goodwill and indefinite lived intangibles, and book to tax differences for acquired inventory and differed from the expected net operating loss carry forward benefit at the U.S. federal statutory rate of 34% primarily due to the inability to recognize such benefit. The carry forward benefit cannot be recognized because of uncertainties relating to future taxable income, in terms of both its timing and its sufficiency.

Segment Results

The Life Sciences segment s income before taxes was $0.5 million for the 2010 period as compared to $0.2 million for the 2009 period. Product revenues increased by $0.6 million in the 2010 period primarily due to the full period s contribution of product revenues from the March 2009 acquisition of Assay Designs which replaced low margin, high volume distribution product revenues principally to one customer offset by an organic decline in core products. Royalty and license fee income decreased $0.1 million from the Qiagen agreement. The segment s gross profit increased to $7.6 million from $5.6 million. Gross profit margins increased to 58% from 45% due to favorable impact from ADI s higher margin, which replaced lower margin revenue in 2009, lower inventory fair value adjustments and realignment of personnel from manufacturing to trading activity. The segment s other operating expenses, including selling, general and administrative, legal and research and development, increased by $1.4 million during the 2010 period primarily due to the inclusion of Assay Designs expenses and the impact of the aforementioned realignment of personnel. The segment experienced a non-cash foreign currency loss of $0.2 million during the 2010 period resulting from the slight strengthening foreign currencies had on settled transactions and on an intercompany loan denominated in pounds sterling. In aggregate, the inventory fair value adjustment and amortization of intangibles negatively impacted the segment operating results in the 2010 period by $0.4 million.

The Clinical Laboratory segment s loss before taxes was $2.2 million for the 2010 period as compared to a loss of $0.4 million in the 2009 period. The revenue from laboratory services increased in the 2010 period by $0.2 million due to increased service volume in higher priced testing despite being adversely affected by severe winter weather in the Northeast in February, a general slowdown in physician office visits and a decrease in Medicare reimbursement rates. The gross profit of $3.2 million, which decreased by $0.8 million in 2010, was impacted by the increase in the cost of laboratory services of $1.0 million. In the 2010 period, selling, general and administrative costs increased by approximately $1.0 million due to increases in payroll and payroll related costs primarily due to increased headcount in sales and lab administration partially attributed to development and marketing of esoteric and gene-based testing capabilities. The provision for uncollectible accounts receivable decreased by $0.1 million as compared to the 2009 period.

The Therapeutics segment s loss before income taxes was approximately $0.6 million for the 2010 period as compared to a loss of $0.9 million for the 2009 period. The decrease in the segment loss of $0.3 million was primarily due to decreases in clinical trial activities.

The Other segment s loss before taxes for the 2010 period was approximately $2.1 million as compared to $3.2 million in the 2009 period, a decrease of $1.1 million. The Other segment s 2010 period loss reflects the decrease in legal expenses of $1.0 million due to reduced services provided relating to certain patent litigation activity and general matters and negotiated fee settlements and other adjustments recorded.

Results of Operations
Nine months ended April 30, 2010 as compared to April 30, 2009

Comparative Financial Data for the Nine Months Ended April 30.

(in thousands)

	2010	2009	Increase (Decrease)	% Change
Revenues:				
Product revenues	$ 32,599	$ 29,952	$ 2,647	9%
Royalty and license fee income	7,044	6,783	261	4
Clinical laboratory services	32,494	28,306	4,188	15
Total revenues	72,137	65,041	7,096	11
Operating expenses:				
Cost of product revenues	15,771	20,208	(4,437)	(22)
Cost of clinical laboratory services	21,623	19,115	2,508	13
Research and development	7,273	6,645	628	9
Selling, general, and administrative	36,841	29,633	7,208	24
Provision for uncollectible accounts receivable	2,073	3,949	(1,876)	(48)
Legal	1,030	3,356	(2,326)	(69)
Litigation settlement and related legal costs	3,698		3,698	
Total operating expenses	88,309	82,906	5,403	7
Operating loss	(16,172)	(17,865)	1,693	(9)
Other income (expense):				
Interest	13	569	(556)	(98)
Other	39	108	(69)	(64)
Foreign currency	(384)	(837)	453	(54)
Loss before income taxes	$ (16,504)	$ (18,025)	$ 1,521	(8)

Consolidated Results:

The 2010 period and the 2009 period refer to the nine months ended April 30, 2010 and 2009, respectively. The 2010 period includes the nine months results of ADI which was acquired on March 12, 2009. The 2009 period includes the results of ADI from March 12, 2009 to April 30, 2009.

Product revenues increased overall by $2.6 million in 2010 to $32.6 million as compared to the 2009 period. Acquisition growth from the recently acquired ADI business was $6.4 million or 22% which was partially offset by a net organic decline of $4.4 million or 15% due to a $4.9 million decline in low margin, third-party distribution business. Our core product revenues demonstrated organic growth of $0.5 million or 2%. Foreign currency fluctuation positively affected revenues by $0.6 million or 2%.

Royalty and license fee income during the 2010 period was $7.0 million compared to $6.8 million in the 2009 period, an increase of $0.2 million or 4%. Royalties are primarily earned from the reported net sales of Qiagen products subject to a license agreement and from a license agreement with Abbott. During the 2010 and 2009 period, the Company recognized royalties of approximately $4.8 million from Qiagen, and royalties and license fees under the Abbott License Agreement of approximately $2.2 million, an increase of $0.2 million over the 2009 period. There are no direct expenses relating to royalty and license fee income.

Clinical laboratory revenues during the 2010 period were $32.5 million compared to $28.3 million in the 2009 period. The 2010 period s increase over the 2009 period was $4.2 million or 15%. During the 2010 period revenue increased due to increased service volume including higher priced testing volume despite being adversely affected by severe winter weather in the Northeast in

February and a general slowdown in physician office visits in the fiscal third quarter and a 1.9% decrease in Medicare reimbursement rates effective January 1, 2010. During the 2009 period, revenues were negatively affected by contractual adjustments of $2.3 million. These immaterial contractual adjustments in 2009 related to computational errors that affected the calculated expected reimbursement rate in fiscal 2008, 2007 and 2006 and for periods prior to August 1, 2005 for the majority of payers and credits issued which were not accrued for timely.

The cost of product revenues during the 2010 period was $15.8 million compared to $20.2 million in the 2009 period, a decrease of $4.4 million or 22%. The decrease is primarily due to the impact of $4.4 million in lower costs from low margin third-party distribution business, reduced fair value accounting adjustments of $1.5 million in accordance with purchase accounting rules and reclassification of $1.2 million in costs relating to the realignment of manufacturing facilities and personnel. Such amounts in 2010 were partially offset by product cost relating to ADI of $2.9 million and by the cost of sales from organic growth. We believe that cost of product revenues for future periods will be affected by, among other things, the further integration of acquired businesses in addition to sales volumes, competitive conditions and foreign currency rates.

The cost of clinical laboratory services during the 2010 period was $21.6 million as compared to $19.1 million in the 2009 period, an increase of $2.5 million or 13%. The Company incurred increased costs partially due to increased reagent costs and supplies of $1.0 million, laboratory personnel and related costs of $1.1 million and outside reference lab costs of $0.4 million. Laboratory personnel and related costs increased primarily due to additional headcounts in phlebotomists to expand patient collection sites and other personnel to manage expanded operations and the development of esoteric and gene-based test capabilities.

Research and development expenses were approximately $7.3 million during the 2010 period, compared to $6.7 million in the 2009 period, an increase of $0.6 million or 9%. The increase was principally attributed to higher costs of $1.3 million at Enzo Life Sciences primarily related to Assay Designs offset by $0.7 million in lower clinical trial and related activities and payroll costs at the Therapeutics segment.

Selling, general and administrative expenses were approximately $36.8 million during the 2010 period as compared to $29.6 million in the 2009 period, an increase of $7.2 million or 24%. The increase was primarily due to the net increase at the Enzo Life Sciences segment of $4.5 million in the 2010 period which included approximately $2.0 million of selling, general and administrative expenses related to Assay Designs operations, the impact of realigning manufacturing facilities and certain personnel of $1.2 million, $0.7 million in payroll and benefit costs and increased depreciation and amortization of $0.4 million. The Clinical Lab segment s selling general and administrative increased $2.3 million primarily due to increased payroll and related benefits of $1.6 million primarily due to increased payroll and related benefits attributed to increases in headcounts in our sales force and management personnel partially related to increased service volume and the marketing and development of esoteric and gene based testing capabilities, information technology costs of $0.2 million, and other overhead expenses of $0.5 million. These increases were offset by a decrease in the Other segment s selling general and administrative of approximately $0.3 million, primarily due to decreases in payroll and payroll related costs of $0.1 million.

The provision for uncollectible accounts receivable, primarily relating to the Clinical Labs segment was $2.0 million for the 2010 period as compared to $3.9 million in the 2009 period, a decrease of $1.9 million or 48%. The decrease is attributed to a charge in 2009 attributed to increased provisions for the Clinical Labs legacy billing system, which was replaced in August 2008, due to reduced collection efforts relating to the legacy billing system, the correction of an immaterial error relating to fiscal 2008, and increased provisions required based on changes in payer mix, offset by a reduced requirement under the new billing system.

Legal expense was $1.0 million during the 2010 period compared to $3.3 million in the 2009 period, a decrease of $2.3 million, due to overall reduction in legal services provided relating to certain patent litigation matters and general matters, the reimbursement of $0.5 million in legal costs under our insurance policy, reductions in fees recorded due to negotiated fee settlements and other adjustments of $0.5 million offset by approximately $0.6 million in incremental legal costs incurred for proxy related costs for the January 2010 annual meeting.

In connection with the litigation settlement with Mr. Shahram K. Rabbani to settle all of his claims against the Company, and certain of its executive officers, the Company agreed to pay a lump sum payment of $2.7 million. The Company recorded a settlement expense of approximately $3.7 million in the fiscal quarter ending January 31, 2010, consisting of the lump sum payment of $2.7 million and approximately $1.0 million of legal expenses incurred in connection with the claims (See Note 14 in notes to consolidated financial statements).

Interest income was $13,000 during the 2010 period as compared to $0.6 million during the 2009 period. The interest income decrease during the 2010 period is attributed to the decline in interest rates in response to monetary policy actions taken by the U.S. Federal Reserve. Furthermore, the Company had higher average invested balances during the 2009 period. The Company earns interest by investing primarily in short term US treasury bills and money market accounts.

The loss on foreign currency was $0.4 million during the 2010 period, due to a $0.2 million non-cash loss on an intercompany term loan denominated in British pounds sterling and the fluctuations of other foreign currencies relative to the US dollar during the period and the impact that had on settled transactions during the period. During the 2009 period, the loss on foreign currency transactions was $0.8 million primarily due to a non-cash loss on the intercompany term loan denominated in British pounds sterling. The British currency depreciated more significantly against the US dollar during the 2009 period than in the 2010 period.

The Company s effective income tax rate for the 2010 period was 1.3% compared to 1.4% during the 2009 period. The tax provision for the 2010 and 2009 periods were based on state and local taxes, domestic and foreign tax for tax deductible goodwill and indefinite lived intangibles, and book to tax differences for acquired inventory and differed from the expected net operating loss carry forward benefit at the U.S. federal statutory rate of 34% primarily due to the inability to recognize such benefit. The carry forward benefit cannot be recognized because of uncertainties relating to future taxable income, in terms of both its timing and its sufficiency. In the 2010 period, the Company recognized a benefit of $0.1 million primarily as a result of the expiration of the statute of limitations for an uncertain tax position.

Segment Results

The Life Sciences segment s income before taxes was $2.9 million for the 2010 period as compared to $1.5 million for the 2009 period. Product revenues increased by $2.6 million in the 2010 period primarily due to the contribution of product revenues from the March 2009 acquisition of Assay Designs and organic growth from our core products which replaced low margin, high volume distribution product revenues principally to one customer. Royalty and license fee income increased $0.3 million from the Qiagen agreement and the Abbott license agreement. The segment s gross margin of $23.9 million increased by $7.3 million in 2010. Gross profit margins increased to 60% from 45% due to favorable impact from ADI s higher margin, which replaced lower margin revenue in 2009, lower inventory fair value adjustments and realignment of personnel from manufacturing to trading activity. The segment s other operating expenses, including selling, general and administrative, legal and research and development, increased by approximately $6.2 million during the 2010 period primarily due to the inclusion of Assay Designs expenses of $2.9 million, the impact of the aforementioned realignment of personnel of payroll and related costs of $1.2 million, increased payroll and related costs of $0.7 million and depreciation and amortization of $0.5 million. The segment experienced a non-cash foreign currency loss of $0.4 million during the 2010 period resulting from the impact that fluctuations in foreign currencies had on settled transactions and on an intercompany loan denominated in pounds sterling. In aggregate, the inventory fair value adjustment and amortization of intangibles negatively impacted the segment operating results in the 2010 period by $1.5 million.

The Clinical Laboratory segment s loss before taxes was $5.0 million for the 2010 period as compared to a loss of $6.0 million in the 2009 period. The revenue from laboratory services increased in the 2010 period by $4.2 million due to increased service volume despite being adversely affected by severe winter weather in the Northeast in February, a general slowdown in physician office visits in the fiscal third quarter, a decrease in Medicare reimbursement rates effective January 1, 2010 and during the 2009 period revenues were negatively impacted by contractual adjustments of $2.3 million. The 2010 period gross profit of $10.9 million increased $1.7 million over the 2009 period due to service volume increases, increased headcount and other costs to perform increased testing, and the impact the aforementioned $2.3 million contractual adjustment had on the 2009 period gross profit. In the 2010 period, the selling, general and administrative costs increased by approximately $2.3 million primarily due to increases in payroll and payroll related costs of $1.6 million attributed to increases in headcounts in our sales force and management personnel partially related to increased service volume and the marketing and development of esoteric and gene-based testing capabilities, information technology costs of $0.2 million, and other operating costs of $0.5 million. The provision for uncollectible accounts receivables decreased by $1.9 million as compared to the 2009 period. During the 2009 period, the Company recorded a charge attributed to increased provisions for the Clinical Labs legacy billing system, which was replaced in August 2008, due to reduced collection efforts relating to the legacy billing system, the correction of an immaterial error relating to fiscal 2008, and increased provisions required based on changes in payer mix, offset by a reduced requirement under the new billing system.

The Therapeutics segment s loss before income taxes was approximately $1.9 million for the 2010 period as compared to a loss of $2.6 million for the 2009 period. The decrease in the segment loss of $0.7 million was primarily due to decreases in clinical trial activities of $0.6 million and decreases in salaries and related costs of $0.1 million.

The Other segment s loss before taxes for the 2010 period was approximately $12.4 million as compared to $10.8 million in the 2009 period, an increase of $1.6 million. The Other segment s 2010 period loss reflects the litigation settlement of $3.7 million and an increase in professional fees, consulting costs and public relations of $0.1 million, offset by decreases in payroll and payroll related costs of $0.1 million, and $0.3 million in other costs. Legal expenses decreased $2.2 million due to the reimbursement of $0.5 million in legal fees; reduced services provided relating to certain patent litigation activity and general matters and reductions in fees recorded due to negotiated fee settlements and other adjustments of $0.5 million, offset by incremental legal costs incurred for proxy related matters in 2010. Interest income declined $0.5 million due to the decline in interest rates. The Company earns interest by investing primarily in short term US treasury bills, and money market accounts.

Liquidity and Capital Resources

At April 30, 2010, the Company had cash and cash equivalents of $8.6 million and short-term investments of $25.8 million, or $34.4 million in aggregate as compared to $50.2 million at July 31, 2009. Short term investments are in US treasury bills. The Company had working capital of $46.4 million at April 30, 2010 compared to $60.5 million at July 31, 2009. The decrease in working capital was primarily the result of the 2010 period net loss which included the litigation settlement to a former officer and related legal costs of $3.7 million and funding capital expenditures.

Net cash used in operating activities for the nine months ended April 30, 2010 was approximately $13.2 million as compared to $8.7 millio