

ENZO BIOCHEM INC  
Form 10-Q  
March 12, 2018  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Mark one

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

For the quarterly period ended January 31, 2018

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-09974

**ENZO BIOCHEM, INC.**

(Exact name of registrant as specified in its charter)

New York  
(State or Other Jurisdiction  
of Incorporation or Organization)

13-2866202  
(IRS. Employer  
Identification No.)

527 Madison Ave, New York, New York

10022

Edgar Filing: ENZO BIOCHEM INC - Form 10-Q

(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  No

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  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if smaller reporting company)

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Yes  No

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

Yes  No

As of March 1, 2018, the Registrant had 47,000,929 shares of common stock outstanding.

ENZO BIOCHEM, INC.  
FORM 10-Q  
January 31, 2018

INDEX

PART I - FINANCIAL INFORMATION

<u>Item 1. Financial Statements</u>	3
<u>Consolidated Balance Sheets – January 31, 2018 (unaudited) and July 31, 2017 (audited)</u>	3
<u>Consolidated Statements of Operations for the three and six months ended January 31, 2018 and 2017 (unaudited)</u>	4
<u>Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended January 31, 2018 and 2017 (unaudited)</u>	5
<u>Consolidated Statement of Stockholders' Equity for the six months ended January 31, 2018 (unaudited)</u>	6
<u>Consolidated Statements of Cash Flows for the six months ended January 31, 2018 and 2017 (unaudited)</u>	7
<u>Notes to the Consolidated Financial Statements</u>	8
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	30
<u>Item 4. Controls and Procedures</u>	31
<u>Part II – OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	32
<u>Item 1A. Risk Factors</u>	32
<u>Item 6. Exhibits</u>	32
<u>Signatures</u>	32

**Part 1** Financial Information**Item 1** Financial Statements

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

	January 31, 2018 (unaudited)	July 31, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 64,468	\$64,167
Accounts receivable, net of allowances	14,977	15,180
Inventories	7,481	7,047
Prepaid expenses and other	2,613	2,690
Total current assets	89,539	89,084
Property, plant and equipment, net	7,945	7,901
Goodwill	7,452	7,452
Intangible assets, net	2,449	2,895
Other assets	940	333
Total assets	\$ 108,325	\$107,665
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable – trade	\$ 9,564	\$10,350
Accrued liabilities	9,665	6,720
Other current liabilities	642	740
Total current liabilities	19,871	17,810
Other liabilities	495	983
Total liabilities	\$ 20,366	\$18,793
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: 47,077,840 and outstanding: 46,970,929 at January 31, 2018 and shares issued and outstanding: 46,506,176 at July 31, 2017	471	465
Additional paid-in capital	330,425	328,294
Less: Treasury stock at cost 106,911 shares at January 31, 2018 and none at July 31, 2017	(1,014 )	—
Accumulated deficit	(243,441 )	(241,900)
Accumulated other comprehensive income	1,518	2,013

Edgar Filing: ENZO BIOCHEM INC - Form 10-Q

Total stockholders' equity	87,959	88,872
Total liabilities and stockholders' equity	\$ 108,325	\$ 107,665

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

3

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

	Three Months Ended January 31,		Six Months Ended January 31,	
	2018	2017	2018	2017
<b>Revenues:</b>				
Clinical laboratory services	\$19,530	\$18,837	\$39,864	\$37,395
Product revenues	7,122	6,983	14,203	14,409
Royalty and license fee income	300	440	561	740
Total revenues	26,952	26,260	54,628	52,544
<b>Operating costs and expenses:</b>				
Cost of clinical laboratory services	11,730	11,052	23,772	21,948
Cost of product revenues	3,877	3,520	7,266	6,829
Research and development	812	483	1,559	1,305
Selling, general and administrative	11,070	11,218	21,961	22,712
Provision for uncollectible accounts receivable	779	679	1,593	1,348
Legal fee expense	1,700	370	2,131	742
Total operating costs and expenses	29,968	27,322	58,282	54,811
Operating loss	(3,016 )	(1,062 )	(3,654 )	(2,340 )
<b>Other income (expense):</b>				
Interest	185	79	342	125
Other	33	24	69	143
Foreign exchange gain (loss)	800	(94 )	605	(455 )
Loss before income taxes	(1,998 )	(1,053 )	(2,638 )	(2,527 )
Benefit for income taxes	1,097	—	1,097	—
Net loss	\$(901 )	\$(1,053 )	\$(1,541 )	\$(2,527 )
<b>Net loss per common share:</b>				
Basic and diluted	\$(0.02 )	\$(0.02 )	\$(0.03 )	\$(0.05 )
<b>Weighted average common shares outstanding:</b>				
Basic and diluted	46,941	46,292	46,806	46,282

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

**ENZO BIOCHEM, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**(UNAUDITED)**  
**(in thousands)**

	Three Months		Six Months	
	Ended		Ended	
	January 31,		January 31,	
	2018	2017	2018	2017
Net loss	\$ (901 )	\$ (1,053)	\$ (1,541)	\$ (2,527)
Other comprehensive loss:				
Foreign currency translation adjustments	( 578 )	( 16 )	( 495 )	238
Comprehensive loss	\$ (1,479)	\$ (1,069)	\$ (2,036)	\$ (2,289)

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



**ENZO BIOCHEM, INC.**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
**Six Months Ended January 31, 2018**  
**(UNAUDITED)**  
**(in thousands, except share data)**

	Common Stock Shares Issued	Treasury Stock Shares	Common Stock Amount	Additional Paid-in Capital	Treasury Stock Amount	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance at July 31, 2017	46,506,176	—	\$ 465	\$328,294	\$—	\$(241,900 )	\$ 2,013	\$ 88,872
Net loss for the period ended January 31, 2018	—	—	—	—	—	(1,541 )	—	(1,541 )
Cashless option exercise	340,898	106,911	—	1,014	(1,014)	—	—	—
Vesting of restricted stock	2,062	—	—	—	—	—	—	—
Exercise of stock options	228,704	—	6	704	—	—	—	710
Share-based compensation charges	—	—	—	413	—	—	—	413
Foreign currency translation adjustments	—	—	—	—	—	—	(495 )	(495 )
Balance at January 31, 2018	47,077,840	106,911	\$ 471	\$330,425	\$(1,014)	\$(243,441 )	\$ 1,518	\$ 87,959

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

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

	Six Months Ended January 31,	
	2018	2017
Cash flows from operating activities:		
Net loss	\$(1,541 )	\$(2,527 )
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization of property, plant and equipment	1,051	1,023
Amortization of intangible assets	484	819
Provision for uncollectible accounts receivable	1,593	1,348
Share-based compensation charges	413	392
Accrual for share-based 401(k) employer match expense	358	354
Foreign exchange (gain) loss	(595 )	420
Changes in operating assets and liabilities:		
Accounts receivable	(1,387 )	(2,170 )
Inventories	(430 )	(238 )
Prepaid expenses	27	67
Accounts payable – trade	(809 )	238
Accrued liabilities, other current liabilities and other liabilities	2,220	(2,558 )
Other assets	(549 )	—
Total adjustments	2,376	(305 )
Net cash provided by (used in) operating activities	835	(2,832 )
Cash flows from investing activities:		
Capital expenditures	(1,066 )	(689 )
Security deposits and other	(10 )	2
Net cash used in investing activities	(1,076 )	(687 )
Cash flows from financing activities:		
Proceeds from borrowings under Credit Agreement	—	40,694
Repayments under Credit Agreement	—	(42,251)
Installment loan and capital lease obligation payments	(190 )	(323 )
Proceeds from exercise of stock options	710	71
Net cash provided by (used in) financing activities	520	(1,809 )
Effect of exchange rate changes on cash and cash equivalents	22	(22 )
Increase (decrease) in cash and cash equivalents	301	(5,350 )
Cash and cash equivalents - beginning of period	64,167	67,777
Cash and cash equivalents - end of period	\$64,468	\$67,427

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



**ENZO BIOCHEM, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**As of January 31, 2018**  
**(Unaudited)**  
**(Dollars in thousands, except share data)**

Note 1 – Basis of Presentation

The accompanying consolidated financial statements include the accounts of Enzo Biochem, Inc. and its wholly-owned subsidiaries, Enzo Life Sciences, Enzo Clinical Labs, Enzo Therapeutics and Enzo Realty LLC, collectively or with one or more of its subsidiaries referred to as the “Company” or “Companies”. The consolidated balance sheet as of January 31, 2018, the consolidated statements of operations and comprehensive income (loss) for the three and six month ended January 31, 2018 and 2017 and the consolidated statement of stockholders’ equity and cash flows for the six months ended January 31, 2018 and 2017 (the “interim statements”) 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 annual financial statements prepared in accordance with accounting principles generally accepted in the United States, have been condensed or omitted. The interim statements should be read in conjunction with the consolidated financial statements for the year ended July 31, 2017 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, 2017 has been derived from the audited financial statements at that date. The results of operations for the three and six months ended January 31, 2018 are not necessarily indicative of the results that may be expected for the fiscal year ending July 31, 2018.

*Effect of New Accounting Pronouncements*

*Recently Adopted Accounting Pronouncements*

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-09, *Improvements to Employee Share-Based Payment Accounting*, which requires all excess tax benefits or deficiencies to be recognized as income tax expense or benefit in the income statement. In addition, excess tax benefits should be classified along with other income tax cash flows as an operating activity in the statement of cash flows. The adoption of this new standard did not have a material impact on our consolidated financial statements. We adopted this standard as of August 1, 2017.

*Pronouncements Issued but Not Yet Adopted*

In May 2014, FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers: Topic 606*. ASU 2014-09 and its amendments supersede the current revenue recognition guidance, including industry-specific guidance. The new standard introduces a five-step model to achieve its core principle of the entity recognizing revenue to depict the transfer of goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, and on transfer of control, as opposed to transfer of risk and rewards. The standard also expands the required financial statement disclosures regarding revenue recognition. ASU 2014-09 will be effective for our interim periods and the fiscal year beginning August 1, 2018, and we are not early adopting. An entity can apply the revenue standard retrospectively to each prior reporting period presented (full retrospective method) or retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application in retained earnings. We expect to use the full retrospective method upon adoption. Based on our preliminary assessment, the adoption of this ASU may result in partially or substantially all of the amounts that have historically been classified as bad debt expense, primarily related to patient responsibility, could be considered an implicit price concession in determining net revenues. Accordingly, we may report the estimate of uncollectible balances associated with patient responsibility as a reduction of the transaction price and therefore as a reduction in net revenues when historically these amounts were classified as bad debt expense within operating costs and expenses. In addition, the adoption of this ASU will result in increased disclosure, including qualitative and quantitative disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts from customers. However, the adoption of this ASU is not expected to have a material impact on our financial position or cash flows.

In February 2016, FASB issued ASU No. 2016-02 – *Leases (Topic 842)*. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for our fiscal year beginning August 1, 2019 including interim periods within that fiscal year. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. We

believe the adoption of this standard will materially impact our consolidated financial statements by significantly increasing our non-current assets and non-current liabilities on our consolidated balance sheets in order to record the right of use assets and related lease liabilities for our existing operating leases.

We will recognize expense in the consolidated statement of operations similar to current lease accounting, in the cost of sales and selling, general and administrative.

In May 2017, the FASB issued ASU 2017-09, *Compensation – Stock Compensation (Topic 708) Scope of Modification Accounting* which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. Adoption of the Standard is required for our annual and interim periods beginning August 1, 2018 with the amendments in the update applied prospectively to an award modified on or after the adoption date. Early adoption is permitted. We are currently evaluating the impact this new standard will have on the consolidated financial statements.

We reviewed all other recently issued accounting pronouncements and have concluded they are not applicable or not expected to be significant to the accounting for our operations.

Certain prior period amounts have been reclassified to conform to the current period presentation. These reclassifications had no effect on the reported results of operations.

### ***Concentration Risk***

One provider whose programs are included in the “Third-party payer” and “Health Maintenance Organizations” (“HMO’s”) categories represents approximately 38% and 39% of the Clinical Labs segment laboratory services revenue for the three months ended January 31, 2018 and 2017, respectively, and 39% and 37% for the six months ended January 31, 2018 and 2017, respectively.

### **Note 2 – Net income (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. As a result of the net loss for the three and six months ended January 31, 2018 and 2017 diluted weighted average shares outstanding are the same as basic weighted average shares outstanding, and do not include the potential common shares from stock options and unvested restricted stock because to do so would be antidilutive.

For the three and six months ended January 31, 2018, the number of potential common shares (“in the money options”) and unvested restricted stock excluded from the calculation of diluted earnings per share was 719,000, and 825,000, respectively. For the three and six months ended January 31, 2017, approximately 888,000 and 804,000 weighted average stock options were excluded from the calculation of diluted weighted average shares outstanding.

For the three and six months ended January 31, 2018 there were no outstanding “out of the money” options to purchase common shares. For the three and six months ended January 31, 2017, the effect of approximately 494,000 and 247,000 of outstanding “out of the money” options to purchase common shares were excluded from the calculation of diluted net income per share because their effect would be anti-dilutive.

Note 3 - Supplemental disclosure for statement of cash flows

For the six months ended January 31, 2018 and 2017, income taxes paid by the Company were \$15 and \$996, respectively.

For the six months ended January 31, 2018 and 2017, interest paid by the Company was \$45 and \$77, respectively.

For the six months ended January 31, 2018 and 2017, the Company financed \$0 and \$69 respectively, in machinery and transportation equipment under installment loans.

During the six months ended January 31, 2018 and 2017, the Company did not enter into any capital lease agreements.

During the six months ended January 31, 2018 certain officers of the Company exercised 340,898 stock options in non-cash transactions. The officers surrendered 106,911 shares of the Company’s common stock to exercise the stock options. The Company recorded approximately \$1,014, the market value of the surrendered shares, as treasury stock.

Note 4 – Inventories

Inventories consist of the following:

	January 31, 2018	July 31, 2017
Raw materials	\$ 809	\$ 852
Work in process	1,951	1,905
Finished products	4,721	4,290
	\$ 7,481	\$ 7,047

Note 5 – Goodwill and intangible assets

At January 31, 2018 and July 31, 2017, the Company's carrying amount of goodwill, related to the Clinical Labs segment, is \$7,452.

The Company's change in the carrying amount of intangible assets, all in the Life Sciences segment is as follows:

	Gross	Accumulated Amortization	Net
July 31, 2017	\$27,436	\$ (24,541 )	\$ 2,895
Amortization expense	—	(484 )	(484 )
Foreign currency translation	302	(264 )	38
January 31, 2018	\$27,738	\$ (25,289 )	\$ 2,449

Intangible assets, all finite lived, consist of the following:

	January 31, 2018			July 31, 2017		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Patents	\$11,027	\$ (10,964 )	\$ 63	\$11,027	\$ (10,951 )	\$ 76
Customer relationships	12,046	(9,667 )	2,379	11,881	(9,083 )	2,798
Website and acquired content	1,022	(1,022 )	—	1,011	(1,011 )	—
Licensed technology and other	498	(491 )	7	484	(463 )	21
Trademarks	3,145	(3,145 )	—	3,033	(3,033 )	—
Total	\$27,738	\$ (25,289 )	\$ 2,449	\$27,436	\$ (24,541 )	\$ 2,895



At January 31, 2018, information with respect to intangibles assets acquired is as follows:

	Useful life assigned	Weighted average remaining useful life
Customer relationships	8 -15 years	3 years
Other intangibles	10 years	2 years

At January 31, 2018, the weighted average remaining useful life of intangible assets is approximately two years.

Note 6 - Loan Payable

In June 2013, the Company entered into a secured Revolving Loan and Security Agreement (the “Credit Agreement”) among the Company and certain of its subsidiaries, with Enzo Therapeutics as a guarantor, and MidCap Financial LLC. (formerly Healthcare Finance Group, LLC). The Credit Agreement, which expired in December 2016, provided for borrowings against eligible US receivables, as defined, of the Clinical Lab and Life Science segments up to \$8.0 million at defined eligibility percentages and provided for additional borrowings of \$4.0 million for increased eligible assets. Debt issuance costs of \$281 were amortized over the life of the Credit Agreement. The Credit Agreement expired and was repaid in full on December 7, 2016.

Note 7 – Accrued Liabilities

Accrued liabilities consist of the following:

	January 31, 2018	July 31, 2017
Payroll, benefits, and commissions	\$ 5,217	\$4,092
Professional fees	825	442
Legal fee expense	1,558	599
Research and development	143	143
Other	1,922	1,444
	\$9,665	\$6,720

At January 31, 2018, other accrued liabilities primarily include \$400 for a legal settlement.

Note 8 – Other Liabilities

Other liabilities consist of the following:

	January 31, 2018	July 31, 2017
Capital lease obligations, net of short term	\$ 488	\$551
Accrued legal settlement	—	410
Installment loans, net of short term	7	22
	\$ 495	\$983

As of January 31, 2018, future minimum payments under the capital leases, net of interest of \$89 aggregates \$661 including a short term debt portion of \$173 included in other current liabilities. Future minimum payments under the installment loans aggregate \$67, including a short term portion of \$60 included in other current liabilities.

Note 9 – Stockholders' Equity***Controlled Equity Offering***

The Company has a Controlled Equity Offering<sup>SM</sup> Sales Agreement (the “Sales Agreement”) with Cantor Fitzgerald & Co., as sales agent (“Cantor”). Under the Sales Agreement, the Company may offer and sell, from time to time, through Cantor, shares of the Company’s common stock, par value \$0.01 per share (the “Common Stock”). The Company pays Cantor a commission of 3.0% of the aggregate gross proceeds received under the Sales Agreement. The Company is not obligated to make any sales of the shares under the Sales Agreement. The offering of shares pursuant to the Sales Agreement will terminate upon the earlier of (a) the sale of all of the shares subject to the Sales Agreement or (b) the termination of the Sales Agreement by Cantor or the Company, as permitted therein. The initial agreement contemplated the sale of shares of the Company’s common stock having an aggregate offering price of up to \$20.0 million. In December 2014, the Sales Agreement was amended in order for the Company to offer and sell additional shares of Common Stock having an aggregate offering price of \$20.0 million.

On September 1, 2017, the Company filed with the SEC a “shelf” registration and sales agreement prospectus covering the offering, issuance and sale of our Common Stock that may be issued and sold under the existing Sales Agreement in an aggregate amount of up to \$19.15 million. A total of \$150 million of securities may be sold under this shelf registration, which was declared effective September 15, 2017.

During the six months ended January 31, 2018 and during fiscal 2017, the Company did not sell any shares of Common Stock under the Sales Agreement.

### ***Treasury stock***

During the six months ended January 31, 2018, certain officers of the Company exercised 340,898 stock options in non-cash transactions. The officers surrendered 106,911 shares of the Company’s common stock to exercise the stock options. The Company recorded approximately \$1,014, the market value of the surrendered shares, as treasury stock.

**Share-based compensation**

The Company has an incentive stock option and restricted stock award plan (the “2005 Plan”), and a long term incentive share award plan, (the “2011 Plan”), which are more fully described in Note 10 to the consolidated financial statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended July 31, 2017. The 2011 Incentive Plan, which is the only plan from which awards may now be granted, provides for the award to eligible employees, officers, directors, consultants and other persons of stock options, stock appreciation rights (SARs), restricted stock, restricted stock units, performance awards, and other stock-based awards.

At the 2017 annual meeting, shareholders approved the amendment and restatement of the 2011 Plan, including an increase in the number of shares of common stock authorized for grant under the 2011 Plan, from 3 million shares to 5 million shares.

The amounts of share-based compensation expense recognized in the periods presented are as follows:

	Three months ended January 31,		Six months ended January 31,	
	2018	2017	2018	2017
Stock options	\$205	\$236	\$407	\$382
Restricted stock	3	5	6	10
	\$208	\$241	\$413	\$392

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:

	Three months ended January 31,		Six months ended January 31,	
	2018	2017	2018	2017
Cost of clinical laboratory services	\$—	\$1	\$—	\$3
Selling, general and administrative	208	240	413	389
	\$208	\$241	\$413	\$392

No excess tax benefits were recognized during the six month periods ended January 31, 2018 and 2017.

**Stock Option Plans**

The following table summarizes stock option activity during the six month period ended January 31, 2018:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (000s)
Outstanding at July 31, 2017	2,130,995	\$ 4.26		
Awarded	112,580	\$ 8.36		
Exercised	(569,602 )	\$ 3.02		\$ 5,594
Cancelled or expired	(26,334 )	\$ 5.82		
Outstanding at end of period	1,647,639	\$ 4.95	2.8 years	\$ 6,785
Exercisable at end of period	1,109,811	\$ 4.18	1.4 years	\$ 3,533

As of January 31, 2018, the total future compensation cost related to non-vested options, not yet recognized in the statements of operations, was \$1.0 million and the weighted average period over which the remaining expense of these awards is expected to be recognized is fifteen months.

The intrinsic value of in the money stock option awards at the end of the period represents the Company's closing stock price on the last trading day of the period in excess of the exercise price multiplied by the number of options.

**Restricted Stock Awards**

A summary of the activity pursuant to the Company's unvested restricted stock awards for the six months ended January 31, 2018 is as follows:

Edgar Filing: ENZO BIOCHEM INC - Form 10-Q

	Awards	Weighted Average Award Price
Outstanding at July 31, 2017	7,436	\$ 4.45
Awarded	—	—
Vested	(2,062 )	\$ (5.92 )
Forfeited	—	—
Unvested at end of period	5,374	\$ 3.23

The fair value of a restricted stock award is determined based on the closing stock price on the award date. As of January 31, 2018, there was approximately \$0.1 million of unrecognized compensation cost related to unvested restricted stock-based compensation to be recognized over a weighted average remaining period of approximately twenty two months.

The fair value of the awards that vested during the six months ended January 31, 2018 and 2017 was \$21 and \$8, respectively.

The total number of shares available for grant as equity awards from the 2011 Incentive Plan is approximately 2,263,400 shares as of January 31, 2018.

Note 10 – Income taxes

On December 22, 2017, legislation commonly known as the Tax Cuts and Jobs Act of 2017 (the “Act”) was signed into law making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, the transition of U.S international taxation from a worldwide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017.

The Company calculated its best estimate of the impact of the Act in accordance with its understanding of the Act and guidance available as of the date of this filing and recorded \$1.1 million as an income tax benefit in the three months ended January 31, 2018, the period in which the legislation was enacted, related to a credit for alternative minimum taxes (AMT) paid in prior periods. A provisional amount related to the remeasurement of certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future was fully offset by an equivalent adjustment to the deferred tax valuation allowance. No provisional amount related to the one-time transition tax on the mandatory deemed repatriation of foreign earnings was deemed necessary.

On December 22, 2017, Staff Accounting Bulletin No. 118 (“SAB 118”) was issued to address the application of US GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Act. In accordance with SAB 118, the Company has determined that the \$1.1 million income tax benefit, which relates to the AMT credit, is a provisional amount and a reasonable estimate at January 31, 2018.

The Company’s effective tax rate benefit for the three and six months ended January 31, 2018 was 54.9% and 41.6%, respectively and was based on the refundable federal AMT credit. There was no tax provision for the 2017 periods. The Company’s effective tax rate for all periods differed from the expected net operating loss carryforward benefit at the U.S. federal statutory rate 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.

#### Note 11 – Segment reporting

The Company has three reportable segments: Clinical Labs, Life Sciences, and Therapeutics. The Clinical Labs segment provides diagnostic services to the health care community. The Life Sciences segment develops, manufactures, and markets products to research and pharmaceutical customers. The Therapeutic segment conducts research and development activities for therapeutic drug candidates.

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. Legal fee expense incurred to defend the Company’s intellectual property and other general corporate matters is considered a component of the Other segment. Legal fee expense specific to other segments’ activities has been allocated to those segments. When recognized, legal settlements, net represents activities for which royalties would have been received by the Company’s Life Sciences

segment had the Company had agreements in place with plaintiffs for the patents or products covered by the settlements.

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 contained in the Company's Annual Report on Form 10-K for the year ended July 31, 2017.

The following financial information represents the operating results of the reportable segments of the Company:

14



## Three months ended January 31, 2018

	Clinical Labs	Life Sciences	Therapeutics	Other	Consolidated
Revenues:					
Clinical laboratory services	\$19,530	—	—	—	\$ 19,530
Product revenues	—	\$ 7,122	—	—	7,122
Royalty and license fee income	—	300	—	—	300
	19,530	7,422	—	—	26,952
Operating costs and expenses:					
Cost of clinical laboratory services	11,730	—	—	—	11,730
Cost of product revenues	—	3,877	—	—	3,877
Research and development	—	591	\$ 221	—	812
Selling, general and administrative	6,107	2,899	—	\$2,064	11,070
Provision for uncollectible accounts receivable	800	(21 )	—	—	779
Legal fee expense	8	25	—	1,667	1,700
Total operating costs and expenses	18,645	7,371	221	3,731	29,968
Operating income (loss)	885	51	(221 )	(3,731)	(3,016 )
Other income (expense):					
Interest	(23 )	11	—	197	185
Other	3	1	—	29	33
Foreign exchange gain	—	800	—	—	800
Income (loss) before income taxes	\$865	\$ 863	\$ (221 )	\$(3,505)	\$(1,998 )
Depreciation and amortization included above	\$413	\$ 355	\$ —	\$18	\$ 786
Share-based compensation included in above:					
Selling, general and administrative	28	\$ 21	—	\$159	208
Total	\$28	\$ 21	\$ —	\$159	\$ 208
Capital expenditures	\$576	\$ 28	\$ —	\$—	\$ 604

## Three months ended January 31, 2017

	Clinical Labs	Life Sciences	Therapeutics	Other	Consolidated
Revenues:					
Clinical laboratory services	\$18,837	—	—	—	\$ 18,837
Product revenues	—	\$ 6,983	—	—	6,983
Royalty and license fee income	—	440	—	—	440
	18,837	7,423	—	—	26,260
Operating costs and expenses:					
Cost of clinical laboratory services	11,052	—	—	—	11,052
Cost of product revenues	—	3,520	—	—	3,520
Research and development	—	516	\$ (33 )	—	483
Selling, general and administrative	5,897	2,905	—	\$2,416	11,218
Provision for uncollectible accounts receivable	594	85	—	—	679
Legal fee expense	49	16	—	305	370
Total operating costs and expenses	17,592	7,042	(33 )	2,721	27,322
Operating income (loss)	1,245	381	33	(2,721)	(1,062 )
Other income (expense):					
Interest	(28 )	12	—	95	79
Other	17	—	—	7	24
Foreign exchange loss	—	(94 )	—	—	(94 )
Income (loss) before income taxes	\$1,234	\$ 299	\$ 33	\$(2,619)	\$(1,053 )
Depreciation and amortization included above	\$394	\$ 501	\$ —	\$20	\$ 915
Share-based compensation included in above:					
Cost of clinical laboratory services	\$1	—	—	—	\$ 1
Selling, general and administrative	23	\$ 15	—	\$202	240
Total	\$24	\$ 15	\$ —	\$202	\$ 241
Capital expenditures	\$175	\$ —	\$ —	\$—	\$ 175

16

## Six months ended January 31, 2018

	Clinical Labs	Life Sciences	Therapeutics	Other	Consolidated
Revenues:					
Clinical laboratory services	\$39,864	—	—	—	\$ 39,864
Product revenues	—	\$ 14,203	—	—	14,203
Royalty and license fee income	—	561	—	—	561
	39,864	14,764	—	—	54,628
Operating costs and expenses:					
Cost of clinical laboratory services	23,772	—	—	—	23,772
Cost of product revenues	—	7,266	—	—	7,266
Research and development	—	1,114	\$ 445	—	1,559
Selling, general and administrative	12,202	5,513	—	\$4,246	21,961
Provision for uncollectible accounts receivable	1,600	(7 )	—	—	1,593
Legal fee expense	21	28	—	2,082	2,131
Total operating costs and expenses	37,595	13,914	445	6,328	58,282
Operating income (loss)	2,269	850	(445 )	(6,328)	(3,654 )
Other income (expense):					
Interest	(48 )	23	—	367	342
Other	17	8	—	44	69
Foreign exchange gain	—	605	—	—	605
Income (loss) before income taxes	\$2,238	\$ 1,486	\$ (445 )	\$(5,917)	\$(2,638 )
Depreciation and amortization included above	\$817	\$681	\$ —	\$37	\$ 1,535
Share-based compensation included in above:					
Selling, general and administrative	60	\$44	—	\$309	413
Total	\$60	\$44	\$ —	\$309	\$ 413
Capital expenditures	\$994	\$72	\$ —	\$—	\$ 1,066

## Six months ended January 31, 2017

	Clinical Labs	Life Sciences	Therapeutics	Other	Consolidated
Revenues:					
Clinical laboratory services	\$37,395	—	—	—	\$ 37,395
Product revenues	—	\$ 14,409	—	—	14,409
Royalty and license fee income	—	740	—	—	740
	37,395	15,149	—	—	52,544
Operating costs and expenses:					
Cost of clinical laboratory services	21,948	—	—	—	21,948
Cost of product revenues	—	6,829	—	—	6,829
Research and development	—	1,143	\$ 162	—	1,305
Selling, general and administrative	11,849	5,851	—	\$5,012	22,712
Provision for uncollectible accounts receivable	1,260	88	—	—	1,348
Legal fee expense	101	28	—	613	742
Total operating costs and expenses	35,158	13,939	162	5,625	54,884
Operating income (loss)	2,237	1,210	(162 )	(5,625)	(2,340 )
Other income (expense):					
Interest	(57 )	22	—	160	125
Other	119	—	—	24	143
Foreign exchange loss	—	(455 )	—	—	(455 )
Income (loss) before income taxes	\$2,299	\$ 777	\$ (162 )	\$(5,441)	\$(2,527 )
Depreciation and amortization included above	\$795	\$ 1,009	\$ —	\$38	\$ 1,842
Share-based compensation included in above:					
Cost of clinical laboratory services	\$3	—	—	—	\$ 3
Selling, general and administrative	40	\$ 26	—	\$323	389
Total	\$43	\$ 26	\$ —	\$323	\$ 392
Capital expenditures	\$587	\$ 102	\$ —	\$—	\$ 689

**Note 12 – Contingencies**

The Company is engaged in litigation in the United States District Court for the Southern District of New York against Roche Diagnostic GmbH and its related company Roche Molecular Systems, Inc. (“Roche”), as declaratory judgment defendant. This case was commenced in May 2004. Roche seeks a declaratory judgment of non-breach of contract and patent invalidity against the Company. Roche has also asserted tort claims against the Company. The Company has asserted breach of contract and patent infringement causes of action against Roche. There has been extensive discovery in the case. In 2011, Roche moved for summary judgment of non-infringement regarding the Company’s patent claims. In 2012, the motion was granted in part and denied in part. In December 2012, Roche moved for summary judgment on the Company’s non-patent claims. Additional discovery was taken and the Company responded to the motions in May 2013. In December 2013, the Court granted in part and denied in part Roche’s summary judgment motion. In October 2014, the Court ordered that damages discovery concerning the Company’s remaining contract and patent claims and Roche’s claims should be completed by the end of January 2015, and expert discovery should be completed following the Court’s not-yet-issued claim construction ruling concerning the Company’s patent infringement claim against Roche. Roche dropped its tort claims during damages discovery. On October 2, 2017, the Court issued its claim construction ruling. On December 21, 2017, the Court issued a revised scheduling order which requires the completion of expert discovery by April 13, 2018 and schedules a conference on May 31, 2018 what will function as a pre-trial conference or a pre-motion conference. The Company and Enzo Life Sciences intend to vigorously press their remaining claims and contest the claims against them.

As of January 31, 2018, there are seven pending cases originally brought by the Company in the United States District Court for the District of Delaware (“the Court”) alleging patent infringement against various companies. On June 28, 2017, the Court issued an opinion in the Gen-Probe case, granting Gen-Probe’s motion for summary judgment that the asserted claims of the ‘180 patent are invalid for nonenablement. The Court entered final judgment of invalidity of the asserted claims of the ‘180 patent on July 19, 2017 in the Gen-Probe and Hologic cases. The Court entered partial final judgment of invalidity of the asserted claims of the ‘180 patent and stayed the remainder of the cases in the Becton Dickinson and Roche cases on July 31, 2017 and August 2, 2017, respectively. The Company filed notices of appeal in each of the Gen-Probe, Hologic, Becton Dickinson, and Roche cases, which were docketed by the United States Court of Appeals for the Federal Circuit (“Federal Circuit”). In the Abbott case, the parties agreed that the Court’s summary judgment ruling in the Gen-Probe case invalidated all of the ‘180 patent claims asserted against the Abbott Defendants. On August 15, 2017, the Court granted Abbott’s motion for summary judgment that the asserted claims of the ‘405 patent are invalid for nonenablement. On September 1, 2017, the Court entered final judgment of invalidity of the asserted claims of the ‘180 and ‘405 patents for nonenablement in the Abbott case. Enzo subsequently filed a notice of appeal in the Abbott case on September 14, 2017. The Federal Circuit docketed the appeal on September 15, 2017. The Federal Circuit consolidated the appeals from the Abbott, Becton Dickinson, Gen-Probe, Hologic, and Roche litigations (“Consolidated Appeals”). We disagree with the Court’s invalidity decisions regarding the ‘180 and ‘405 patents in the pending cases as set forth in our opening brief in the Consolidated Appeals pending in the Federal Circuit filed on November 28, 2017. In the Consolidated Appeals, we have asked the Federal Circuit to reverse the Court’s grants of final and summary judgment of invalidity of the asserted claims of the ‘180 and ‘405 patents and to remand the cases against Abbott, Becton Dickinson, Gen-Probe, Hologic, and Roche to the Court. The responsive briefs from Abbott, Becton Dickinson, Gen-Probe, Hologic, and Roche in the Consolidated Appeals are due to be filed on March 9, 2018. In the other two cases involving Hologic, one of the cases is stayed, while the other case is proceeding under the Court’s scheduling order with fact and expert discovery deadlines through September 2018, a summary judgment hearing date in April 2019, and a trial date in September 2019. The Court granted Enzo’s motion to amend its complaint to add two new defendants, Grifols Diagnostic Solutions, Inc. and Grifols, S.A, to that case. Grifols, S.A. has moved to dismiss for lack of personal jurisdiction; briefing on that motion is complete but the Court has not set a date for oral argument.

There can be no assurance that the Company will be successful in these litigations. Even if the Company is not successful, management does not believe that there will be a significant adverse monetary impact on the Company.

The Company is party to other claims, legal actions, complaints, and contractual disputes that arise in the ordinary course of business. The Company believes that any liability that may ultimately result from the resolution of these matters will not, individually or in the aggregate, have a material adverse effect on its financial position or results of operations

## **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 and development 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 currency 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 July 31, 2017 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**

Enzo Biochem, Inc. (the "Company" "we", "our" or "Enzo") is an integrated diagnostic bioscience company focusing on delivering and applying advanced technology capabilities to produce affordable reliable products and services to allow our customers to meet their clinical needs. We develop, manufacture and sell our proprietary technology solutions and platforms to clinical laboratories, specialty clinics and researchers and physicians globally. Enzo's structure and business strategy represent the culmination of years of extensive planning and work. The Company now has the unique ability to offer low cost, high performance products and services in molecular diagnostics, which ideally positions it to capitalize on the reimbursement pressures facing diagnostic labs. Our pioneering work in

genomic analysis coupled with our extensive patent estate and enabling platforms have positioned the Company to continue to play an important role in the rapidly growing molecular medicine marketplaces.

Enzo technology solutions and platforms and unique operational structure are designed to reduce overall healthcare costs for both government and private insurers. Our proprietary technology platforms reduces our customers' need for multiple, specialized instruments, and offer a variety of high throughput capabilities together with a demonstrated high level of accuracy and reproducibility. Our genetic test panels are focused on large and growing markets primarily in the areas of personalized medicine, women's health, infectious diseases and genetic disorders.

For example, our AMPIPROBE® technology platform can lead to the development of an entire line of nucleic acid clinical products that can allow laboratories to offer a complete menu of services at a cost that allows them to enjoy an acceptable margin. Our technology solutions provide tools to physicians, clinicians and other health care providers to improve detection, treatment and monitoring of a broad spectrum of diseases and conditions. In addition, reduced patient to physician office visits translates into lower healthcare processing costs and greater patient services.

In the course of our research and development activities, we have built a substantial portfolio of intellectual property assets, comprised of 336 issued patents worldwide, and over 151 pending patent applications, along with extensive enabling technologies and platforms.

Below are brief descriptions of each of our operating segments (See Note 10 in the Notes to Consolidated Financial Statements):

20



**Enzo Clinical Labs** is a clinical reference laboratory providing a wide range of clinical services to physicians, medical centers, other clinical labs and pharmaceutical companies. The Company believes having a CLIA-certified and a College of American Pathologists (“CAP”) accredited medical laboratory located in New York provides us the opportunity to more rapidly introduce cutting edge products and services to the clinical marketplace. Enzo Clinical Labs offers an extensive menu of molecular and other clinical laboratory tests and procedures used in patient care by physicians to establish or support a diagnosis, monitor treatment or medication, and search for an otherwise undiagnosed condition. Our laboratory is equipped with state-of-the-art communication and connectivity solutions enabling the rapid transmission, analysis and interpretation of generated data. We operate a full service clinical laboratory in Farmingdale, New York, a network of over 30 patient service centers throughout New York, New Jersey and expanding into Connecticut, a free standing “STAT” or rapid response laboratory in New York City and a full service phlebotomy, in-house logistics department, and an information technology department. Given our license in New York State, we are able to offer testing services to clinical laboratories and physicians in the majority of states nationwide.

**Enzo Life Sciences** manufactures, develops and markets products and tools to clinical research, drug development and bioscience research customers worldwide. Underpinned by broad technological capabilities, Enzo Life Sciences has developed proprietary products used in the identification of genomic information by laboratories around the world. Information regarding our technologies can be found in the “Core Technologies” section (See Form 10K for the fiscal year ended July, 31, 2017). We are internationally recognized and acknowledged as a leader in the development, manufacturing validation and commercialization of numerous products serving not only the clinical research market but life sciences researchers in the fields of cellular analysis and drug discovery, among others. Our operations are supported by global operations allowing for the efficient marketing and delivery of our products around the world.

**Enzo Therapeutics** is a biopharmaceutical venture 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. Enzo Therapeutics has focused its efforts on developing treatment regimens for diseases and conditions for 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 101 patents and patent applications.

**Results of Operations****Three months ended January 31, 2018 compared to January 31, 2017****(in 000s)**Comparative Financial Data for the Three Months Ended January 31.

	2018	2017	Increase (Decrease)	% Change
<b>Revenues:</b>				
Clinical laboratory services	\$19,530	\$18,837	\$ 693	4
Product revenues	7,122	6,983	139	2
Royalty and license fee income	300	440	(140 )	(32 )
Total revenues	26,952	26,260	692	3
<b>Operating costs and expenses:</b>				
Cost of clinical laboratory services	11,730	11,052	678	6
Cost of product revenues	3,877	3,520	357	10
Research and development	812	483	329	68
Selling, general and administrative	11,070	11,218	(148 )	(1 )
Provision for uncollectible accounts receivable	779	679	100	15
Legal fee expense	1,700	370	1,330	359
Total operating costs and expenses	29,968	27,322	2,646	10
Operating loss	(3,016 )	(1,062 )	(1,954 )	(184 )
<b>Other income (expense):</b>				
Interest	185	79	106	134
Other	33	24	9	38
Foreign currency gain (loss)	800	(94 )	894	**
Loss before income taxes	\$(1,998 )	\$(1,053 )	\$ (945 )	(90 )

**\*\* not meaningful****Consolidated Results:**

The “2018 period” and the “2017 period” refer to the three months ended January 31, 2018 and 2017, respectively.

Clinical laboratory services revenues for the 2018 period were \$19.5 million compared to \$18.8 million in the 2017 period, an increase of \$0.7 million or 4%. The increase is attributed to molecular and women’s health testing volume in women’s health markets, the addition of new accounts, and expansion of the service area versus the 2017 period,

partially offset by weather related delays in testing experienced during the 2018 period.

Product revenues for the 2018 period were \$7.1 million compared to \$7.0 million in the 2017 period, an increase of \$0.1 million or 2%. The increase resulted from the positive impact of foreign currency translation and organic growth in foreign markets, which was partially offset by lower product order volume in the United States due to lower research funding and lower pricing due to competition.

The cost of clinical laboratory services during the 2018 period was \$11.7 million as compared to \$11.0 million in the 2017 period, an increase of \$0.7 million or 6% due to the volume increase in clinical laboratory services revenue, from molecular testing, primarily for reagent costs and compensation expenses. Gross profit margin was 40% in the 2018 period and 41% in the 2017 period.

The cost of product revenues was \$3.9 million in the 2018 period and \$3.5 million in the 2017 period, an increase of \$0.4 million or 10% primarily due to the sale of lower margin items and an increase in headcount. The gross profit margin on products was 45.6% in the 2018 period and 49.6% in the 2017 period and was also impacted by price discounting.

Research and development expenses were \$0.8 million versus \$0.5 million in the 2018 period, an increase of \$0.3 million or 68%. The expense for the Life Sciences segment increased \$0.1 million due to compensation expenses. The expense for the Therapeutics segment in the 2018 period increased \$0.2 million due to the impact of an adjustment recorded in the 2017 period decreasing an obligation for clinical trial activity.

Selling, general and administrative expenses were approximately \$11.1 million during the 2018 period versus \$11.2 million during the 2017 period, a decrease of \$0.1 million or 1%. The Clinical Lab segment expense increased \$0.2 million, primarily comprised of billing expenses. The Life Sciences segment expense was comparable in both periods. The Other segment expense decreased \$0.3 million, comprised of a decrease in compensation related expenses.

The provision for uncollectible accounts receivable, primarily related to the Clinical Labs segment, was approximately \$0.8 million in the 2018 period and \$0.7 million in the 2017 period, an increase of approximately \$0.1 million. As a percentage of Clinical laboratory services, the provision for uncollectible accounts receivable relating to the Clinical Labs segment was 4.1% in the 2018 period and 3.2% in the 2017 period.

Legal fee expense was \$1.7 million during the 2018 period compared to \$0.4 million in the 2017 period, an increase of \$1.3 million or 359% due to the timing of legal activity and related costs associated with on-going litigation and contract dispute where the Company is the plaintiff.

## **Segment Results:**

### **Clinical Labs**

Revenue from laboratory services for the 2018 period were \$19.5 million compared to \$18.8 million in the 2017 period. The increase of \$0.7 million or 4% is attributed to increased molecular and women's health testing volume and the addition of new accounts and expansion of the service area, partially offset by weather related delays in testing experienced during the 2018 period. Cost of services during the 2018 period was \$11.7 million as compared to \$11.0 million in the 2017 period, an increase of \$0.7 million or 6% due to higher testing volume, primarily for reagent costs and compensation expenses. Gross profit margin was 40% in the 2018 period and 41% in the 2017 period. As a percentage of revenues, the provision for uncollectable accounts, primarily for self-pay patient accounts, was 4.1% for the 2018 period and 3.2% for the 2017 period. Income before taxes was \$0.9 million for 2018 period as compared to \$1.2 million in the 2017 period, a decrease of \$0.3 million.

### **Life Sciences**

Product revenues for the 2018 period were \$7.1 million compared to \$7.0 million in the 2017 period, an increase of \$0.1 million or 2%. The increase resulted from the positive impact of foreign currency translation, which was partially offset by lower product order volume in the United States due to lower research funding and lower pricing due to competition. The segment's gross profit was \$3.5 million in the 2018 period and \$3.9 million in the 2017 period. The gross profit margin on products was 45.6% in the 2018 period and 49.6% in the 2017 period and was negatively impacted by the sale of lower margin products, increase in headcount, and price discounting. Selling general and administrative expenses were comparable in both periods. Research and development increased \$0.1 million compared to the 2017 period. Due to significant appreciation of foreign currencies versus the US dollar at the end of the 2018 period compared to the end of the 2017 period, in particular the British pound, Euro and Swiss franc, the foreign currency gain was \$0.8 million compared to a loss of \$0.1 million in the 2017 period, a favorable change of \$0.9 million. Income before taxes was \$0.9 million for the 2018 period as compared to \$0.3 million for the 2017 period, an increase of \$0.6 million.

### **Therapeutics**

The Therapeutics segment's operating loss before income taxes was approximately \$0.2 million in the 2018 period. The segment was breakeven during the 2017 period due to the impact of an adjustment decreasing an obligation for clinical trial activity.

### **Other**

The Other segment's operating loss before taxes for the 2018 period was approximately \$3.5 million compared to \$2.6 million for the 2017 period, an increase of \$0.9 million. The 2018 period legal expense associated with on-going litigation and contract dispute increased \$1.3 million. Compensation related expenses decreased \$0.3 million. Interest income increased \$0.1 million due to the impact of a higher interest rate earned on cash and cash equivalents during the 2018 period and because interest expense was incurred only in the 2017 period on a loan payable which was then outstanding. The loan was repaid during the 2017 period.

**Results of Operations**

**Six months ended January 31, 2018 compared to January 31, 2017**  
**(in 000s)**

**Comparative Financial Data for the Six Months Ended January 31,**

	2018	2017	Increase (Decrease)	% Change
<b>Revenues:</b>				
Clinical laboratory services	\$39,864	\$37,395	\$ 2,469	7
Product revenues	14,203	14,409	(206 )	(1 )
Royalty and license fee income	561	740	(179 )	(24 )
Total revenues	54,628	52,544	2,084	4
<b>Operating costs and expenses:</b>				
Cost of clinical laboratory services	23,772	21,948	1,824	8
Cost of product revenues	7,266	6,829	437	6
Research and development	1,559	1,305	254	19
Selling, general and administrative	21,961	22,712	(751 )	(3 )
Provision for uncollectible accounts receivable	1,593	1,348	245	18
Legal fee expense	2,131	742	1,389	187
Total operating costs and expenses	58,282	54,884	3,398	6
Operating loss	(3,654 )	(2,340 )	(1,314 )	(56 )
<b>Other income (expense):</b>				
Interest	342	125	217	174
Other	69	143	(74 )	(52 )
Foreign currency gain (loss)	605	(455 )	1,060	**
Loss before income taxes	\$(2,638 )	\$(2,527 )	\$ (111 )	(4 )

**\*\* not meaningful**

**Consolidated Results:**

The “2018 period” and the “2017 period” refer to the six months ended January 31, 2018 and 2017, respectively.

Clinical laboratory services revenues for the 2018 period were \$39.9 million compared to \$37.4 million in the 2017 period, an increase of \$2.5 million or 7%. The increase is attributed to molecular and women’s health testing volume in

women's health markets, the addition of new accounts, and expansion of the service area versus the 2017 period, partially offset by weather related delays in testing experienced during the 2018 period.

Product revenues for the 2018 period were \$14.2 million compared to \$14.4 million in the 2017 period, a decrease of \$0.2 million or 1%. The decrease resulted from lower product order volume due to lower research funding and lower pricing due to competition in the United States, which was partially offset by organic growth in foreign markets and the positive impact of foreign currency translation.

The cost of clinical laboratory services during the 2018 period was \$23.8 million as compared to \$21.9 million in the 2017 period, an increase of \$1.8 million or 8% due to the volume increase in clinical laboratory services revenue from molecular testing, primarily for reagent costs, compensation expenses, and outside reference testing. Gross profit margin was 40% in the 2018 period and 41% in the 2017 period

The cost of product revenues was \$7.3 million in the 2018 period and \$6.8 million in the 2017 period, an increase of \$0.4 million or 6% due to the sale of lower margin items and an increase in headcount. The gross profit margin on products was 48.8% in the 2018 period and 52.6% in the 2017 period, and was also negatively impacted by lower pricing due to competition.

Research and development expenses were \$1.6 million versus \$1.3 million in the 2018 period, an increase of \$0.3 million or 19%. The expense for the Therapeutics segment was \$0.5 million in the 2018 period and \$0.2 million in the 2017 period. The lower expense in the 2017 period was due to the impact of an adjustment decreasing an obligation for clinical trial activity. The expense for the Life Sciences segment was comparable in both periods.

Selling, general and administrative expenses were approximately \$22.0 million during the 2018 period versus \$22.7 million during the 2017 period, a decrease of \$0.7 million or 3%. The Clinical Lab segment expense increased \$0.3 million comprised of a \$0.3 million increase in billing expenses and a \$0.1 million increase in information technology and bank fee expenses, partially offset by a decrease of \$0.1 million in salary expenses, primarily for commissions. The Life Sciences segment expense decreased \$0.3 million due to a decrease in intangibles amortization. The Other segment expense decreased \$0.7 million, comprised of a decrease in compensation related expenses of \$0.6 million and a decrease of \$0.1 million in professional fees and office expenses.

The provision for uncollectible accounts receivable, primarily related to the Clinical Labs segment, was approximately \$1.6 million in the 2018 period and \$1.3 million in the 2017 period, an increase of approximately \$0.3 million. As a percentage of Clinical laboratory services, the provision for uncollectible accounts receivable relating to the Clinical Labs segment was 4.0% in the 2018 period and 3.4% in the 2017 period.

Legal fee expense was \$2.1 million during the 2018 period compared to \$0.7 million in the 2017 period, an increase of \$1.4 million or 187% due to the timing of legal activity and related costs associated with on-going litigation and contract dispute where the Company is the plaintiff.

## **Segment Results:**

### **Clinical Labs**

Revenue from laboratory services for the 2018 period were \$39.9 million compared to \$37.4 million in the 2017 period. The increase of \$2.5 million or 7% is attributed to increased molecular and women's health testing volume and the addition of new accounts and expansion of the service area, partially offset by weather related delays in testing during the 2018 period. Cost of services during the 2018 period was \$23.8 million as compared to \$21.9 million in the 2017 period, an increase of \$1.8 million or 8% due to higher testing volume, primarily for reagent costs, compensation expenses, and outside reference testing. Gross profit margin was 40% in the 2018 period and 41% in the 2017 period. As a percentage of revenues, the provision for uncollectable accounts, primarily for self-pay patient accounts, was 4.0% for the 2018 period and 3.4% for the 2017 period. Income before taxes was \$2.2 million for 2018 period as compared to \$2.3 million in the 2017 period, a decrease of \$0.1 million.

### **Life Sciences**



Product revenues for the 2018 period were \$14.2 million compared to \$14.4 million in the 2017 period, a decrease of \$0.2 million or 1%. The decrease resulted from lower product order volume in the United States due to lower research funding and lower pricing due to competition, which was partially offset by organic growth in foreign markets and the positive impact of foreign currency translation. The segment's gross profit was \$7.5 million in the 2018 period and \$8.3 million in the 2017 period, impacted by lower revenues, the sale of lower margin items and an increase in headcount. The gross profit margin on products was 48.8% in the 2018 period and 52.6% in the 2017 period and was negatively impacted by the sale of lower margin products and price discounting. In the 2018 period, selling general and administrative expenses decreased \$0.3 million compared to the 2017 period. Due to significant appreciation of foreign currencies versus the US dollar at the end of the 2018 period compared to the end of the 2017 period, in particular the British pound, Euro and Swiss franc, the foreign currency gain was \$0.6 million compared to a loss of \$0.5 million in the 2017 period, a favorable change of \$1.1 million. Income before taxes was \$1.5 million for the 2018 period as compared to \$0.8 million for the 2017 period, an increase of \$0.7 million.

### **Therapeutics**

The Therapeutics segment's operating loss before income taxes was approximately \$0.4 million in the 2018 period and \$0.2 million in the 2017 period. The lower expense during the 2017 period was due to the impact of an adjustment decreasing an obligation for clinical trial activity.

### **Other**

The Other segment's operating loss before taxes for the 2018 period was approximately \$5.9 million compared to \$5.4 million for the 2017 period, an increase of \$0.5 million. During the 2018 period, legal fee expense associated with on-going litigation and contract dispute increased \$1.5 million. The 2018 period selling general and

administrative expense declined \$0.7 million compared to the 2017 period due to decreases in compensation related expenses, and a \$0.1 decrease in professional fees and office expense. Interest income increased \$0.2 million in the 2018 period due to the impact of a higher interest rate earned on cash and cash equivalents and because interest expense was incurred only in the 2017 period on the loan payable then outstanding. The loan was repaid during the second quarter of 2017 period..

## **Liquidity and Capital Resources**

At January 31, 2018, the Company had cash and cash equivalents of \$64.5 million of which \$0.5 million was in foreign accounts, as compared to cash and cash equivalents of \$64.2 million, of which \$0.5 million was in foreign accounts at July 31, 2017. It is the Company's current intent to permanently reinvest these funds outside of the United States, and its current plans do not demonstrate a need to repatriate them to fund its United States operations. The Company had working capital of \$69.7 million at January 31, 2018 compared to \$71.3 million at July 31, 2017. The decrease in working capital of \$1.6 million was primarily due to the period loss and net changes in operating assets and liabilities.

Net cash provided by operating activities as of January 31, 2018 was approximately \$0.8 million as compared to cash used in operating activities of \$2.8 million in fiscal 2017, an increase of approximately \$3.6 million. The increase is due to net changes in assets and liabilities of \$3.7 million and decrease in net loss of \$1.0 million offset by \$1.1 million in non-cash adjustments.

Net cash used in investing activities in fiscal 2018 and 2017 was approximately \$1.1 million and \$0.7 million, respective, which consists primarily of capital expenditures.

Net cash provided by financing activities in fiscal 2018 was approximately \$0.5 million as compared to cash used in financing activities of \$1.8 million in fiscal 2017. The change of \$2.3 million is mainly due to borrowings from the credit agreement of \$1.6 million in the 2017 period and the exercise of stock options \$0.7 million in the 2018 period.

The Company believes that its current cash and cash equivalents level, and utilization of the Controlled Equity Offering program if necessary, as disclosed in Form 10-K Note 10 to the financial statements are sufficient for its foreseeable liquidity and capital resource needs over at least the next twelve (12) months, although there can be no assurance that future events will not alter such view. Although there can be no assurances, in the event additional capital is required, the Company believes it has the ability to raise additional funds through equity offerings or other sources. Our liquidity plans are subject to a number of risks and uncertainties, including those described in the Item 1A. "Risk Factors" section of our Form 10-K for the year ended July 31, 2017, some of which are outside our control. Macroeconomic conditions could limit our ability to successfully execute our business plans and therefore adversely affect our liquidity plans.

## **Contractual Obligations**

There have been no material changes to our Contractual Obligations as reported in our Form 10-K for the fiscal year ended July 31, 2017.

Management is not aware of any material claims, disputes or settled matters concerning third party reimbursement that would have a material effect on our financial statements, except as disclosed in Note 11 to the Consolidated Financial Statements.

## **Off-Balance Sheet Arrangements**

The Company does not have any “off-balance sheet arrangements” as such term is defined in Item 303(a)(4) of Regulation S-K.

## **Critical Accounting Policies**

The Company’s discussion and analysis of its financial condition and results of operations are based upon Enzo Biochem, Inc.’s consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. These estimates and judgments also affect related disclosure of contingent assets and liabilities.

On an on-going basis, we evaluate our estimates, including those related to contractual expense, allowance for uncollectible accounts, inventory, intangible assets and income taxes. The Company bases its estimates on experience and on various other assumptions that are believed to be reasonable under the circumstances, the results

of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

### Product revenues

Revenues from product sales are recognized when the products are shipped and title transfers, the sales price is fixed or determinable and collectability is reasonably assured.

### Royalties

Royalty revenues are recorded in the period earned. Royalties received in advance of being earned are recorded as deferred revenues.

### Revenues – Clinical laboratory services

Revenues from Clinical Labs are recognized upon completion of the testing process for a specific patient and reported to the ordering physician. These revenues and the associated accounts receivable are based on gross amounts billed or billable for services rendered, net of a contractual adjustment, which is the difference between amounts billed to payers and the expected approved reimbursable settlements from such payers.

The following table represents the clinical laboratory segment's net revenues and percentages by revenue category:

Revenue category	Three months ended January 31, 2018		Three months ended January 31, 2017	
Third-party payer	\$11,102	57 %	\$10,773	57 %
Patient self-pay	2,383	12	2,772	15
Medicare	3,230	17	2,796	15
HMO's	2,815	14	2,496	13
Total	\$19,530	100 %	\$18,837	100 %

Revenue category	Six months ended January 31, 2018		Six months ended January 31, 2017	
Third-party payer	\$22,762	57 %	\$20,966	56 %
Patient self-pay	5,242	13	5,875	16
Medicare	6,215	16	5,631	15
HMO's	5,645	14	4,923	13
Total	\$39,864	100 %	\$37,395	100 %

The Company provides services to certain patients covered by various third-party payers, including the Federal Medicare program. Laws and regulations governing Medicare are complex and subject to interpretation for which action for noncompliance includes fines, penalties and exclusion from the Medicare programs.

Other than the Medicare program, one provider whose programs are included in the "Third-party payers" and "Health Maintenance Organizations" ("HMO's") categories represents approximately 38% and 39% of the Clinical Labs segment net revenue for the three months ended January 31, 2018 and 2017 respectively, and 39% and 37% for the six months ended January 31, 2018 and 2017, respectively.

#### Contractual Adjustment

The Company's estimate of contractual adjustment is based on significant assumptions and judgments, such as its interpretation of payer reimbursement policies, and bears the risk of change. The estimation process is based on the experience of amounts approved as reimbursable and ultimately settled by payers, versus the corresponding gross amount billed to the respective payers. The contractual adjustment is an estimate that reduces gross revenue, based on gross billing rates, to amounts expected to be approved and reimbursed. Gross billings are based on a standard fee schedule we set for all third party payers, including Medicare, HMO's and managed care. The Company adjusts the contractual adjustment estimate quarterly, based on its evaluation of current and historical settlement experience with payers, industry reimbursement trends, and other relevant factors.

The other relevant factors that affect our contractual adjustment include the monthly and quarterly review of: 1) current gross billings and receivables and reimbursement by payer, 2) current changes in third party arrangements and 3) the growth of in-network provider arrangements and managed care plans specific to our Company.

Our clinical laboratory business is primarily dependent upon reimbursement from third-party payers, such as Medicare (which principally serves patients 65 and older) and insurers. We are subject to variances in reimbursement rates among different third-party payers, as well as constant changes of reimbursement rates. Changes that decrease reimbursement rates or coverage would negatively impact our revenues. The number of individuals covered under managed care contracts or other similar arrangements has grown over the past several years and may continue to grow in the future. In addition, Medicare and other government healthcare programs continue to shift to managed care. These trends will continue to reduce our revenues from these programs.

During the three months ended January 31, 2018 and 2017, the contractual adjustment percentages, determined using current and historical reimbursement statistics, were 84.1% and 82.8%, respectively, of gross billings. During the six months ended January 31, 2018 and 2017, the contractual adjustment percentages, determined using current and historical reimbursements statistics, were 84.5% and 83.4%, respectively. In general, the Company believes a decline in reimbursement rates or a shift to managed care or similar arrangements may be offset by the positive impact of an increase in the number of molecular tests we perform. However, there can be no assurance that we can increase the number of tests we perform or that if we do increase the number of tests we perform, that we can maintain that higher number of tests performed, or that an increase in the number of tests we perform would result in increased revenue.

The Company estimates (by using a sensitivity analysis) that each 1% point change in the contractual adjustment percentage could result in a change in clinical laboratory services revenues of approximately \$2.6 million and \$2.3 million for the six months ended January 31, 2018 and 2017, respectively, and a change in the net accounts receivable of approximately \$0.6 million as of January 31, 2018.

Our clinical laboratory financial billing system records gross billings using a standard fee schedule for all payers and does not record contractual adjustment by payer at the time of billing. Therefore, we are unable to quantify the effect contractual adjustments recorded during the current period have on revenue recorded in a previous period. However, we can reasonably estimate our monthly contractual adjustment to revenue on a timely basis based on our quarterly review process, which includes:

- an analysis of industry reimbursement trends;
- an evaluation of third-party reimbursement rates changes and changes in reimbursement arrangements with third-party payers;
- a rolling monthly analysis of current and historical claim settlement and reimbursement experience statistics with payers; and
- an analysis of current gross billings and receivables by payer.

Accounts Receivable and Allowance for Doubtful Accounts

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

The following is a table of the Company's net accounts receivable by segment. The Clinical Labs segment's net receivables are detailed by billing category and as a percent to its total net receivables. At January 31, 2018, and July 31, 2017, approximately 73%, of the Company's net accounts receivable relates to its Clinical Labs business, which operates in the New York, New Jersey and Connecticut medical communities.

The Life Sciences segment's accounts receivable balance includes \$1.3 million or 32% and \$1.1 million or 29% of foreign receivables as of January 31, 2018 and July 31, 2017, and includes royalty receivables of \$0.4 and \$0.4 million, as of January 31, 2018 and July 31, 2017, respectively, from its licensee Qiagen.

Net accounts receivable

Billing category	As of January 31, 2018		As of July 31, 2017	
Clinical Labs				
Third party payers	\$7,218	66 %	\$7,256	64 %
Medicare	1,730	16	1,385	12
HMO's	1,181	11	1,169	10
Patient self-pay	788	7	1,591	14
Total Clinical Labs	10,917	100%	11,401	100%
Total Life Sciences	4,060		3,779	
Total accounts receivable	\$14,977		\$15,180	

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

	<b>Six months ended January 31, 2018</b>	<b>Fiscal year ended July 31, 2017</b>
Beginning balance	\$ 3,576	\$3,517
Provision for doubtful accounts	1,593	2,775
Write-offs, net	(1,383 )	(2,716)
Ending balance	\$ 3,786	\$3,576

For the Clinical Labs segment, the allowance for doubtful accounts represents amounts that the Company does not expect to collect after the Company has exhausted its collection procedures. The Company estimates its allowance for doubtful accounts in the period the related services are billed and reduces the allowance in future accounting periods based on write-offs during those periods. The Company bases the estimate for the allowance on the evaluation of historical experience of accounts going to collections and the net amounts not received. Accounts going to collection include the balances, after receipt of the approved settlements from third party payers, for the insufficient diagnosis information received from the ordering physician which result in denials of payment and our estimate of the uncollected portion of receivables from self-payers, including deductibles and copayments, which are subject to credit risk and patients' ability to pay. The Company fully reserves through its contractual allowances amounts that have not been written off because the payer's filing date deadline has not occurred or the collection process has not been exhausted. The Company adjusts the historical collection analysis for recoveries, if any, on an on-going basis.

The Company's ability to collect outstanding receivables from third party payers is critical to its operating performance and cash flows. The primary collection risk lies with uninsured patients or patients for whom primary insurance has paid but a patient portion remains outstanding. The Company also assesses the current state of its billing functions in order to identify any known collection or reimbursement issues in order to assess the impact, if any, on the allowance



estimates, which involves judgment.

The Company believes that the collectability of its receivables is directly linked to the quality of its billing processes, most notably, those related to obtaining the accurate patient information in order to bill effectively for the services provided. Should circumstances change (e.g. shift in payer mix, decline in economic conditions or deterioration in aging of receivables), our estimates of net realizable value of receivables could be reduced by a material amount.

Billing for laboratory services is complicated because of many factors, especially: the differences between our standard gross fee schedule for all payers and the reimbursement rates of the various payers we deal with, disparity of coverage and information requirements among the various payers, and disputes with payers as to which party is responsible for reimbursement. The allowance for doubtful accounts as a percentage of total accounts receivable at January 31, 2018 and July 31, 2017 was 20.2% and 19.1%, respectively.

The following table indicates the Clinical Labs aged gross receivables by payer group which is prior to adjustment to gross receivables for: 1) contractual adjustment, 2) fully reserved balances not yet written off, and 3) other revenue adjustments.

As of January 31, 2018	Total	%	Third Party Payers	%	Self-Pay	%	Medicare	%	HMO's	%
1-30 days	\$27,330	46	\$18,242	44	\$ 1,125	19	\$ 4,414	56	\$3,549	92
31-60 days	6,536	11	4,515	11	873	14	974	12	174	5
61-90 days	4,973	9	3,326	8	806	13	806	10	35	1
91-120 days	4,580	8	3,128	8	734	) 12	710	9	8	—
121-150 days	3,563	6	2,453	6	577	10	521	7	12	—
Greater than 150 days	12,053	20	9,545	23	1,955	) 32	464	6	89	2
Totals	\$59,035	100%	\$41,209	100%	\$ 6,070	100%	\$ 7,889	100%	\$3,867	100%

29

Edgar Filing: ENZO BIOCHEM INC - Form 10-Q

As of July 31, 2017	Total	%	Third Party Payers	%	Self-Pay	%	Medicare	%	HMO's	%
1-30 days	\$25,357	42	\$16,683	40	\$ 1,082	16	\$ 4,022	60	\$3,570	82
31-60 days	8,732	15	5,723	14	1,183	17	1,294	19	532	12
61-90 days	5,703	10	4,208	10	927	14	529	9	39	1
91-120 days	3,749	6	2,732	6	701	10	288	4	28	1
121-150 days	3,689	6	2,772	7	672	10	228	3	17	—
Greater than 150 days	12,455	21	9,652	23	2,270	33	379	5	154	4
Totals	\$59,685	100%	\$41,770	100%	\$ 6,835	100%	\$ 6,740	100%	\$4,340	100%

*Income Taxes*

The Company accounts for income taxes under the liability method of accounting for income taxes. Under the liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The liability method requires that any tax benefits recognized for net operating loss carry forwards and other items be reduced by a valuation allowance where it is not more likely than not the benefits will be realized in the foreseeable future. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under the liability method, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

It is the Company's policy to provide for uncertain tax positions and the related interest and penalties based upon management's assessment of whether a tax benefit is more likely than not to be sustained upon examination by tax authorities. To the extent the Company prevails in matters for which a liability for an unrecognized tax benefit is established or is required to pay amounts in excess of the liability, the Company's effective tax rate in a given financial statement period may be affected.

*Inventory*

The Company values inventory at the lower of cost (first-in, first-out) or net realizable value, which approximates market. Work-in-process and finished goods inventories consist of material, labor, and manufacturing overhead. Write downs of inventories to net realizable value are based on a review of inventory quantities on hand and estimated sales forecasts based on sales history and anticipated future demand. Unanticipated changes in demand could have a significant impact on the value of our inventory and require additional write downs of inventory which would impact our results of operations.

*Goodwill and Intangible Assets*

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. Intangible assets, arose primarily from acquisitions, and primarily consist of customer relationships, trademarks, licenses, and website and database content. Finite-lived intangible assets are amortized according to their estimated useful lives, which range from 4 to 15 years.

The Company tests goodwill and long-lived assets annually as of the first day of the fourth quarter, or more frequently if indicators of potential impairment exist. In assessing goodwill and long-lived assets for impairment, the Company has the option to perform a qualitative assessment to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the Company determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, the Company is not required to perform a quantitative test in assessing goodwill and long-lived assets for impairment. However, if the Company concludes otherwise or elects not to perform the qualitative assessment, then it identifies the reporting units and compares the fair value of each of these reporting units to their respective carrying amount. If the carrying amount of the reporting unit is less than its fair value, no impairment exists. If the carrying amount of the reporting unit is higher than its fair value, the impairment charge is the amount by which the carrying amount exceeds its fair value, not to exceed the total amount of goodwill and intangibles allocated to the reporting unit.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to market risk from changes in foreign currency exchange rates resulting from acquisitions with foreign locations (See Item 1A. Risk Factors section of the Form 10-K for the fiscal year ended July 31, 2017) that

could impact our results of operations and financial position. We do not currently engage in any hedging or market risk management tools.

#### *Foreign Currency Exchange Rate Risk*

The financial reporting of our non-U.S. subsidiaries is denominated in currencies other than the U.S. dollar. Since the functional currency of our non-U.S. subsidiaries is the local currency, foreign currency translation adjustments are accumulated as a component of accumulated other comprehensive income in stockholders' equity. Assuming a hypothetical increase of 10% in the value of the U.S. dollar versus foreign currencies at January 31, 2018, our assets and liabilities would decrease by \$0.5 million and \$0.1 million, respectively, and our net sales and net earnings (loss) would decrease by \$0.9 million and \$0.1 million, respectively, on an annual basis.

We also maintain intercompany balances and loans with subsidiaries in different local currencies. These amounts are at risk of foreign exchange losses if exchange rates fluctuate. Assuming a hypothetical increase of 10% in the value of the U.S. dollar versus foreign currencies, our pre-tax earnings (loss) would be unfavorably impacted by approximately \$1.4 million on an annual basis.

#### *Interest Rate Risk*

As of January 31, 2018, we have fixed interest rate financing on transportation and equipment leases.

### **Item 4. Controls and Procedures**

#### (a) Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, the Company's management conducted an evaluation (as required under Rules 13a-15(b) and 15d-15(b) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) of the Company's "disclosure controls and procedures" (as such term is defined under the Exchange Act), under the supervision and with the participation of the principal executive officer and the principal financial officer. Based on this evaluation, the principal executive officer and the principal financial officer concluded that the Company's disclosure controls and procedures are effective as of the end of the period covered by this report. Notwithstanding the foregoing, a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that it will detect or uncover failures within the Company to disclose material information otherwise required to be set forth in the Company's periodic reports.

(b) Changes in Internal Controls over Financial Reporting

There was no change in the Company's internal controls over financial reporting during the fiscal quarter covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

31

## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings

There have been no other material developments with respect to previously reported legal proceedings discussed in the annual report on Form 10-K for the fiscal year ended July 31, 2017 filed with the Securities and Exchange Commission, other than as noted in Note 11 to the Consolidated Financial Statements as of January 31, 2018.

### Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in Part 1, Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 2017.

### Item 6. Exhibits

<b>Exhibit No.</b>	<b>Exhibit</b>
31.1	<u>Certification of Elazar Rabbani, Ph.D. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2	<u>Certification of Barry Weiner pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1	<u>Certification of Elazar Rabbani, Ph.D. pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2	<u>Certification of Barry Weiner pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definitions Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

\*XBRL (Extensible Business Reporting Language) information is being furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

**SIGNATURES**

Pursuant to the requirements 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.  
(Registrant)

Date: March 12, 2018 by: /s/ Barry  
Weiner  
President,  
Chief  
Financial  
Officer,  
Principal  
Accounting  
Officer,  
Treasurer and  
Director