Enzo Biochem, Inc. *Annual Report 2001*

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.*

Contents

To Our Shareholders

Fiscal 2001 marked Enzo's 25th anniversary year. The year was, we are pleased to report, one of outstanding achievement and progress. Our Company completed the year with record sales and net income, and in a strong, highly liquid financial condition. Moreover, each of our divisions made notable strides. Enzo Clinical Labs had an excellent performance. Enzo Life Sciences dramatically expanded sales, while continuing to forge ahead with new technologies that further solidify the Company's position in the growing clinical diagnostic and genomic markets. Enzo Therapeutics completed the year with three products in clinical trials and a fourth poised to begin Phase 1 trials. We also reported highly promising results of preclinical testing of product candidates that could be developed to manage other life-threatening diseases.

Enzo's strength has always been our adherence to core values – the development of enabling technologies for detecting and identifying genes and for modifying gene expression – combined with a financial discipline that enables Enzo to be self reliant in pursuit of its goals.

Today, we market over 300 products to the worldwide biomedical and pharmaceutical research markets. Our labeling and detection systems have made us a key supplier of visualization techniques that are vital to the rapidly growing genomics field. Programs designed to facilitate our entry into the clinical diagnostics market are currently underway. The expertise we have acquired during our years of research and development in the gene analysis field, a field Enzo directed its attention to years before genomics became a household word, underlies the exciting work our scientists are doing in developing novel therapeutic modalities.

The mapping of the human genome, comprising approximately 30,000 genes, holds great promise for medical science. The challenge in the years to come will be the determination of the function and relevance of each gene. As we gather greater understanding of biological mechanisms and how variations and mutations in those mechanisms could result in disease, we will be able to use that information to develop more rapid and accurate methodologies for diagnosis and to develop novel therapeutic approaches for treatment. Enzo's capabilities in both life sciences and therapeutics fit neatly into both ends of this spectrum, and our broad based patent position – with approximately 200 patents issued and/or pending in the U.S. and abroad – is already proving a valuable resource and a fundamental bulwark in a market that shows every sign of rapid growth.

The scope of our activities provides Enzo with both flexibility and diversity. A wide array of diagnostic tools and promising therapeutic approaches has enabled Enzo to target markets of its choice. Thus, Enzo is not reliant upon a single product or even a single modality. Enzo enjoys a measure of diversification rarely seen among biotech enterprises. Looking back over a quarter century of progress, it is evident that Enzo's many accomplishments to date are just a prologue to what could be attainable in the years ahead.

Our Company's objective is to be a leading developer and provider of medicines, as well as a developer and provider of the tools and diagnostics used to study and detect disease at the molecular level. We believe we have made important strides towards that end.

Enzo Life Sciences

Our extensive product roster for the worldwide biomedical and pharmaceutical research market dominates the area of non-radioactive labeling and detection. We now offer the medical researcher the means to identify DNA or detect a gene in a cell or tissue, using pre-formatted systems such as *in situ*, microplate or membrane hybridization and detection kits. Enzo's product line also includes labeled probes and reagents for labeling and detection that can be used to identify and detect genes in any particular format.

In the gene analysis field, we have built a significant proprietary position in the labeling, detection, amplification and formatting of nucleic acids. Gene based testing is based on the fact that DNA forms a double helix comprised of two complementary strands that match and bind to each other. If a complementary piece of DNA (probe) is introduced into a sample or specimen that contains its matching DNA, it will bind to the matching DNA to form a double helix. To determine whether a gene is functioning, the complementary probe can be used to bind to the product of that gene (RNA).

A key product line in Enzo's portfolio, the BioArray™ labeling system has developed into one of the Company's fastest growing products, one that is patent protected, has scalable production and enjoys high

margins. It can be used with microchips or arrays to detect and identify the presence of the gene or the gene product. This system is the foundation of a next generation line of products we plan to introduce soon, which will provide Enzo with a significant capability in the area of gene analysis.

A particularly significant event this past year was the award of U.S. Patent No. 6,221,581 to Enzo, a pioneering, broad-based patent that relates to nucleic acid formatting, with application to a wide range of diagnostics and genetic analyses. The technology can be used as a platform for multiple applications, including the diagnosis of infectious diseases and cancer, as well as for use in complex genetic analyses, and will provide a simple cost effective method applicable to the diagnosis of both direct and amplified specimens, a potential market in excess of $500 million. Plans are underway to commercialize the format and to bring new products incorporating its features to market.

With gross profit margins approaching 70%, Enzo Life Sciences achieved a 25% growth in revenues, representing a 42% gain over fiscal 1999, just three years ago. Genetic analysis is clearly the dominant factor in the growth of this sector, but opportunities abound, particularly in clinical diagnostics, where our focus on nucleic acid based testing in the areas of infectious diseases appears especially promising. With a projected 22% growth rate, it is estimated that the market for clinical gene-based diagnostics could reach $1.75 billion by the year 2003. We are actively exploring approaches for the introduction and marketing of automated systems for use with Enzo's proprietary reagents.

The markets for these systems are targeted to be centralized reference labs, such as Enzo Clinical Labs; stat laboratories that are small, satellite labs positioned for rapid results; pathology laboratories; and the point of care market. In all of these sectors, detection of the DNA or genes and gene products could provide early identification of specific diseases that might take longer to diagnose by traditional methodologies.

Enzo Therapeutics

Most diseases are the consequence of the expression of foreign genes, or the abnormal or unregulated expression of the body's own genes. In some cases, it is the failure to express a gene that causes the disease. Our approach to gene regulation involves the introduction into cellular DNA of a gene that codes for a complementary RNA molecule that leads to the inactivation of RNA produced by a specific gene.

Using this approach, we developed HGTV43, our gene medicine for HIV-1, that delivers a gene producing an RNA resulting in the inactivation of specific HIV gene products. HGTV43 has been supplemented by a proprietary vector delivery system that overcomes a major challenge in gene medicine – the efficient and safe delivery of the medicine to the appropriate target. The benefits of our vector technology are that it achieves efficient delivery of the gene into the patient's cells, and that it is "silent" – not triggering an immune response.

In the Phase I trial of HGTV43, all five of the HIV-1 infected individuals who were treated with the gene medicine and are now in the follow-up phase of the trial continue to tolerate the procedure well and demonstrate extended engraftment of the engineered cells, some for more than 22 months, to date. The white blood cells continue to express anti-HIV antisense RNA, indicating long-term survival and functioning of the engineered white blood cells. This is believed to be a first in the field of gene therapy, involving unablated adult patients and holds great potential.

While we continue to follow those first patients, we are preparing the next step – an expanded multi-center trial for HGTV43. The trial will focus on the effectiveness of the product, as well as on determining the correct dosing protocols. The approval process requiring the necessary government oversight has taken time, and so has scaling up the production of HGTV43. From the perspective of commercialization, Enzo's gene medicine approach offers the ability to utilize non-traditional distribution channels. If the trials are successful, qualified medical centers, including the clinical trial sites could be set up as distribution centers for providing the treatment.

Our immune regulation platform is also showing promising progress. At a recent meeting of the American Association for the Study of Liver Diseases, our scientific team presented preliminary results on the Phase 2 study of EHT899, our proprietary medicine for treating patients suffering from chronic active hepatitis associated with hepatitis B virus. Of the 42 patients reviewed thus far, 75% experienced improvement in one or more key end point parameters, including biopsy results, HBV viral load, liver enzymes and histology.

Most significantly, 33% of the subjects tested to date showed improvement in a crucial measure of liver inflammation, the liver necroinflammatory scores. The results reported for EHT899 surpassed those reported for interferon, currently the most widely used macromolecular treatment.

Our immune regulation technology seeks to control an individual's immune response to a specific antigen, a substance that the body perceives as foreign and typically mounts an immune response against it. Enzo's proprietary technology utilizes specific formations and oral administration of known proteins to regulate that immune response against the antigen. In addition to chronic active hepatitis B, which afflicts an estimated 350 million people worldwide, subjecting them to liver scarring, cirrhosis, liver failure or primary liver cancer, Enzo has targeted other diseases for testing of its unique approach.

A Phase 1 trial of EHC18, Enzo's immune regulation medicine for treatment of chronic hepatitis related to hepatitis C is underway. Approval has been granted to initiate a Phase 1 trial of our immune regulation therapy for Crohn's Disease, a chronic, serious inflammatory disease of the gastrointestinal tract that affects an estimated 1 million Americans. Current treatment for this disease utilizes non-specific drugs that produce a generalized suppression of the immune response and can cause considerable side effects. As an antigen-specific treatment, Enzo's proprietary approach would be expected to have few, if any side affects. It also represents the first time that a treatment for Crohn's Disease is based on treating the pathogenesis of the disease, and not only the symptoms. Ulcerative colitis is another disease that also may be the subject of a future clinical study.

A future application of this technology may be the development of an immune regulation medicine developed by Enzo for suppressing hepatitis B-related liver cancer. It is a condition for which there are very limited treatment options. In two preclinical studies using animal model systems with human liver cancer cells, Enzo scientists were able to show that the administration of our immune regulation medicine to these animals was effective in suppressing the tumor growth.

Enzo Clinical Labs

Enzo Clinical Labs is among the major reference laboratories in the New York City area, providing a broad range of routine and esoteric laboratory tests – 2,000, in all – for comprehensive diagnostic services. The past year has been marked by a consolidation in its primary metropolitan market, thus opening new avenues of growth, the expansion of our marketing force, and the addition of Patient Service Centers, bringing the total to 18.

While revenues from Enzo Clinical Labs rose approximately 12% in fiscal 2001 and represent a 25% gain over fiscal 1999, the unit's position in contributing to Enzo's overall corporate growth strategy goes far beyond. Our clinical reference laboratory is utilized extensively to evaluate and demonstrate the benefits of our internally developed gene-based diagnostic products. It also plays a key role in developing and performing gene-based tests used to support our clinical studies of HIV-1 gene medicine. Our emphasis has been to position Enzo Clinical Labs as a state of the art clinical laboratory, serving the metropolitan New York market, as well as to support ongoing activities at Enzo Life Sciences and Enzo Therapeutics.

Financial Results

Our Company's operating results achieved new all-time highs in fiscal 2001. Total revenues for the year increased 16.7%, to $58.4 million. Income before interest and taxes gained 81.5%, to $9.2 million, and income before taxes for the year was up 59.5%, to $12.2 million. After an effective tax rate of 44.3% in fiscal 2001, net income totaled $6.8 million, or $0.24 per share. A year earlier, with an effective tax rate of only 13.6%, net income totaled $6.6 million, or $0.23 per share. Per share figures are based on diluted weighted average shares of 28.1 million and 28.3 million, respectively. Net income represented an increase of more than threefold over the level five years ago, while revenues in that time period increased roughly 65%, attesting to the impressive profitability of our expanding diagnostic product line.

Enzo's strong financial condition reflected working capital of $85.1 million, and $58.7 million in cash and cash equivalents. Despite an increase in research and development expenditures, our cash position increased by over $7 million from the prior year.

The Outlook

Enzo is faced with considerable opportunities in its business, specifically in its life sciences and therapeutics activities. Our objectives include, not only growing the Company, but also enhancing its value. We are continuing to capitalize on our novel technologies and products and will continue to pursue opportunities for innovation and partnership to build value for our business as well as contributing to improve healthcare. We are fortunate to have a dedicated and supportive staff, and a board of directors that shares our vision for all that Enzo can truly achieve

Your support, as always, is greatly appreciated.

Barry W. Weiner
President

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 financial statements and related notes. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements. See "Cautionary Statement for Purposes of the "Safe Harbor" Provisions of the Private Securities Litigation Reform Act of 1995". Because of the foregoing factors, you should not rely on past financial results as an indication of future performance. We believe that period-to-period comparisons of our financial results to date are not necessarily meaningful and expect that our results of operations might fluctuate from period to period in the future.

Liquidity and Capital Resources

At July 31, 2001, our cash and cash equivalents totaled $58.7 million, an increase of $7.6 million from July 31, 2000. We had working capital of $85.1 million at July 31, 2001 compared to $74.1 million at July 31, 2000.

Net cash provided by operating activities for the year ended July 31, 2001 was approximately $8.0 million and as compared to net cash provided by operating activities of $4.9 million for the year ended July 31, 2000. The increase in net cash provided by operating activities from fiscal 2000 to fiscal 2001 was primarily due to an increase in the tax benefit for stock options exercised of approximately $1.4 million.

Net cash used in investing activities increased by approximately $.3 million from fiscal 2000, primarily as a result of an increase in capital expenditures and patent costs deferred.

Net cash provided by financing activities decreased by $2.9 million from fiscal 2000 primarily as a result of the decrease in proceeds from the exercise of stock options.

Net accounts receivable of $24.6 million and $20.2 million represented 147 days and 134 days of operating revenues at July 31, 2001 and 2000, respectively. The change in net accounts receivable is due to an increase in accounts receivable at the clinical reference laboratory of approximately $3.5 million and an increase of research products accounts receivable of approximately $.9 million. The increase is primarily due to the increase in revenue from the clinical laboratory.

We believe that our current cash position is sufficient for our foreseeable liquidity and capital resource needs, although there can be no assurance that future events will not alter such view.

Management is not aware of any material claims, disputes or settled matters concerning third-party reimbursements that would have a material effect on our financial statements.

Results of Operations

Fiscal 2001 Compared to Fiscal 2000

Revenues from operations for the fiscal year ended July 31, 2001 were $58.4 million an increase of $8.4 million over revenues from operations for the fiscal year ended July 31, 2000. This increase was due to an increase of $3.7 million in revenues from our clinical reference laboratory operations and an increase of $4.7 million in revenues from research product sales over revenues for such activities in fiscal 2000. The increase in revenues from the clinical laboratory operations resulted primarily from an increase in volume of esoteric testing and from an increase in doctor accounts being serviced. The increase in research product sales resulted primarily from and an increase in direct sales of research products of labeling and detection reagents for the genomics and sequencing markets.

The cost of clinical laboratory services increased by $2.0 million primarily due to an increase in direct operating expenses based on the increased sales volume of testing in fiscal 2001. In addition, the cost of sales for research products decreased by $.6 million as a result of a change in the revenue mix from two of the Company's non-exclusive distribution agreements.

Research and development expenses increased by approximately $.6 million as a result of an increase in the clinical trial studies and the expansion of certain research activities.

Selling expenses increased by approximately $.6 million primarily due to an increase in costs associated with the increase in revenue. General and Administrative expenses increased by approximately $.9 million as a result of an increase in facility overhead costs associated with the increase in testing volume at the clinical laboratory facilities.

Our provision for uncollectible accounts receivable increased by $.7 million, primarily due to increased revenues from our clinical reference laboratory.

Interest income, increased by $.4 million as a result of an increase in cash and cash equivalents investments in fiscal 2001 as compared to fiscal 2000.

In fiscal 2001, we recorded a provision for income taxes of $5.4 million, which was based on the combined effective federal, state and local income tax rates. In fiscal 2000 we recorded a provision for income taxes of $1.0 million, which included a deferred benefit from the change in the deferred tax asset valuation reserve and benefits recognized from net operating losses.

Net accounts receivable from our clinical laboratory operations of $20.1 million and $16.6 million represented an average of 190 and 193 days of operating revenues at July 31, 2001 and 2000, respectively.

Income before (provision) benefit for taxes on income from research and development activities and related costs was $8.3 million in fiscal 2001, as compared to income before (provision) benefit for taxes on income of $3.8 million in fiscal 2000. The increase in the profit is principally related to the increase in sales of research products. Income before (provision) benefit for taxes on income from the clinical reference laboratories activities amounted to $3.8 million for fiscal 2001, as compared to $3.7 million for fiscal 2000.

Fiscal 2000 Compared to Fiscal 1999

Revenues from operations for the fiscal year ended July 31, 2000 were $50.0 million, an increase of $5.7 million over revenues from operations for the fiscal year ended July 31, 1999. This increase was due to an increase of $3.4 million in revenues from our clinical reference laboratory operations and an increase of $2.3 in revenues from research product sales over revenues for such activities in fiscal 1999. 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 revenues. 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 clinical laboratory services increased by $.2 million primarily as a result of an increase in operating expenses based on the increased sales in fiscal 2000 and the cost of sales for research products decreased by .4 million as a result in a change in the revenue mix from two of the company's non-exclusive distribution agreements.

Research and development expenses increased by approximately $1.0 million as a result of an increase in research programs and the increased amortization of patent costs.

Our provision for uncollectible accounts receivable increased by $1.3 million, primarily due to increased revenues from our clinical reference laboratory and reduced reimbursements received from Medicare and other third party insurers who generally follow the reimbursement policies of Medicare.

Net accounts receivable from our clinical laboratory operations of $16.6 million and $13.2 million represented an average of 193 and 172 days of operating revenues at July 31, 2000 and 1999, respectively. We expect that in the future, as a result of the revised Medicare reimbursement policies, we will receive reimbursements and cash flows at the clinical reference laboratory at lower rates then those realized in fiscal 2000. We will continue to attempt to control costs associated with the performance of the tests; however, we cannot assure that such efforts will be successful.

Income before (provision) benefit for taxes on income from research and development activities and related costs was $3.8 million in fiscal 2000, as compared to income before (provision) benefit for taxes on income of $2.7 million in fiscal 1999. The increase in the profit is principally related to the increase in sales of product from the non-exclusive distribution agreements. Income before (provision) benefit for taxes on income from the

clinical reference laboratories activities amounted to $3.7 million (12% of clinical laboratory services) as compared to $2.4 million (8% of clinical laboratory services) in fiscal 1999. This increase resulted principally from the increase in the operating revenues of esoteric testing.

In fiscal 2000, we recorded a benefit for income taxes of $1.0 million versus a benefit of $1.1 million in fiscal 1999. In the fourth quarter of fiscal 2000, we recorded a tax provision of $.9 million which included a reduction in our deferred tax asset of $.3 million.

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, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended July 31, 2001. 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 auditing standards generally accepted in the United States. 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, 2001 and 2000 and the consolidated results of its operations and its cash flows for each of the three years in the period ended July 31, 2001, in conformity with accounting principles generally accepted in the United States.

Melville, New York
October 4, 2001

Ernst & Young LLP

ENZO BIOCHEM, INC.
CONSOLIDATED BALANCE SHEETS

July 31, 2001 and 2000

ASSETS	**2001**	**2000**
Current assets:		
Cash and cash equivalents	$ 58,671,000	$ 51,027,000
Accounts receivable, less allowance for doubtful accounts of $6,526,000 in 2001 and $5,890,000 in 2000	24,559,000	20,211,200
Inventories	2,019,800	1,798,900
Deferred taxes	1,708,500	3,609,700
Prepaid taxes	350,200	—
Other	1,132,300	1,071,100
Total current assets	88,440,800	77,717,900
Property and equipment, at cost less accumulated depreciation and amortization	2,670,600	2,800,600
Cost in excess of fair value of net tangible assets acquired, less accumulated amortization of $4,980,600 in 2001 and $4,610,100 in 2000	7,822,700	8,193,200
Deferred patent costs, less accumulated amortization of $5,553,400 in 2001 and $4,802,800 in 2000	3,865,200	4,047,900
Other	131,800	126,800
	$102,931,100	$ 92,886,400
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	$ 2,039,500	$ 1,470,500
Income taxes payable	—	375,700
Accrued legal fees	251,000	664,600
Accrued payroll	322,300	301,400
Other accrued expenses	734,400	812,100
Total current liabilities	3,347,200	3,624,300
Deferred taxes	1,391,900	1,290,100
Deferred liability	675,000	795,700
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: 27,080,100 in 2001 and 25,583,700 in 2000	270,700	255,800
Additional paid-in capital	133,136,100	97,349,600
Accumulated deficit	(35,889,800)	(10,429,100)
Total stockholders' equity	97,517,000	87,176,300
	$102,931,100	$ 92,886,400

See accompanying notes

ENZO BIOCHEM, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended July 31, 2001, 2000 and 1999

	2001	2000	1999
Revenues:			
Research product revenues	$23,195,800	$18,553,500	$16,278,600
Clinical laboratory services	35,210,100	31,475,100	28,040,800
	58,405,900	50,028,600	44,319,400
Costs and expenses:			
Cost of research product revenues	6,925,200	7,521,700	7,883,700
Cost of clinical laboratory services	10,498,400	8,505,700	8,285,000
Research and development expense	6,080,800	5,430,900	4,427,000
Selling expense	3,856,300	3,240,800	2,782,800
Provision for uncollectable accounts receivable	11,999,200	11,294,000	9,960,800
General and administrative expense	9,817,800	8,951,700	7,577,400
	49,177,700	44,944,800	40,916,700
Income before interest income, and (provision) benefit for taxes on income	9,228,200	5,083,800	3,402,700
Interest income, net	3,003,000	2,584,600	1,983,900
Income before (provision) benefit for taxes on income	12,231,200	7,668,400	5,386,600
(Provision) benefit for taxes on income	(5,418,400)	(1,043,700)	1,128,400
Net income	$ 6,812,800	$ 6,624,700	$ 6,515,000
Net income per common share:			
Basic	$.25	$.25	$.25
Diluted	$.24	$.23	$.24
Denominator for per share calculation:			
Basic	26,999,000	26,597,000	26,180,000
Diluted	28,126,000	28,335,000	26,751,000

See accompanying notes.

ENZO BIOCHEM, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended July 31, 2001, 2000 and 1999

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' equity
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
Issuance 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
Net income for the year ended July 31, 2000	—	—	—	6,624,700	6,624,700
Increase in common stock and paid-in capital due to exercise of stock options and warrants	621,600	6,100	4,120,100	—	4,126,200
Issuance of stock for employee 401(k) plan	4,400	100	201,500	—	201,600
Increase in paid-in capital due to issuance of warrants as compensation for services performed	—	—	100,000	—	100,000
Tax benefit from stock options exercised	—	—	418,400	—	418,400
Increase in paid-in capital due to stock issued for services performed	—	—	57,400	—	57,400
Balance at July 31, 2000	25,583,700	255,800	97,349,600	(10,429,100)	87,176,300
Net income for the year ended July 31, 2001	—	—	—	6,812,800	6,812,800
5% stock dividend (fair value on date declared)	1,284,500	12,800	32,260,700	(32,273,500)	—
Increase in common stock and paid-in capital due to exercise of stock options and warrants	202,200	2,000	1,231,900	—	1,233,900
Issuance of stock for employee 401(k) plan	9,700	100	230,700	—	230,800
Tax benefit from stock options exercised	—	—	1,780,000	—	1,780,000
Increase in paid-in capital due to stock issued for services performed	—	—	283,200	—	283,200
Balance at July 31, 2001	27,080,100	$270,700	$133,136,100	$(35,889,800)	$97,517,000

See accompanying notes.

ENZO BIOCHEM, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended July 31, 2001, 2000 and 1999

	2001	2000	1999
Cash flows from operating activities:			
Net income	$ 6,812,800	$ 6,624,700	$ 6,515,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of property and equipment	1,131,200	832,100	883,300
Amortization of costs in excess of fair value of net tangible assets acquired	370,500	370,500	370,500
Amortization of deferred patent costs	750,600	722,400	677,800
Provision for uncollectible accounts receivable	11,999,200	11,294,000	9,960,800
Deferred income tax provision (benefit)	2,003,000	255,400	(1,550,000)
Issuance of warrants as compensation for services performed	—	100,000	—
Issuance of stock as compensation for services performed	283,200	57,400	—
Accretion of interest on note receivable	—	—	(58,400)
Issuance of stock for employee 401(k) plan	230,800	201,600	187,500
Tax benefit from stock options exercised	1,780,000	418,400	—
Deferred liabilities	(120,700)	(94,800)	(64,500)
Changes in operating assets and liabilities:			
Note receivable—litigation settlement	—	—	5,000,000
Accounts receivable before provision for uncollectible amounts	(16,347,000)	(16,497,500)	(10,772,100)
Inventories	(220,900)	(372,200)	(33,700)
Prepaid taxes	(350,200)	—	—
Other current assets	(61,200)	160,600	(2,800)
Trade accounts payable and accrued expenses	504,000	246,200	(199,300)
Income taxes payable	(375,700)	75,700	136,000
Accrued legal fees	(413,600)	599,600	15,000
Accrued payroll	20,900	(62,600)	4,200
Total adjustments	1,184,100	(1,693,200)	4,554,300
Net cash provided by operating activities	7,996,900	4,931,500	11,069,300
Cash flows from investing activities:			
Capital expenditures	(1,013,900)	(790,500)	(1,137,600)
Patent costs deferred	(567,900)	(458,400)	(431,000)
Security deposits	(5,000)	200	21,200
Net cash used by investing activities	(1,586,800)	(1,248,700)	(1,547,400)
Cash flows from financing activities:			
Payments of obligations under capital leases	—	—	(8,900)
Proceeds from the exercise of stock options and warrants	1,233,900	4,126,200	162,500
Net cash provided by financing activities	1,233,900	4,126,200	153,600
Net increase in cash and cash equivalents	7,644,000	7,809,000	9,675,500
Cash and cash equivalents at the beginning of the year	51,027,000	43,218,000	33,542,500
Cash and cash equivalents at the end of the year	$ 58,671,000	$ 51,027,000	$ 43,218,000

See accompanying notes.

ENZO BIOCHEM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2001, 2000, and 1999

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 2001 to October 2001. The market values of these securities, as determined by quoted sources, aggregated $57,954,300 and $49,789,900 at July 31, 2001 and 2000, respectively, and approximated cost at the respective dates.

Concentration of credit risk

Approximately 82% at July 31, 2001 and 2000, of the Company's net accounts receivable relates to its clinical reference laboratory business, which operates in the New York Metropolitan area. The Company believes that the concentration of credit risk with respect to accounts receivable is 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 the year ended July 31, 2001 was approximately 15% of the Company's total revenue. For the years ended July 31, 2000 and 1999 there were no payors with revenue, net of contractual allowances from direct billings, accounting for more than 10% of the Company's total revenues.

No individual distributor accounted for more than 10% of the Company's research product revenue during fiscal 2001. Research product revenue from one major distributor represented approximately 16% and 22% of the consolidated revenues in fiscal 2000 and 1999, respectively, under a non-exclusive distribution and supply agreement. At July 31, 2000, 5% of the Company's net accounts receivable relate to amounts due from the one major distributor.

Inventories

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

Property and equipment

Property and equipment is stated at cost, and 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.

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

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 Medicare are complex and subject to interpretation for which action for noncompliance includes fines, penalties and exclusion from the Medicare 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.

Shipping and Handling Costs

Research product revenue shipping and handling costs included in selling expense amounted to approximately $279,000, $179,000 and $141,000 for fiscal years ended July 31, 2001, 2000 and 1999, respectively.

Use of Estimates

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

Impairment of Long-Lived Assets

The Company evaluates the requirement to recognize impairment losses on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated

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

by those assets are less than the assets' carrying amount. Company management believes that no impairment to its long-lived assets has occurred.

Reclassifications

Certain prior year balances have been reclassified to conform with the 2001 presentation.

Recently Issued Accounting Pronouncements

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101 "Revenue Recognition" ("SAB 101"), which provides guidance on the recognition, presentation and disclosure of revenue in financial statements filed with the SEC. SAB 101 outlines the basic criteria that must be met to recognize revenue and provides guidance for disclosures related to revenue recognition policies. The Company implemented SAB 101 in the fourth quarter of fiscal 2001, and such implementation did not have an effect on the timing of when the Company recognizes revenue.

In April 2001, the Financial Accounting Standards Board's Emerging Issues Task Force (EITF or Task Force) reached a consensus on Issue 00-25, "Vendor Statement Characterization of Consideration paid by vendors to retailers". The consensus addresses whether consideration paid by vendors to retailers should be classified as a reduction of sales or as a cost or expense. This consensus is effective for fiscal quarters beginning after December 15, 2001 (the Company's April 2002 quarter). The Company has certain non-exclusive distribution agreements, which provide for consideration to be paid to the distributors for the manufacture of certain products. Such amounts are included in cost of research product revenues. The Company is currently reviewing the consensus to determine the impact, if any, that the consensus may have on the way the Company reports certain non-exclusive distribution agreement revenues and contract manufacturing costs.

In June 2001, the Financial Accounting Standards Board issued SFAS No. 141, Business Combinations and No. 142, Goodwill and Other Intangible Assets. Statement 141 requires business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting, and broadens the criteria for recording intangible assets separate from goodwill. SFAS No. 142 requires the discontinuance of amortization of goodwill and intangible assets with indefinite useful lives, subject to an annual review for impairment. Other intangible assets will continue to be amortized over their estimated useful lives. The Company will adopt the provisions of the statement on August 1, 2002. Although the Company is in the process of assessing the impact of adopting Statement No. 142, based upon its current level of goodwill and qualifying intangible assets, management expects the adoption to reduce its fiscal 2003 annualized amortization expense by approximately $370,000.

Stock Dividend

The Company declared a 5% stock dividend on January 16, 2001 payable March 20, 2001 to shareholders of record as of February 27, 2001. The shares and per share data have been adjusted to retroactively reflect this stock dividend. The Company recorded a charge to accumulated deficit and a credit to common stock and additional paid-in capital in the amount of approximately $32,274,000, which reflects the fair value of the dividend on the date of declaration.

Net income per share

The Company reported basic and diluted earnings per share in accordance with SFAS No. 128, "Earnings Per Share" ("SFAS No. 128"). Basic earnings per share exclude any dilutive effects of options and warrants. Diluted earnings include the dilutive effects of common stock equivalents such as stock options and warrants.

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

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

	2001	2000	1999
Numerator:			
Net income for numerator for basic and diluted net income per common share	$ 6,812,800	$ 6,624,700	$ 6,515,000
Denominator:			
Denominator for basic net income per common share-weighted-average shares	26,999,000	26,597,000	26,180,000
Effect of dilutive employee and director stock options and warrants	1,127,000	1,738,000	571,000(a)
Denominator for diluted net income per share-adjusted weighted-average shares	28,126,000	28,335,000	26,751,000
Basic net income per share	$.25	$.25	$.25
Diluted net income per share	$.24	$.23	$.24

(a) In fiscal 1999, 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.

Note 2—Supplemental disclosure for statement of cash flows

In the years ended July 31, 2001, 2000 and 1999, the Company paid cash for income taxes of approximately $2,267,000, $294,000 and $286,000 respectively.

Note 3—Inventories

At July 31, 2001 and 2000 inventories consist of:

	2001	2000
Raw materials	$ 85,700	$ 94,800
Work in process	1,035,300	1,040,000
Finished products	898,800	664,100
	$2,019,800	$1,798,900

Note 4—Property and equipment

At July 31, 2001 and 2000 property and equipment consist of:

	2001	2000
Laboratory machinery and equipment.	$1,471,200	$ 2,551,600
Leasehold improvements	2,223,400	2,470,800
Office furniture and equipment	4,152,300	5,107,600
	7,846,900	10,130,000
Accumulated depreciation and amortization	5,176,300	7,329,400
	$2,670,600	$ 2,800,600

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 December 31, 2001 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 $1,055,000, $1,017,000 and $986,000 in fiscal 2001, 2000 and 1999, respectively.

The Company has various other operating leases for office and laboratory space, which expire through fiscal 2006.

Total consolidated rent expense incurred by the Company during fiscal 2001, 2000 and 1999 was approximately $1,631,000, $1,547,000 and $1,527,000 respectively. Minimum annual rentals under operating lease commitments for fiscal years ending July 31 are as follows:

2002	$1,414,000
2003	1,395,000
2004	1,155,000
2005	398,000
2006	37,000
	$4,399,000

Note 6—Litigation

Patent Infringement

In 1993, the Company filed suit in U.S. district court against Calgene, Inc., alleging that Calgene's "Flavr Savr" tomato infringed several of the Company's patents concerning antisense technology. After a trial, the district court ruled against the Company, ruling that claims of these patents were invalid and not infringed. In September 1999, the U.S. Court of Appeals for the Federal Circuit affirmed the decision of the district court. On August 10, 2001, the case was dismissed pursuant to stipulation of the parties, with each party to bear its own costs and attorneys' fees. No significant adverse monetary impact to the Company occurred.

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. On January 26, 2001, the court granted the defendants' motion for summary judgment that the Company's patent is invalid. The grant of summary judgment is being appealed to the Court of Appeals for the Federal Circuit. The appeal proceedings are 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 adverse monetary impact.

Note 7—Income taxes

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

	2001	2000	1999
Current			
Federal	$(2,783,400)	$ (616,300)	$ (108,000)
State and local	(632,000)	(172,000)	(313,600)
Deferred	(2,003,000)	(255,400)	1,550,000
(Provision) benefit for income taxes	$(5,418,400)	$(1,043,700)	$1,128,400

Note 7—Income taxes — *(Continued)*

Current Federal income taxes provided for in fiscal 2001 are based on regular tax, and in fiscal 2000 and 1999 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:

	2001	2000
Deferred tax assets:		
Provision for uncollectible accounts receivable	$ 1,612,900	$ 914,500
Net operating loss carry forwards	—	2,023,400
Alternative minimum tax credits	105,800	742,500
Other	293,200	332,800
	2,011,900	4,013,200
Deferred tax liability:		
Deferred patent costs	(1,695,300)	(1,693,600)
Net deferred tax asset	$ 316,600	$ 2,319,600

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax asset will be realized. The ultimate realization of the deferred tax asset is dependent upon the generation of future taxable income. Management considers scheduled reversals of deferred tax liabilities, projected future taxable income and tax planning strategies, which can be implemented by the Company in making this assessment. The Company had provided a full valuation allowance for the net deferred tax asset at July 31, 1997. In fiscal 2000 and 1999, 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 was decreased $2,570,000 in fiscal 2000 to zero. The valuation allowance decreased $3,928,000 in fiscal 1999.

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

	2001	2000	1999
Federal statutory rate	34%	34%	34%
Expenses not deductible for income tax return purposes	1%	4%	4%
State income taxes, net of federal tax deduction and change in deferred tax asset valuation reserve	9%	9%	—
Change in deferred tax asset valuation reserve and benefits recognized from net operating losses	—	(33%)	(59%)
	44%	14%	(21%)

Note 8—Stock options and warrants

The Company follows 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" ("APB 25"), but are required to disclose in a note to the

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

consolidated financial statements pro forma 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 APB 25, 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.

Incentive stock option plan

The Company has an incentive stock option plan ("1983 plan") under which the Company may grant options for up to 1,093,956 shares of common stock. No additional options may be granted under the 1983 plan. The exercise price of options granted under such plan is equal to or greater than fair market value of the common stock on the date of grant. The Company has stock option plans ("1993 plan" and "1994 plan") under which the Company may grant options for up to 1,823,260 shares (1993 plan) and for up to 1,154,731 shares (1994 plan) of common stock. No additional options may be granted under the 1993 plan or the 1994 plan. In fiscal 1999, the Company set up a new incentive stock option plan ("1999 plan") under which the Company may grant up to 997,500 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, 2001, 2000 and 1999 under SFAS No. 123 is as follows:

	2001		2000		1999	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of year	2,305,091	$ 9.60	2,835,986	$ 8.55	2,277,714	$ 8.71
Granted	381,250	14.96	88,200	24.17	633,675	8.01
Exercised	(207,865)	5.67	(600,233)	6.70	(27,754)	5.70
Terminated	(3,930)	14.94	(18,862)	11.36	(47,649)	12.76
Outstanding at end of year	2,474,546	$10.74	2,305,091	$ 9.60	2,835,986	$ 8.55
Exercisable at end of year	1,701,398	$ 9.75	1,632,188	$ 8.97	1,882,842	$ 8.00
Weighted average fair value of options granted during year	$ 14.96		$ 18.57		$ 5.52	

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

The following table summarizes information for stock options outstanding at July 31, 2001:

	Options Outstanding			Options Exercisable	
Range of Exercise prices	Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
$1.23	289	.32 years	$ 1.23	289	$ 1.23
$3.70	6,078	.79 years	3.70	6,078	3.70
$6.27–$9.36	1,171,926	4.49 years	7.68	1,032,650	7.84
$9.65–$13.49	790,497	6.25 years	11.65	596,249	11.99
$14.96–$16.63	459,256	7.03 years	15.04	58,257	16.98
$23.51–$28.27	30,750	9.64 years	25.83	—	—
$41.73	15,750	8.46 years	41.73	7,875	41.73
	2,474,546			1,701,398	

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 yield; volatility factor of the expected market price of the Company's common stock of .80, .80 and .68 for grants during fiscal year ended July 31, 2001, 2000 and 1999, respectively and a weighted-average expected life of the options of 7 years at July 31, 2001, 2000 and 1999.

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 including 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:

	2001	2000	1999
Pro forma net income:	$4,398,000	$4,278,000	$4,426,000
Pro forma net income per share:			
Basic	$.16	$.16	$.17
Diluted	$.16	$.15	$.17

The SFAS No. 123 method of accounting has not been applied to options granted prior to August 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 243,101 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, 2001, the Company has not awarded any shares of common stock under this plan.

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

Warrants

In November 1991, the Company issued warrants to purchase 312,386 shares of common stock with an exercise price of $1.64 per share expiring ten years after the date of issue. In fiscal 2000 and 1999, 7,833 and 8,190 of these warrants were exercised, respectively. In fiscal 1996, the Company issued warrants to purchase 94,347 shares of common stock with an exercise price ranging from $8.63 to $15.11 per share which expire five years after the date of issue. In fiscal 2000, 44,615 of these warrants were exercised and 25,423 were canceled. As of July 31, 2001 and 2000, there are no warrants outstanding.

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As of July 31, 2001, the Company has reserved 4,209,894 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, 2001, 2000 and 1999, 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 $230,800, $201,600 and $187,500 in fiscal years 2001, 2000, and 1999, respectively.

Note 11—Quarterly financial data (unaudited)

Unaudited quarterly financial data (in thousands, except per share amounts) for fiscal 2001 and 2000 is summarized as follows:

	Three Months Ended			
	October 31, 2000	January 31, 2001	April 30, 2001	July 31, 2001
Revenues	$13,859	$13,876	$15,201	$15,470
Gross profit	9,941	9,839	10,899	10,303
Income before (provision) benefit for taxes on income	2,987	2,801	3,335	3,108
Net income	$ 1,673	$ 1,565	$ 1,861	$ 1,714
Basic income per common share	$ 0.06	$ 0.06	$ 0.07	$ 0.06
Diluted income per common share	$ 0.05	$ 0.06	$ 0.07	$ 0.06

Note 11—Quarterly financial data (unaudited) — *(Continued)*

	Three Months Ended			
	October 31, 1999	January 31, 2000	April 30, 2000	July 31, 2000
Revenues	$11,612	$11,564	$12,579	$14,274
Gross profit	7,634	7,937	8,592	9,838
Income before (provision) benefit for taxes on income	1,614	1,575	2,033	2,446
Net income	$ 1,517	$ 1,520	$ 2,003	$ 1,585
Basic income per common share	$ 0.05	$ 0.06	$ 0.08	$ 0.06
Diluted income per common share	$ 0.05	$ 0.05	$ 0.07	$ 0.06

Note 12—Segment Information

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 (provision) benefit 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 (provision) benefit 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,		
	2001	2000	1999	2001	2000	1999	2001	2000	1999	2001	2000	1999
Operating revenues:												
Research product revenues	$23,196	$18,554	$16,279	—	—	—	—	—	—	$23,196	$18,554	$16,279
Clinical laboratory services	—	—	—	$35,210	$31,475	$28,041	—	—	—	35,210	31,475	28,041
Cost and expenses:												
Cost of research product revenues	6,925	7,522	7,884	—	—	—	—	—	—	6,925	7,522	7,884
Cost of clinical laboratory services	—	—	—	10,498	8,506	8,285	—	—	—	10,498	8,506	8,285
Research and development expense	6,081	5,431	4,427	—	—	—	—	—	—	6,081	5,431	4,427
Depreciation and amortization	856	814	744	1,397	1,111	1,188	—	—	—	2,253	1,925	1,932
Interest income	—	—	—	—	—	23	$3,003	$2,585	$1,961	3,003	2,585	1,984
Income before (provision) benefit for taxes on income	$ 8,290	$ 3,840	$ 2,661	$ 3,795	$ 3,720	$ 2,363	$ 146	$ 108	$ 363	$12,231	$ 7,668	$ 5,387

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:

	2001	2000	1999
United States	$14,256	$ 8,076	$ 3,813
Foreign Countries	8,940	10,478	12,466
	$23,196	$18,554	$16,279

Corporate Information

Board of Directors

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

Irwin C. Gerson
Chairman Emeritus the Lowe
McAdams Healthcard division
of the Interpublic Group

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

Shahram K. Rabbani
Chief Operating Officer,
Treasurer and Secretary

John B. Sias
Former 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.
Executive 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
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Weinstein, LLP
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Independent Auditors
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Melville, NY 11747

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

Common Stock
Listed on NYSE
(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
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 New York 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 New York Stock Exchange

	High	Low
2000 Fiscal Year (August 1, 1999 to July 31, 2000):		
1st Quarter	$ 36.69	$ 16.13
2nd Quarter	$139.00	$ 20.75
3rd Quarter	$104.19	$ 31.81
4th Quarter	$ 75.75	$ 31.63
2001 Fiscal Year (August 1, 2000 to July 31, 2001):		
1st Quarter	$ 58.81	$ 34.29
2nd Quarter	$ 42.06	$ 17.96
3rd Quarter	$ 23.18	$ 13.95
4th Quarter	$ 34.98	$ 22.87

On October 11, 2001, the last sale price of the Common Stock of the Company as reported on the New York Stock Exchange was $19.85.

As of October 11, 2001, the Company had approximately 1,180 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.

The Company declared a 5% stock dividend on January 16, 2001 payable March 20, 2001 to shareholders of record as of February 27, 2001. The shares and per share data have been adjusted to retroactively reflect this stock dividend. The Company recorded a charge to accumulated deficit and a credit to common stock and additional paid-in capital in the amount of approximately $32,274,000, which reflects the fair value of the dividend on the date of declaration.

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