Enzo Biochem, Inc. *Annual Report 1999*

Enzo Biochem, Inc. *is a leading biotechnology company engaged in the research, development, marketing and manufacture of innovative health care products. In business since 1976, Enzo's products and services are sold to and used by scientists and the medical community worldwide. The Company has proprietary technologies and expertise in manipulating and modifying genetic material and other biological molecules. Through three wholly-owned subsidiaries, the Company targets its technology toward satisfying specific market needs.* ***Enzo Therapeutics, Inc.*** *is leading the development of medicines based on genetic and immune regulation to combat cancer, viral and other diseases.* ***Enzo Diagnostics, Inc.*** *develops and markets proprietary DNA probe-based products to clinicians and researchers.* ***Enzo Clinical Labs, Inc.*** *provides diagnostic testing services to the New York medical community.*

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To Our Shareholders :

We are pleased to report another year of significant progress for Enzo Biochem, in fiscal 1999. Operating results achieved record levels. A second potentially important new medicine entered clinical studies. Enzo has two products in active Phase I clinical trials, and more are expected to begin human trials in calendar 2000. Preclinical studies are underway for a number of new products involving Enzo's platform technologies — genetic modulation and immune modulation — with plans to begin clinical studies on these products. The diverse global distribution network offering our research products for medical research, genomics, microchip arrays and gene sequencing is generating revenues. The broad use of these products is expanding international recognition of the Company's proprietary technology. Our extensive patent estate, which positions Enzo to uniquely capitalize on its research, continues to steadily grow.

The outlook for the Company has never been brighter. As the result of more than two decades of dedicated research and development Enzo's achievements in Diagnostics are well established in the commercial realm and our achievements in Therapeutics are moving towards that goal. Enzo has made the transition from a company predominantly engaged in R&D to a company actively developing key products aimed at yielding health care benefits and tangible financial results. In addition, Enzo Clinical Labs, our medical services laboratory operation, continues as a productive, profitable and cash generating arm of the Company.

These accomplishments come at an exciting time in the history of biotechnology. Developments are pushing back the frontiers of medicine, yielding new, exciting approaches for dealing with diseases that have been a challenge to the health care system. Enzo, we believe, will emerge as one of the leaders in this effort. Our focus has been on modifying and regulating genetic material for both diagnostic and therapeutic purposes with the aim of developing products that will result in highly accurate and cost effective diagnoses and treatment. Our Company is now clearly beginning to achieve these goals.

Record Operating Results

Underscoring Enzo's fiscal 1999 success was the achievement once again of record operating results. As we have noted before, only a relative handful of the hundreds of publicly owned biotechnology companies have realized any product revenue, much less shown a profit. Enzo is one of the select few to do so. Total revenues in fiscal 1999 amounted to $44,319,000, compared with $40,417,000 in the previous year, a gain of approximately 10%. This marked the fifth straight year of uninterrupted revenue growth. Profitability also increased, to $6,515,000, from $3,392,000, representing a 92% gain for the year. Per share net amounted to $0.26, compared with $0.13 last year, on a diluted basis.

No less significant, and despite steadily increased R&D expenditures which totaled over $4.4 million in fiscal 1999, Enzo's financial condition remains excellent with a strong positive cash flow. Working capital amounted to $59.3 million, including $43.2 million in cash items. Shareholders equity totaled $75.6 million. There is no long-term debt.

Enzo has maintained an excellent record of containing expenses while the Company grows and expands upon commitments to broaden its base. The growth in revenues and profitability reflects the ongoing activities of both Enzo Clinical Labs and Enzo Diagnostics.

Enzo Diagnostics — *A World Class Leader in DNA Labeling and Detection*

Enzo Diagnostics manufactures well over 200 nucleic acid labeling and detection products. Nucleic acid based diagnosis is recognized as a successful method for more precise disease diagnosis,

for more effective assessment and treatment of disease and for pharmaceutical drug discovery and development research. Enzo's probe systems are used as tools for identifying genetic information and specific gene sequences in an organism. Enzo Diagnostics boasts a patent estate covering more than 180 patents. It is one of the broadest and most basic patent estates in the biotech industry. And we are continually adding to it. This past year Enzo received a patent in Japan for a key segment of its nucleic acid probe technology that permits a wide number of genetic analyses to be performed simultaneously on genomic specimens. This technology can be used to form an array of nucleic acids attached to a matrix or microchip. When used with Enzo's reagents, the array can detect a number of different nucleic acids present in the sample.

Enzo Diagnostics has a long established worldwide reputation in the medical research market. The industry involved in this market has undergone extensive changes and consolidations of late, which we believe has resulted in a strengthening of our position. Many leading suppliers serving this market have entered into non-exclusive agreements to distribute Enzo-manufactured nucleic acid labeling products, utilizing joint labeling and package inserts highlighting Enzo Diagnostics' name and logo. While the medical research market is sizable, the clinical diagnostics market is even greater, approximating $2 billion. This market presents an impressive opportunity for Enzo's products and technology, given the need to use more advanced techniques to more effectively and quickly identify pathogens, thereby eliminating the need for time consuming and costly culture techniques. The movement in this market is clearly towards integrated systems for clinical diagnostics and our efforts are directed at enhancing our capabilities, including identifying appropriate partners to complement our strengths.

Overall, revenues at Enzo Diagnostics increased almost 30% in fiscal 1999, reflecting a broadening product mix, increased market penetration, expanded sales volume by existing distributors and new agreements. NEN Life Science Products, Inc., formerly part of the E.I. duPont Co., entered into a non-exclusive worldwide distribution agreement covering a broad range of Enzo's biochemical products and reagents, joining Enzo's roster of distributors which includes Roche Diagnostics, Amersham Pharmacia Biotech, Sigma Chemical Company, and Affymetrix, to name a few. Included in the NEN agreement are products manufactured by Enzo and products manufactured by NEN, based on both Enzo's and NEN's proprietary labeling and detection technologies, all of which are covered by Enzo patents. Similarly, Enzo concluded a distribution agreement with Gene Logic, Inc., under which the Company will be the exclusive supplier of its patented reagent products for labeling and detecting gene sequences with Gene Logic Flow-thru Chip™ probe arrays.

Enzo Clinical Labs — *Serving a Valuable Market Niche*

Despite the drive to lower medical care costs, Enzo Clinical Labs has continued to thrive. The laboratory serves medical practitioners throughout the greater New York metropolitan area and has established itself as a premier provider of clinical laboratory services. Physicians increasingly have come to rely on Enzo Clinical Labs because of its superior service, state-of-the-art diagnostic tools and tests, and its rapid service capabilities. Enzo Clinical Labs completed a major overhaul this past year of its computer installation, enabling it to better process conventional as well as complex diagnoses, and to ensure prompt — typically, overnight (and speedier if required) — communication of results to referring physicians.

Enzo Clinical Labs plays a pivotal role at Enzo in several ways. First, because of the extensive knowledge base the laboratory has developed in practical diagnostic services, it provides an important adjunct in the development and evaluation of new diagnostic products. Second, the Company has invested in the most advanced diagnostic technology to better serve physicians and their patients. Third, firm hands-on management has enabled the Company to sustain the profitability of Enzo Clinical Labs and its function as an important generator of cash which is available to finance Enzo's many other product development and research activities.

Enzo Therapeutics — *Reaching New Vistas*

In fiscal 1999, Enzo Therapeutics moved out of the laboratory and into the realm of human testing of its therapeutic products. This marks a promising new era for Enzo, and the culmination of a decade of diligent effort. Enzo Therapeutics is focused on two specialized technology platforms — genetic modulation and immune modulation.

Immune modulation deals with the regulation of an individual's immune system response to factors that the body recognizes as foreign. A patient's own immune system can be their own worst enemy, sometimes causing more damage than the disease itself. By controlling the body's response to various infections or treatments, immune modulation opens the door to new methods of treating patients and managing their diseases. In collaboration with medical researchers, Enzo has reported on preclinical laboratory studies that show strong promise for the development of this new approach to selectively treat undesirable immune responses. The research indicates that Enzo's approach to tolerizing the body against specific antigens and reducing the immune response to these antigens had been extremely effective. The Company has reported detailed results at scientific conferences and medical meetings this year, on animal models that received orally administered antigens and demonstrated dramatic improvement in diseases such as hepatitis B, inflammatory bowel disease, including Crohn's Disease and graft versus host disease.

Currently underway is a human clinical study based on our Company's proprietary immune modulation technology for patients infected with the hepatitis B virus. Enzo scientists, in collaboration with researchers at a major medical center, have been successful in using this approach to treat hepatitis B virus in primates. Based on these studies, a human clinical trial was initiated this year involving oral administration of specific hepatitis B proteins targeted at controlling the anti-viral immune response to the hepatitis B virus. Of the 2 billion people today infected with hepatitis B, as many as 350 million are chronically infected and at risk of death from liver disease. Enzo's trial offers a real promise of effective treatment for this enormous population of infected persons.

Our preclinical animal studies involving the administration of our immune modulation product for the treatment of inflammatory bowel disease also showed highly encouraging results. The Company is currently evaluating the initiation of human clinical studies for this product. This common disorder of the gastrointestinal tract, in which the immune response towards unknown antigens plays a major role in the pathogenesis, affect an estimated 2 million people in the U.S. alone.

Immune modulation may also be able to play a role in treating graft versus host disease, a major medical complication of bone marrow and stem cell transplantation. Graft versus host disease is an immune response mounted by the engrafted tissue or cell population against the recipient and can occasionally lead to death. Enzo's work in this field involved an animal model in which the medicine successfully inhibited the graft versus host inflammatory response, and effectively prevented manifestations of chronic graft versus host disease.

Enzo is also making considerable progress in the application of its genetic modulation (genetic antisense) therapy to manage infectious diseases such as HIV and hepatitis B and other conditions, including hypercholesterolemia and certain cancers, among other diseases.

A U.S. Court of Appeals for the Federal Circuit ruled against an attempt to invalidate an Enzo pioneering patent in genetic modulation technology, in a decision limiting judgement of invalidity in two other patents that were at issue. Leaving the validity of U.S. Patent No. 5,272,065 intact, together with the other basic patents issued to Enzo in Europe and Japan, fortifies the Company's position in this technology.

A human clinical trial involving the Company's genetic modulation technology is underway at the University of California, San Francisco, where physicians are conducting a Phase I clinical trial with patients infected with HIV-1. The Company is currently following the patients in this trial and, upon successful conclusion of this phase, anticipates beginning the Phase II trial.

The trial in California involves the first human use of an Enzo developed gene transfer vector, HGTV43 which, in laboratory studies, has attained levels of stable gene transfer significantly greater than other genetic delivery systems. HGTV43, the Company's HIV-specific StealthVector™, has been able to achieve levels of stable gene transfer to specific target cells greater than 30%. This is the first time such a high efficiency of gene delivery (or transduction) using this type of vector has been reported in non-growing cells such as blood stem cells. This breakthrough may have important implications in terms of advancing not only Enzo's therapeutic gene-based products, but also that of gene medicine generally.

Enzo Biochem is on the threshold of participating as a leader in a new generation of medicine that will contribute significantly to challenges yet unmet in the healthcare industry. From its inception Enzo had a vision that was somewhat ahead of its time and it has followed this vision. Today we are seeing the fruits of this effort. Enzo has come a long way over the last 20 years, and the opportunities that beckon to the Company are considerable. One of our principal objectives is to build value for shareholders, whose loyalty and support has been especially encouraging and appreciated. Enzo's research efforts in therapeutics and the vast patent estate we have built — approximately 200 issued and another 200 for which applications have been applied — are now beginning to show results. We are extremely excited about the future potential of our Company.

We also want to acknowledge the dedication of our employees and that of our Board of Directors, as well as those of our highly expert medical collaborators, all of whom have been vitally instrumental in Enzo Biochem's tremendous growth.

Barry W. Weiner
President

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Liquidity and Capital Resources

The Company, at July 31, 1999 had cash and cash equivalents of $43.2 million, an increase of $9.7 million from July 31, 1998. The Company had net working capital of $59.3 million at July 31, 1999 compared to $53.0 million at July 31, 1998.

The Company's income before taxes was $5.4 million which includes depreciation and amortization aggregating approximately $1.9 million. The Company's positive cash flow from operations was sufficient to meet its current cash needs for the research and development programs and other investing activities. The Company believes that its current cash position is sufficient for its foreseeable liquidity and capital resource needs, although there can be no assurance that future events will not alter such view.

Net cash provided by operating activities for the 1999 fiscal year was approximately $11.1 million which also includes $5.0 million of cash received in connection with the litigation settlement as compared to net cash provided by operating activities of $8.3 million for the 1998 fiscal year. The increase in net cash provided by operating activities from fiscal 1998 to fiscal 1999 was primarily due to the Company's increase in net income for fiscal 1999.

Net cash used by investing activities in fiscal 1999 amounted to approximately $1.5 million as a result of capital expenditures and deferred patent costs as compared to net cash used by investing activities of $1.0 million in fiscal 1998. The increase relates primarily to increased capital expenditures in fiscal 1999 compared to fiscal 1998.

Net cash provided by financing activities of $.2 million in fiscal 1999 as compared to $1.1 million in fiscal 1998 represents a decrease of approximately $.9 million. This decrease was attributable primarily to a decrease in proceeds from stock options and warrants exercised during fiscal 1999.

The Company's net accounts receivable of $15.0 million and $14.2 million represent 124 days and 128 days of operating revenues at July 31, 1999 and 1998 respectively. The change in net accounts receivable is due to an increase in accounts receivable at the clinical reference laboratory of approximately $.1 million and an increase of research products accounts receivable of approximately $.7 million.

On October 19, 1994, the Company executed a settlement agreement with Johnson & Johnson, Inc. (J&J) pursuant to which the Company received $15.0 million and a promissory note requiring J&J and its subsidiary, Ortho Diagnostics, Inc., to pay $5.0 million a year for each of the four successive anniversaries of said date. These future payments are recorded at net present value discounted using an interest rate of 5.25%. The litigation settlement amounted to approximately $21.9 million, net of legal fees. Pursuant to the terms of the settlement, all of the Company's grants, licenses and intellectual property have been returned to the Company in totality.

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

Results of Operations

Fiscal 1999 Compared to Fiscal 1998

Revenues from operations for the fiscal year ended July 31, 1999 increased by $3.9 million over revenues from operations for the fiscal year ended July 31, 1998. This increase was due to an increase of $.3 million in revenues from the clinical reference laboratory operations over revenue for the similar activity in fiscal 1998 and a increase of $3.6 million in revenues from research product sales. The increase in revenues from the clinical laboratory operations resulted primarily from an increase in volume of diagnostic screening tests and an increase in esoteric testing revenue. The increase in research product sales resulted primarily from an increase in sales from the non-exclusive distribution agreements and an increase in direct sales of research products. The cost of research product revenues increased by $.4 million primarily as a result of the Company's increase in sales from the distribution agreements activities.

Research and development expenses increased by approximately $.4 million as a result of an increase in research programs and the increased amortization of patent costs.

The provision for uncollectible accounts receivable increased by $.3 million primarily due to increased revenues at the clinical reference laboratory and reduced reimbursements received by the Company from Medicare and other third party insurers who generally follow the reimbursement policies of Medicare.

The Company's net accounts receivable from the clinical laboratory operations of $13.2 million and $13.1 million represent an average of 172 days of operating revenue at July 31, 1999 and 1998, respectively. The Company expects that in the future, as a result of the revised Medicare reimbursement policies, the Company will receive reimbursements and cash flows at the clinical reference laboratory at lower rates then those realized in fiscal 1999. The Company will continue its efforts at attempting to control costs associated with the performance of the tests; however, there can be no assurance that such efforts will be successful.

Income before benefit (provision) for taxes on income from research and development activities and related costs amounts to $2.7 million in fiscal 1999, as compared to income before benefit (provision) for taxes on income of $.2 million in fiscal 1998. The increase in the profit is principally related to the increase in sales of product from the non-exclusive distribution agreements. Income before benefit (provision) for taxes on income from the clinical reference laboratories activities amounted to $2.4 million (9% of clinical laboratory services) as compared to $2.2 million (8% of clinical laboratory services) in fiscal 1998. This increase resulted principally from the increase in the operating revenues of esoteric testing.

In fiscal 1999, the Company recorded a benefit for income taxes of $1.1 million versus a benefit of $.8 million in fiscal 1998. In the fourth quarter of fiscal 1999, the Company recorded a deferred tax benefit of $1.6 million resulting from a reversal of a portion of the deferred tax asset valuation allowance. This was based on management's determination that it was more likely than not that a portion of the deferred tax asset would be realized.

Results of Operations

Fiscal 1998 Compared to Fiscal 1997

Revenues from operations for the fiscal year ended July 31, 1998 ("fiscal 1998") increased by $5.5 million over revenues from operations for the fiscal year ended July 31, 1997 ("fiscal 1997"). This increase was due to an increase of $6.0 million in revenues from the clinical reference laboratory operations over revenue for the similar activity in fiscal 1997 and offset by a decrease of $0.5 million in revenues from research product sales. The increase in revenues from the clinical laboratory operations resulted primarily from an increase in volume of diagnostic screening tests and an increase in esoteric testing revenue. The decrease in research product sales resulted primarily from a decrease in lower profit margin sales from the non-exclusive distribution agreements.

The increase in the cost of clinical laboratory services of $1.1 million was primarily due to the costs related to the increased volume of higher costing esoteric tests. However, as a percentage of clinical laboratory services, the cost of sales decreased by 3%, due to the higher sales volume which absorbed the fixed costs of performing these tests. The cost of research product revenues decrease of $0.9 million from the Company's distribution agreements activities was primarily the result of the decrease in the sales of lower priced products.

Research and development expenses increased by approximately $0.4 million as a result of an increase in research programs and the increased amortization of patent costs.

The provision for uncollectible accounts receivable increased by $4.0 million primarily due to increased revenues at the clinical reference laboratory and reduced reimbursements received by the Company from Medicare and other third party insurers who generally follow the reimbursement policies of Medicare. Also, increases in esoteric screening tests not usually covered by third party insurance carriers contributed to this increase.

The Company's net accounts receivable from the clinical laboratory operations of $13.1 million and $11.1 million represent an average of 172 and 186 days of operating revenue at July 31, 1998 and 1997, respectively. The Company expects that in the future, as a result of the revised Medicare reimbursement policies, the Company will receive reimbursements and cash flows at the clinical reference laboratory at the lower rates realized in fiscal 1998. The Company will continue its efforts at attempting to control costs associated with the performance of the tests, however; there can be no assurance that such efforts will be successful.

Income before benefit (provision) for taxes on income from the clinical reference laboratories activities amounted to $2.2 million (8% of clinical laboratory services) as compared to $1.5 million (7% of clinical laboratory services) in fiscal 1997. This increase resulted principally from the increase in the operating revenues of esoteric testing.

In fiscal 1998, the Company recorded a benefit for income taxes of $0.8 million versus a tax provision of $0.1 million in fiscal 1997. In the fourth quarter of fiscal 1998, the Company recorded a deferred tax benefit of $1.0 million resulting from a reversal of a portion of the deferred tax asset valuation allowance. This was based on management's determination that it was more likely than not that a portion of the deferred tax asset would be realized.

Year 2000

The "Year 2000" issue is the result of computer systems that were programmed in prior years using a two digit representation for the year. Consequently, in the Year 2000, date sensitive computer programs may interpret the date "00" as 1900 rather than 2000. The Company has completed an assessment of its system affected by the Year 2000 issue.

The Company has initiated formal communications with all of its significant suppliers and large customers to determine the extent to which the Company's interface systems are vulnerable to those third parties' failure to remediate their own Year 2000 issues. Due to the general uncertainty inherent in the Year 2000 problem, resulting in part from the uncertainty of the Year 2000 readiness for third-party vendors and payers, the Company is unable to determine at this time whether the consequences of potential Year 2000 business disruptions will have a material impact on the Company's results of operation, liquidity and financial condition.

For the "Year 2000" issue, the Company has identified those systems that require changes to accommodate the Year 2000. The systems were completely upgraded with new hardware and new software with an approximate cost of $500,000 which have been capitalized as property and equipment. The payor systems are being converted per instructions on the part of each payor (i.e. Medicare, Medicaid, insurance companies, etc.).

The Company could experience collection delays if Medicare or other large third party payers (such as insurance companies) experience Year 2000 problems. Medicare carriers are being required to implement new programs required by the 1997 Balanced Budget Act at the same time that they are attempting to make their systems Year 2000 compliant. In September 1998, the General Accounting Office reported that "HCFA and its contractors are behind schedule in repairing, testing and implementing the mission-critical systems supporting Medicare" and concluded that "it is highly unlikely that all of the Medicare systems will be compliant in time to ensure the delivery of uninterrupted benefits and services into the year 2000." However, HCFA is expected to develop contingency plans that may include making estimated payments to providers based on historical claims experience in the event of a system failure during the Year 2000.

While the Company believes that its Year 2000 readiness program significantly reduces the potential adverse effect of any such disruptions, the Company cannot guarantee that the Year 2000 problem will not result in significant business disruptions.

Report of Independent Auditors

Board of Directors and Stockholders
Enzo Biochem, Inc.

We have audited the accompanying consolidated balance sheets of Enzo Biochem, Inc. (the "Company") as of July 31, 1999 and 1998, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended July 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Enzo Biochem, Inc. at July 31, 1999 and 1998 and the consolidated results of its operations and its cash flows for each of the three years in the period ended July 31, 1999, in conformity with generally accepted accounting principles.

Melville, New York
October 15, 1999

Ernst + Young LLP

ENZO BIOCHEM, INC.
CONSOLIDATED BALANCE SHEET
July 31, 1999 and 1998

	1999	1998
ASSETS		
Current assets:		
Cash and cash equivalents	$ 43,218,000	$ 33,542,500
Accounts receivable, less allowance for doubtful accounts of $6,027,000 in 1999 and $5,148,500 in 1998	15,007,700	14,196,400
Current portion of note receivable — litigation settlement	—	4,941,600
Inventories	1,426,700	1,393,000
Deferred taxes	1,186,300	471,000
Other	846,700	843,900
Total current assets	61,685,400	55,388,400
Property and equipment, at cost less accumulated depreciation and amortization	2,824,200	2,569,900
Cost in excess of fair value of net tangible assets acquired, less accumulated amortization of $4,239,600 in 1999 and $3,869,100 in 1998	8,563,700	8,934,200
Deferred patent costs, less accumulated amortization of $4,080,400 in 1999 and $3,402,600 in 1998	4,311,900	4,558,700
Deferred taxes	1,388,700	554,000
Other	127,000	148,200
	$ 78,900,900	$ 72,153,400
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	$ 1,196,100	$ 1,439,100
Income taxes payable	300,000	164,000
Other accrued expenses	866,300	803,400
Current portion of long-term debt	—	8,900
Total current liabilities	2,362,400	2,415,400
Deferred liabilities	890,500	955,000
Commitments and contingencies (Notes 5, 6, and 9)		
Stockholders' equity:		
Preferred Stock, $.01 par value; authorized 25,000,000 shares; no shares issued or outstanding		
Common Stock, $.01 par value; authorized 75,000,000 shares; shares issued and outstanding: 24,957,700 in 1999 and 24,905,300 in 1998	249,600	249,100
Additional paid-in capital	92,452,200	92,102,700
Accumulated deficit	(17,053,800)	(23,568,800)
Total stockholders' equity	75,648,000	68,783,000
	$ 78,900,900	$ 72,153,400

See accompanying notes

ENZO BIOCHEM, INC.
CONSOLIDATED STATEMENT OF OPERATIONS
Years ended July 31, 1999, 1998 and 1997

	1999	1998	1997
Revenues:			
Research product revenues	$16,278,600	$12,660,900	$13,189,600
Clinical laboratory services	28,040,800	27,756,100	21,748,900
	44,319,400	40,417,000	34,938,500
Costs and expenses:			
Cost of research product revenues	7,883,700	7,496,600	8,410,200
Cost of clinical laboratory services	8,285,000	8,247,200	7,153,400
Research and development expense	4,427,000	3,983,500	3,561,900
Selling expense	2,782,800	2,728,000	2,718,800
Provision for uncollectable accounts receivable	9,960,800	9,627,500	5,633,600
General and administrative expense	7,577,400	7,648,600	7,696,100
	40,916,700	39,731,400	35,174,000
Income (loss) before interest income, net and benefit (provision) for taxes on income	3,402,700	685,600	(235,500)
Interest income, net	1,983,900	1,884,600	1,799,300
Income before benefit (provision) for taxes on income	5,386,600	2,570,200	1,563,800
Benefit (provision) for taxes on income	1,128,400	821,600	(111,000)
Net income	$ 6,515,000	$ 3,391,800	$ 1,452,800
Net income per common share:			
Basic	$.26	$.14	$.06
Diluted	$.26	$.13	$.06
Denominator for per share calculation:			
Basic	24,933,000	24,653,000	24,162,000
Diluted	25,477,000	25,746,000	25,498,000

See accompanying notes.

ENZO BIOCHEM, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
Years ended July 31, 1999, 1998 and 1997

	Common Stock Shares	Common Stock Amount	Additional paid-in Capital	Accumulated deficit	Total Shareholders' equity
Balance at July 31, 1996	21,624,900	$216,400	$83,450,000	$(28,413,400)	$55,253,000
Increase in common stock and paid-in capital due to 5% stock dividend (fair value on date declared $18,225,000)	1,080,000	10,800	(10,800)	–	–
Net income for the year ended July 31, 1997	–	–	–	1,452,800	1,452,800
Increase in common stock and paid-in capital due to exercise of stock options and warrants	203,000	2,000	809,100	–	811,100
Increase in common stock and paid-in capital due to exchange of stock for debt, net of offering costs	415,000	4,000	6,072,800	–	6,076,800
Issuance of stock for employee 401(k) plan	7,000	100	128,800	–	128,900
Proceeds from the issuance of common stock	–	–	286,300	–	286,300
Balance at July 31, 1997	23,329,900	233,300	90,736,200	(26,960,600)	64,008,900
Increase in common stock and paid-in capital due to 5% stock dividend (fair value on date declared $18,010,800)	1,166,500	11,700	(11,700)	–	–
Net income for the year ended July 31, 1998	–	–	–	3,391,800	3,391,800
Increase in common stock and paid-in capital due to exercise of stock options and warrants	399,200	4,000	1,093,800	–	1,097,800
Increase in common stock and paid-in capital due to issuance of warrants as compensation for services performed	–	–	150,000	–	150,000
Issuance of stock for employee 401(k) plan	9,700	100	134,400	–	134,500
Balance at July 31, 1998	24,905,300	249,100	92,102,700	(23,568,800)	68,783,000
Net income for the year ended July 31, 1999	–	–	–	6,515,000	6,515,000
Increase in common stock and paid in capital due to exercise of stock options and warrants	34,200	300	162,200	–	162,500
Issurance of stock for employee 401(k) plan	18,200	200	187,300	–	187,500
Balance at July 31, 1999	24,957,700	$249,600	$92,452,200	$(17,053,800)	$75,648,000

See accompanying notes.

ENZO BIOCHEM, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
Years ended July 31, 1999, 1998 and 1997

	1999	1998	1997
Cash flows from operating activities:			
Net income	$ 6,515,000	$ 3,391,800	$ 1,452,800
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of property and equipment	883,300	853,000	887,900
Amortization of costs in excess of fair value of net tangible assets acquired	370,500	370,500	370,400
Amortization of deferred patent costs	677,800	640,000	586,800
Provision for uncollectible accounts receivable	9,960,800	9,627,500	5,633,600
Deferred income tax benefit	(1,550,000)	(1,025,000)	–
Issuance of warrants as compensation for services performed	–	150,000	–
Legal expenses converted into stock	–	–	142,300
Other	–	6,600	–
Accretion of interest on note receivable	(58,400)	(253,000)	(575,000)
Issuance of stock for employee 401(k) plan	187,500	134,500	128,900
Deferred liabilities	(64,500)	(35,500)	(17,500)
Changes in operating assets and liabilities: Note receivable — litigation settlement	5,000,000	5,000,000	5,000,000
Accounts receivable before provision for uncollectible amounts	(10,772,100)	(11,838,500)	(7,130,800)
Inventories	(33,700)	166,000	251,500
Other assets	(2,800)	967,500	710,300
Trade accounts payable and accrued expenses	(180,100)	64,100	109,000
Income taxes payable	136,000	36,000	128,000
Total adjustments	4,554,300	4,863,700	6,225,400
Net cash provided by operating activities	11,069,300	8,255,500	7,678,200
Cash flows from investing activities:			
Capital expenditures	$ (1,137,600)	$ (577,700)	$ (691,000)
Patent costs deferred	(431,000)	(441,100)	(465,800)
Decrease (increase) in security deposits	21,200	4,200	(2,700)
Net cash used by investing activities	(1,547,400)	(1,014,600)	(1,159,500)
Cash flows from financing activities:			
Payments of obligations under capital leases	(8,900)	(8,900)	(28,800)
Proceeds from the exercise of stock options and warrants	162,500	1,097,800	811,100
Payment of loans payable to bank and long term debt	–	(37,700)	(34,600)
Proceeds from the issuance of common stock	–	–	286,300
Payment for common stock offering costs	–	–	(95,000)
Net cash provided by financing activities	153,600	1,051,200	939,000
Net increase in cash and cash equivalents	9,675,500	8,292,100	7,457,700
Cash and cash equivalents at the beginning of the year	33,542,500	25,250,400	17,792,700
Cash and cash equivalents at the end of the year	$ 43,218,000	$ 33,542,500	$25,250,400

See accompanying notes.

ENZO BIOCHEM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 1999, 1998 and 1997

Note 1 — Business and summary of significant accounting policies

Business

Enzo Biochem, Inc. (the "Company") is engaged in research, development, manufacturing and marketing of diagnostic and research products based on genetic engineering, biotechnology and molecular biology. These products are designed for the diagnosis of and/or screening for infectious diseases, cancers, genetic defects and other medically pertinent diagnostic information. The Company is conducting research and development activities in the development of therapeutic products based on the Company's technology platform of genetic modulation and immune modulation. The Company also operates a clinical reference laboratory that offers and provides diagnostic medical testing services to the health care community.

Summary of significant accounting policies

Principles of consolidation

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

Cash and cash equivalents

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

Cash equivalents consist of short-term debt securities of domestic companies that the Company intends to hold to maturity that range from August 1999 to October 1999. The market values of these securities, as determined by quoted sources, aggregated $42,637,800 and $32,440,000 at July 31, 1999 and 1998, respectively, and approximated cost at the respective dates.

Concentration of credit risk

Approximately 88% and 92% at July 31, 1999 and 1998, respectively, of the Company's net accounts receivable relate to its clinical reference laboratory business that operates in the New York Metropolitan area. Concentration of credit risk with respect to accounts receivable are limited due to the diversity of the Company's client base. However, the Company provides services to certain patients covered by various third-party payors, including the Federal Medicare program. Revenue, net of contractual allowances, from direct billings under the Federal Medicare program during each of the fiscal years ended July 31, 1998 and 1997 approximated 10% and 12%, respectively of revenue. The provision for uncollectible accounts receivable increased by $333,300 in fiscal 1999, primarily due to increased revenues. The fiscal 1999 increase is also attributable to an increase in esoteric screening tests not usually covered by third party insurers. Management is not aware of any material claims, disputes or settled matters concerning third-party reimbursements which would have a material effect on the Company's financial statements.

At July 31, 1999 and 1998, 2% and 4% of the Company's net accounts receivable relate to amounts due from the one major distributor, under a non-exclusive distribution and supply agreement. Research product revenues from the distributor represented approximately 22% and 21% and 25% of consolidated operating revenues in fiscal 1999, 1998 and 1997, respectively.

Inventories

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

Note 1 — Business and summary of significant accounting policies — *(Continued)*

Property and equipment

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

Amortization of intangible assets

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

Patent costs

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

Revenue Recognition

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

Reimbursement Contingencies

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation for which action for noncompliance includes fines, penalties and exclusion from the Medicare and Medicaid programs. The Company believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The Company accounts for income taxes under Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes" ("SFAS No. 109"). SFAS No. 109 requires the liability method of accounting for income taxes. Under the liability method of SFAS No. 109, 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. SFAS No. 109 requires that any tax benefits recognized for net operating loss carryforwards and other items be reduced by a valuation allowance where it is more likely than not that the benefits may not be realized. 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 SFAS No. 109, 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.

Note 1 — Business and summary of significant accounting policies — *(Continued)*

Impairment of Long-Lived Assets

In fiscal 1997, the Company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" ("SFAS No. 121"). SFAS No. 121 establishes the accounting for the impairment of long-lived assets, certain identifiable intangibles and the excess of cost over net assets acquired, related to those assets to be held and used in operations, whereby impairment losses are required to be recorded when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets carrying amount. SFAS No. 121 also addresses the accounting of long-lived assets and certain identifiable intangibles that are expected to be disposed of. The adoption of SFAS No. 121 did not have a material effect on the consolidated results of operations or financial condition of the Company.

Net income per share

In fiscal 1998, the Company adopted the provisions of SFAS No. 128, "Earnings Per Share" ("SFAS No. 128"). SFAS No. 128 replaced the previously reported primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options and warrants. Diluted earnings per share is very similar to the previously reported fully diluted earnings per share. All earnings per share amounts for all periods have been presented, and where necessary, restated to conform to SFAS No.128 requirements.

The net income per share amounts for fiscal 1997 has been retroactively adjusted to reflect the 5% stock dividends declared in December 1997 (See Note 11).

The following table sets forth the computation of basic and diluted net income per share pursuant to SFAS No. 128.

	1999	1998	1997
Numerator:			
Net income for numerator for basic and diluted net income per common share	$ 6,515,000	$ 3,391,800	$ 1,452,800
Denominator:			
Denominator for basic net income per common share-weighted-average shares	24,933,000	24,653,000	24,162,000
Effect of dilutive employee and director stock options and warrants (a)	544,000	1,093,000	1,336,000
Denominator for diluted net income per share-adjusted weighted-average shares	25,477,000	25,746,000	25,498,000
Basic net income per share	$ .26	$ .14	$ .06
Diluted net income per share	$ .26	$ .13	$ .06

(a) Potentially dilutive employee and director stock options and warrants that have been excluded from this amount because they are anti-dilutive amounted to 724,000, 89,000 and 71,000 in fiscal 1999,1998 and 1997, respectively.

Note 2 — Supplemental disclosure for statement of cash flows

In the years ended July 31, 1999, 1998 and 1997, the Company paid cash for interest of approximately $0, $5,000 and $17,000, respectively.

In the years ended July 31, 1999, 1998 and 1997, the Company paid cash for income taxes of approximately $286,000, $176,000 and $20,000 respectively, and received refunds of income taxes previously paid of approximately $0 in fiscal 1999, $9,000 in fiscal 1998 and $45,000 in fiscal 1997.

Other noncash items:

In fiscal 1997, the Company issued 415,000 shares of common stock in exchange for approximately $6,172,000 in accrued legal fees and costs.

Note 3 — Inventories

At July 31, 1999 and 1998 inventories consist of:

	1999	1998
Raw materials	$ 108,100	$ 68,300
Work in process	833,400	927,700
Finished products	485,200	397,000
	$1,426,700	$1,393,000

Note 4 — Property and equipment

At July 31, 1999 and 1998 property and equipment consist of:

	1999	1998
Laboratory machinery and equipment	$2,349,200	$2,128,300
Leasehold improvements	2,266,500	2,231,200
Office furniture and equipment	4,848,800	4,189,100
	9,464,500	8,548,600
Accumulated depreciation and amortization	6,640,300	5,978,700
	$2,824,200	$2,569,900

Note 5 — Lease obligations

Enzo Clinical Labs, Inc. (“Enzo Clinical Labs”), a wholly-owned subsidiary of the Company, leases its office and laboratory space under several leases that expire between September 1, 1999 and November 30, 2004. Certain officers of the Company own the building that Enzo Clinical Labs uses as its main facility. In addition to the minimum annual rentals of space, this lease is subject to an escalation clause. Rent expense under this lease approximated $986,000, $924,000 and $982,000 in fiscal 1999, 1998 and 1997, respectively.

Total consolidated rent expense incurred by the Company during fiscal 1999, 1998 and 1997 was approximately $1,527,000, $1,382,000 and $1,149,000 respectively. Minimum annual rentals under operating lease commitments for fiscal years ending July 31 are as follows:

2000	$1,258,000
2001	1,210,000
2002	1,192,000
2003	1,232,000
2004	1,055,000
Thereafter	318,000
	$6,265,000

Note 6 — Litigation

Johnson & Johnson, Inc.

On October 19, 1994, the Company executed an agreement in settlement of various disputes in relation to research and development agreements between the Company and Ortho Diagnostic Systems Inc.("Ortho"), a subsidiary of Johnson & Johnson (J&J). Pursuant to this settlement agreement, the Company received $15.0 million in cash, of which $6.5 million related to amounts due under the agreements referred to above, and a promissory note requiring J&J and Ortho to pay a total of $5.0 million a year for each of the four successive anniversaries of said date. Pursuant to the terms of the settlement, all of the Company's grants, licenses and intellectual property have been returned to the Company in totality. The remainer of the future payments were recorded at their net present value of $4.9 million at July 31, 1998 in the accompanying consolidated balance sheet, using a discount rate of 5.25%.

Calgene, Inc.

In March 1993, the Company filed suit in the United States District Court for the District of Delaware charging patent infringement and acts of unfair competition against Calgene, Inc. and seeking a declaratory judgment of invalidity concerning Calgene, Inc.'s plant antisense patent. On February 9, 1994, the Company filed a second suit in the United States District Court for the District of Delaware charging Calgene with infringement of a second antisense patent owned by the Company. Calgene filed a counterclaim in the second Delaware action seeking a declaration that a third patent belonging to the Company is invalid. The two Delaware actions were consolidated and were tried to the Court in April 1995. In addition, the Company filed suit on March 22, 1994 in the United States District Court for the Western District of Washington against Calgene and the Fred Hutchinson Cancer Research Center, alleging that the defendants had conspired to issue a false and misleading press release regarding a supposed "patent license" from Hutchinson to Calgene, and conspired to damage the Company's antisense patents by improperly using confidential information to challenge them in the Patent Office. The Complaint further charges that Hutchinson is infringing and inducing Calgene to infringe the Company's antisense patents. On February 2, 1996, the Delaware Court issued an opinion ruling against Enzo and in favor of Calgene, finding certain Enzo claims infringed, but the patent, as a whole not infringed, and finding the claims at issue for lack of enablement. Calgene's patent was found valid (non-obvious) over the prior art. On February 29, 1996, the Delaware Court issued an Order withdrawing its February 2, 1996 Opinion. On April 3, 1997, the European Patent Office rejected Calgene's opposition that had been lodged against the Company's related European antisense patent, thereby upholding the patent's validity. On May 23, 1997, the Japanese Patent Office issued a related antisense patent owned by the Company.

On June 1, 1998, the U.S. District Court for the District of Delaware issued its final decision in the case. In its decision the District Court held two of the Company's three antisense patents were invalid, and not infringed. The District Court declined to act on Calgene's claim that the Company's third antisense patent was invalid citing lack of evidence. The District Court further held that the Calgene antisense patent was not invalid. Enzo appealed the District Court's judgment to the U.S. Court of Appeals for the Federal Circuit and Calgene cross-appealed. On September 24, 1999, the Court of Appeals issued its decision, rejecting Calgene's effort to invalidate Enzo's patent in genetic antisense technology, U.S. Patent No. 5,272,065, thus leaving it valid and standing. The Court of Appeals also clarified the District Court's judgment regarding two other of Enzos genetic antisense patents (5,190,931 and 5,208,149), limiting judgment of invalidity only to the claims of the two patents which had been asserted against Calgene. The Court of Appeals remanded the case to the district court for determination of whether the case was exceptional, which related to Calgene's claim for attorney fees. On October 7, 1999, Calgene filed a petition for rehearing directed to the Court of Appeal's disposition of Calgene's cross-appeal as to Enzo patent. There can be no assurance that the Company will be successful in connection with Calgene's petition for rehearing and Calgene's claim that the case is exceptional, the latter to be the subject of further proceedings in the district court. However, even if the Company is not successful, management does not believe there will be a significant monetary impact.

Note 6 — Litigation — *(Continued)*

Other

In June 1999, the Company filed suit in the United States District Court for the Southern District of New York against Gen-Probe Incorporated, Chugai Pharma U.S.A., Inc., Chugai Pharmaceutical Co., Ltd., bioMerieux, Inc., bioMerieux SA, and Becton Dickinson and Company, charging them with infringing the Company's U.S. Patent 4,900,659, which concerns probes for the detection of the bacteria that causes gonorrhea. The case remains at an early stage. There can be no assurance that the Company will be successful in these proceedings. However, even if the Company is not successful, management does not believe that there will be a significant monetary impact.

Note 7 — Income taxes

The tax benefit (provision) is calculated under the provisions in SFAS No. 109.

	1999	1998	1997
Current			
Federal	$ (108,000)	$ (76,000)	($ 38,000)
State and local	(313,600)	(127,400)	(73,000)
Deferred	1,550,000	1,025,000	—
Benefit (provision) for income taxes	$1,128,400	$ 821,600	($111,000)

Current Federal income taxes provided for in fiscal 1999, 1998, and 1997 are based on the alternative minimum tax method.

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

	1999	1998
Deferred tax liability:		
Deferred patent costs	$(1,804,000)	$(1,907,000)
Deferred tax assets:		
Provision for uncollectable accounts receivable	1,517,000	1,587,000
Net operating loss carry forwards	4,473,000	6,779,000
Alternative minimum tax credits	586,000	665,000
Other	373,000	399,000
	6,949,000	9,430,000
Valuation allowance for deferred tax assets	(2,570,000)	(6,498,000)
Net deferred tax asset	$ 2,575,000	$ 1,025,000

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax asset will be realized. The ultimate realization of the deferred tax asset is dependent upon the generation of future taxable income. Management considers scheduled reversals of deferred tax liabilities, projected future taxable income and tax planning strategies which can be implemented

Note 7 — Income taxes — *(Continued)*

by the Company in making this assessment. The Company had provided a full valuation allowance for the net deferred tax asset at July 31, 1997. In fiscal 1999 and 1998, management reversed a portion of the deferred tax asset valuation allowance as management considered that it was more likely than not that a portion of the deferred tax asset would be realized. The valuation allowance decreased $3,928,000, $2,326,000 and $747,000 in fiscal 1999, 1998 and 1997, respectively.

The Company has net operating loss carry forwards of approximately $10,708,000 which are due to expire through 2011. The Company realized a benefit from the utilization of net operating loss carry forwards of $2,306,000, $1,877,000 and $877,000 in fiscal 1999, 1998 and 1997, respectively. The Company also has alternative minimum tax credits which do not expire.

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

	1999	1998	1997
Federal statutory rate	34%	34%	34%
Expenses not deductible for income tax return purposes	4%	7%	13%
State income taxes, net of federal tax deduction and change in deferred tax asset valuation reserve	—	(2%)	4%
Change in deferred tax asset valuation reserve and benefits recognized from net operating losses	(59%)	(71%)	(44%)
	(21%)	(32%)	7%

Note 8 — Stock options and warrants

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

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

The Company has an incentive stock option plan and a restricted stock incentive plan and has issued other options and warrants, as described below. All share information has been adjusted to reflect a 5% stock dividend declared on December 15, 1997 (See Note 11).

Incentive stock option plan

The Company has an incentive stock option plan ("1983 plan") under which the Company may grant options for up to 1,041,863 shares of common stock. No additional options may be granted under the 1983 plan. The exercise price of options granted under such plan is equal to or greater than fair market value of the common stock on the date of grant. The Company has stock option plans ("1993 plan" and "1994 plan") under which

Note 8 — Stock options and warrants — *(Continued)*

the Company may grant options for up to 1,736,438 shares (1993 plan) and for up to 1,099,744 shares (1994 plan) of common stock. No additional options may be granted under the 1993 plan or the 1994 plan. During fiscal 1999, the Company set up a new incentive stock option plan ("1999 plan") under which the Company may grant up to 950,000 shares of common stock. The options granted pursuant to the plans may be either incentive stock options or nonstatutory options. To date, the Company has only granted incentive stock options under these plans.

A summary of the information pursuant to the Company's stock options plans for the years ended July 31, 1999, 1998 and 1997 under SFAS No. 123 is as follows:

	1999		1998		1997	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at Beginning of Year	2,169,251	$ 9.15	2,124,989	$ 8.13	2,148,760	$ 7.73
Granted	603,500	8.41	273,000	13.51	116,550	14.79
Exercised	(26,432)	5.98	(212,612)	3.72	(73,618)	5.86
Terminated	(45,380)	13.40	(16,126)	12.41	(66,703)	10.62
Outstanding at end of year	2,700,939	$ 8.98	2,169,251	$ 9.15	2,124,989	$ 8.11
Exercisable at end of year	1,793,183		1,602,767		1,446,253	
Weighted average fair value of options granted during year	$ 5.80		$ 9.40		$ 10.86	

The following table summarizes information for stock options outstanding at July 31, 1999:

	Options Outstanding			Options Exercisable	
Range of Exercise prices	Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
$1.30	122,788	2.3 years	$ 1.30	122,788	$ 1.30
$2.70 - $2.92	102,760	0.1 years	2.73	102,760	2.73
$3.89	95,641	3.2 years	3.89	95,641	3.89
$5.62 - $6.59	9,456	3.6 years	5.91	9,456	5.91
$6.63 - $9.83	1,435,447	5.8 years	7.42	1,102,947	7.54
$10.13 - $14.17	859,409	8.2 years	12.39	304,416	13.48
$15.71 - $17.46	75,438	7.0 years	16.47	55,175	16.75
	2,700,939			1,793,183	

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

Pro-forma information regarding net income and net income per share is required by SFAS No. 123, and has been determined as if the Company had accounted for its stock options under the fair value method of that statement. The fair value for these options was estimated at the date of grant using a Black-Sholes option pricing model with the following assumptions: risk free interest rate ranging from 4.54% to 6.88%; no dividend

Note 8 — Stock options and warrants — *(Continued)*

yield; volatility factor of the expected market price of the Company's common stock of .72 for grants prior to July 31, 1997, .69 for grants during fiscal year 1998 and .68 for grants during fiscal year 1999, and a weighted-average expected life of the options of 7 years at July 31, 1999, 1998 and 1997.

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

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

	1999	1998	1997
Pro forma net income:	$4,426,080	$1,841,000	$477,000
Pro forma net income per share:			
Basic	$ .18	$ .08	$ .02
Diluted	$ .18	$ .07	$ .02

The SFAS No. 123 method of accounting has not been applied to options granted prior to Aug 1, 1995. As a result, the pro forma compensation cost may not be representative of that to be expected in future years.

Restricted stock incentive plan

The Company has a restricted stock incentive plan whereby the Company may award up to 231,525 shares of its common stock. Under the terms of the plan, any shares issued are restricted in regard to sales and transfers for a period of five years after award. Such restrictions begin to expire at 25% per year after the second year of ownership. As of July 31, 1999, the Company has not awarded any shares of common stock under this plan.

Other options and warrants

As part of the restructuring of the Debenture in November 1991, the Company issued warrants to purchase 297,510 shares of common stock with an exercise price of $1.72 per share expiring ten years after the date of issue. In fiscal 1999, 1998 and 1997, 7,800, 186,579 and 7,497 of these warrants were exercised, respectively. In fiscal 1996, the Company issued warrants to purchase 89,854 shares of common stock with an exercise price ranging from $9.06 to $15.87 per share which expire five years after the date of issue. In fiscal 1996, 10,473 of these warrants were exercised and 12,679 were canceled.

* * * * * *

As of July 31, 1999, the Company has reserved 4,853,800 shares under the arrangements described above.

Note 9 — Commitments

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

Note 10 — Employee benefit plan

The Company has a qualified Salary Reduction Profit Sharing Plan (the "Plan") for eligible employees under Section 401(k) of the Internal Revenue Code. The Plan provides for voluntary employee contributions through salary reduction and voluntary employer contributions at the discretion of the Company. For the years ended July 31, 1999, 1998 and 1997, the Company has authorized employer contributions of 50% of the employees' contribution up to 6% of the employees' compensation in Enzo Biochem, Inc. common stock. The 401(k) employer contributions expense was $188,000, $135,000 and $129,000 in fiscal years 1999, 1998, and 1997, respectively.

Note 11 — Stock dividend

On December 15, 1997, the Company declared a 5% stock dividend payable January 23, 1998 to shareholders of record as of January 9, 1998. The stock price on the date of declaration was $15.44.

Note 12 — Segment Information

In fiscal 1999, the Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS No. 131") and retroactively applied it to fiscal 1998 and 1997. The adoption of SFAS No. 131 had no impact on the Company's reported net income or shareholders' equity. The Company has two reportable segments: research and development and clinical reference laboratories. The Company's research and development segment conducts research and development activities as well as selling products derived from these activities. The clinical reference laboratories provide diagnostic services to the health care community. The Company evaluates performance based on income before benefit (provision) for taxes on income. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. Costs excluded from income before benefit (provision) for taxes on income and reported as other consist of corporate general and administrative costs which are not allocable to the two reportable segments. Management of the Company assesses assets on a consolidated basis only and therefore, assets by reportable segment has not been included in the reportable segments below.

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

	Research and Development			Clinical Reference Laboratories			Other			Consolidated		
	Fiscal Year Ended July 31,			Fiscal Year Ended July 31,			Fiscal Year Ended July 31,			Fiscal Year Ended July 31,		
	1999	1998	1997	1999	1998	1997	1999	1998	1997	1999	1998	1997
Operating revenues:												
Research product revenues	$16,279	$12,661	$13,190	—	—	—	—	—	—	$16,279	$12,661	$13,190
Clinical laboratory services	—	—	—	$28,041	$27,756	$21,749	—	—	—	28,041	27,756	21,749
Cost and expenses:												
Cost of research product revenues	7,884	7,497	8,410	—	—	—	—	—	—	7,884	7,497	8,410
Cost of clinical laboratory services	—	—	—	8,285	8,247	7,153	—	—	—	8,285	8,247	7,153
Research and development expense	4,427	3,983	3,562	—	—	—	—	—	—	4,427	3,983	3,562
Depreciation and amortization	744	691	629	1,188	1,173	1,216	—	—	—	1,932	1,864	1,845
Interest income	—	—	—	23	39	25	$1,961	$1,846	$1,774	1,984	1,885	1,799
Income before benefit (provision) for taxes on income income	$ 2,661	$ 157	$ 157	$ 2,363	$ 2,195	$ 1,461	$ 363	$ 218	$ (54)	$ 5,387	$ 2,570	$ 1,564

The Company's reportable segments are determined based on the services they performed and the products they sell, not on the geographic area in which they operate. The Company's clinical reference laboratories segment operates 100% in the United States with all revenue derived from this country. The research and development segment earns revenue both in the United States and foreign countries. The following is a summary of research and development revenues attributable to customers located in the United States and foreign countries:

	1999	1998	1997
United States	$ 3,813	$ 1,171	$ 767
Foreign Countries	12,466	11,490	12,423
	$16,279	$12,661	$13,190

Corporate Information

Board of Directors

John J. Delucca
Chief Financial Officer
and Executive Vice President
Coty, Inc.

Elazar Rabbani, Ph.D.
Chairman of the Board
Chief Executive Officer

Shahram K. Rabbani
Chief Operating Officer,
Treasurer and Secretary
President, Enzo Clinical Labs

John B. Sias
President and
Chief Executive Officer
Chronicle Publishing Co.

Barry W. Weiner
President

Officers and Management

Elazar Rabbani, Ph.D.
Chairman of the Board
Chief Executive Officer

Shahram K. Rabbani
Chief Operating Officer,
Treasurer and Secretary

Barry W. Weiner
President

Dean L. Engelhardt, Ph.D.
Senior Vice President

Norman E. Kelker, Ph.D.
Senior Vice President

Herbert B. Bass
Vice President, Finance

Barbara E. Thalenfeld, Ph.D.
Vice President,
Corporate Development

David C. Goldberg
Vice President,
Business Development

Ronald C. Fedus
Corporation and
Patent Counsel

Enzo Biochem, Inc.
60 Executive Boulevard
Farmingdale, NY 11735
(631) 755-5500

Corporate Offices
527 Madison Avenue
New York, NY 10022
(212) 583-0100

Corporate Subsidiaries

Enzo Therapeutics, Inc.
60 Executive Boulevard
Farmingdale, NY 11735
(631) 755-5500

Enzo Diagnostics, Inc.
60 Executive Boulevard
Farmingdale, NY 11735
(631) 694-7070

Enzo Clinical Labs, Inc.
60 Executive Boulevard
Farmingdale, NY 11735
(631) 755-5500

General Counsel
Morrison Cohen Singer &
Weinstein, LLP
750 Lexington Avenue
New York, NY 10022

Independent Auditors
Ernst & Young, LLP
395 North Service Road
Melville, NY 11747

Transfer Agent and Registrar
Continental Stock Transfer &
Trust Company
2 Broadway
New York, NY 10004

Common Stock
Listed on AMEX
(Symbol:ENZ)

A copy of the Company's annual report on Form 10-K, as filed with the Securities and Exchange Commission, will be furnished without charge to any shareholder upon written request to: Enzo Biochem, Inc., Attention: Investor Relations Department, 527 Madison Avenue,
New York, NY 10022

Market for Registrant's Common Equity and Related Stockholder Matters

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

	High	Low
1998 Fiscal Year (August 1, 1997 to July 31, 1998):		
1st Quarter	$21 1/4	$14 3/4
2nd Quarter	$17 3/16	$12 1/4
3rd Quarter	$16 1/2	$12 5/8
4th Quarter	$15 1/2	$11 3/4
1999 Fiscal Year (August 1, 1998 to July 31, 1999):		
1st Quarter	$12 1/2	$6 3/8
2nd Quarter	$13 3/4	$9 5/8
3rd Quarter	$12 15/16	$8
4th Quarter	$19 15/16	$9 3/4

On October 20, 1999, the last sale price of the Common Stock of the Company as reported on the American Stock Exchange was $24 11/16.

As of October 20, 1999, the Company had approximately 1,350 record holders of its Common Stock.

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

On December 15, 1997, the Company declared a 5% stock dividend payable January 23, 1998 to shareholders of record as of January 9, 1998.

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