Enzo Biochem, Inc. *Annual Report 2000*

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 that fiscal 2000 — the 12 months ended July 31, 2000 — was a year of vigorous growth, major progress and significant accomplishment for Enzo Biochem. It was a year of achievement, both scientifically and financially. Our Company's position and its outlook have never been more favorable.

In a recent article marking the completion of mapping of the genome, a scientific development heralded worldwide, *The Economist* declared "Genomics has brought the science of biology to a new threshold." It is, in fact, where Enzo's focus has been since the Company was founded 24 years ago. From the start, Enzo has viewed DNA as an informational molecule, pioneering the technology of nonradioactive labeling and detection of DNA and effectively using advanced knowledge of genomics to broaden our activities into therapeutic applications having potentially far-reaching implications for treating a wide range of infectious diseases.

A Quarter Century of Growth

Today, attesting to our Company's nearly quarter of a century of successful dedicated research and development, Enzo has been issued over 195 patents worldwide, with at least another 200 patents pending. Our work in the life sciences research market is far-reaching. With gene research expanding rapidly, our Company is the beneficiary of rising demand for tools such as DNA sequencers, biochips, micro-fluidic chips and micro-spheres for which Enzo's proprietary reagents represent the enabling technology. Wherever researchers seek to explore the role of genes in biological processes, they require Enzo products and reagents to label, hybridize, detect and identify the presence of DNA.

Our strategy in the rapidly unfolding world of genomics research has been to build supply relationships offering non-exclusive agreements with the world's leading life sciences companies to distribute Enzo reagents and kits under joint labeling. Our systems allow the study of biological pathways and the identification of mutations in gene sequences and in gene expression levels that can lead to disease. Enzo manufactures over 300 products serving this market, where over $2 billion is spent annually on reagents for gene analysis. We anticipate this market will continue to grow rapidly, based on increases in research spending, the development of commercial applications based on information derived from this research, and the advancement of tools that accelerate these far-reaching R&D activities.

A Leader in Life Sciences

Beyond genomics research and gene analysis, the clinical diagnostics market beckons, and our Company is already positioning itself to become an active participant. The clinical diagnostics market is estimated to approximate $20 billion annually, with approximately 10% represented by gene-based tests for clinical diagnosis, a robust market in itself that is believed to be growing over 20% a year. This growth is being nurtured by the development of new and exciting diagnostic tests stemming from discoveries in genome research, where we already have a growing stake, along with advances in formats and other technologies that automate and accelerate gene-based diagnostic testing. Pharmacogenomics — the application of gene-based diagnostics as tools to match therapeutic treatments closely to specific patient genetics — is also beginning to expand in importance as health care increasingly embraces the benefits of early diagnosis and treatment. It, too, represents dynamic new opportunities for Enzo's core life sciences products and activities.

In fiscal 2000, our Company's Life Science Products subsidiary, Enzo Diagnostics, registered a 14% increase in research product sales, including a 34% rise in sales in the fourth quarter. Quarter-to-quarter variations in product sales reflect the differences in shipments experienced from period to period, but the unmistakable trend line is a favorable one based on the supply relationships Enzo has entered into thus far. Meanwhile, we continue research and developmental work on new diagnostic products, including the development of new automating processes that will facilitate DNA diagnostic testing in laboratories, hospitals and physicians offices. This past year Enzo received two new U.S. patents covering key technologies having application to genomic analysis and DNA diagnostics. In some areas, diagnostic testing has not materially advanced beyond the Petri dish culture-growing procedures developed by Louis Pasteur, and the advent of genomic diagnostics represents a revolutionary opportunity, one in which Enzo fully anticipates participating.

Promising Therapeutics

Our activities in therapeutics are also highly promising. The Phase I clinical trial of HGTV-43, our Company's HIV-1 gene medicine product — a direct outgrowth of our ongoing expertise in applied genomics — is nearing a conclusion, and based on highly favorable preliminary indications we are moving towards a Phase II study. The latter, as presently envisioned, will involve several test centers at which HGTV-43 would be administered to a broader cross-section of HIV infected patients, as well as some who have developed more acute immunological disorders resulting from the infection.

The preliminary evidence thus far indicates that patients involved in the HGTV-43 trials have tolerated the procedure well, and that the genetically engineered blood cells have survived in circulation, in addition to producing antisense RNA needed to ward off the encroaching virus. The survival of the engineered cells was well in excess of anything achieved thus far by other researchers using blood stem cells from adult human subjects without first ablating the patient, a process in which the blood cells are destroyed. Essentially, in the trial, stem cells were removed from HIV-1 infected human subjects, transduced overnight and the next day infused back into the subject. HGTV-43 works to deliver the antisense genes efficiently and quickly to non-growing blood stem cells outside the human body. This process of transduction (adding the genes to the blood stem cells) was materially reduced in time from several weeks previously to an 18-hour process by new Enzo research accomplishments. The significance of the shorter transduction period is that it protects the stem cells from undesirable differentiation. It is most noteworthy that the HGTV-43 transduced cells producing antisense RNA are designed to evade undesirable immunological response, which means they are less likely to stimulate any possible immune reaction.

Data on the individuals treated in the Phase 1 clinical trial of HGTV-43 also showed that Enzo engineered cells have successfully engrafted in the patient's bone marrow and are spawning new differentiated CD4+ cells designed to fight the virus. The ultimate goal is to achieve for HIV-1 infected individuals a long-term, lifelong immune responsiveness in a disease characterized by progressive loss of this defensive mechanism. In obtaining successful gene therapy our Company has made significant progress towards this goal.

Targeting Hepatitis B

Clinical studies of Enzo's first product based on immune regulation, our second proprietary therapeutic platform, have also produced encouraging results. In the Phase I trial of EHT899, the Company's oral protein medicine for treatment of hepatitis B virus, all 15 patients tolerated the treatment well. Moreover, 80% of the patients — 12 of the 15 — responded favorably to the immune regulation treatment as measured by at least one of the following criteria — a decrease in viral load, normalization of increased levels of liver enzymes or a decrease in inflammation seen on liver biopsy. Ten of the patients showed a return to complete normalization of liver enzymes, and nine experienced significant decreases in viral load. A Phase II clinical trial employing broader parameters in the protocol, as well as a wider patient base is currently underway.

According to the latest figures published by the World Health Organization, some 2 billion people today are infected with hepatitis B, of whom an estimated 350 million are chronically infected and therefore at risk of death from liver disease. Oral administration of Enzo's proprietary EHT899 medicine in the Phase I trial significantly alleviated the immune-mediated liver injury, in addition to enhancing the immune response to hepatitis B. It is significant, therefore, that in preclinical animal research studies using EHT899, Enzo researchers, along with others at the Hadassah University Medical Center in Jerusalem, were able to achieve what can only be described as dramatic results in mice with human liver cancer. The study showed complete suppression of the HBV-associated tumors and significantly reduced mortality in the laboratory mice. There is limited effective treatment for human liver disease at present, and this study may have significant application for treatment not only of liver but also other cancers in humans.

Preclinical studies are underway to develop applications of Enzo's immune regulation technology for a therapy for hepatitis C virus. This approach is also expected to be applied to therapies for inflammatory bowel disease, including ulcerative colitis and Crohn's disease, and in Graft versus Host Disease in transplant recipients.

A third therapeutic platform for Enzo was made possible with the award this past year of U.S. Patent No. 5,958,681, which relates to the correction of genetic abnormalities at the single nucleotide level. It could address the treatment of genetic-based diseases, and operates by correcting a nonfunctional or incorrectly functional gene

instead of attempting to supplant the gene in its entirety. In a sense, it involves an editing technique, far more sophisticated and technologically complex, to be sure, but akin to correcting a typewritten error.

Enzo Clinical Labs Continues Its Growth

Enzo Clinical Labs also provided a solid account of itself this past year, with revenues increasing approximately 13%. The metropolitan area of New York City, as in other regions of the country, has been subject to a fair amount of laboratory consolidation, strengthening Enzo's position. Moreover, our laboratory business is differentiated by a higher degree of high-end third party insurance-related business as well as a reputation for more sophisticated diagnostic testing. Enzo Labs is a valuable asset, providing practical application and testing of many of our Company's proprietary diagnostic products. In the area of gene-based testing, Enzo Labs, targeted toward the future, is positioned to provide the medical community with sophisticated genetic analyses and gene expression assays. It also is a significant cash generator that furnishes additional capabilities for our Company to pursue its expanding and increasingly productive research and development efforts.

Record Operating Results

Fiscal 2000 revenues and earnings achieved record levels. Total revenues rose 12.9%, to $50.0 million, and operating income increased 42.3% to $7.7 million. Net income increased 1.7%, to $6.6 million, or $0.26 per share ($0.25 per share diluted), which included an income tax provision of $1 million as compared to last year's $6.5 million, or $0.26 per share, which included an income tax benefit of $1.1 million. As we've noted before, Enzo remains one of the few companies in the biotechnology industry that is profitable, even while pursuing new novel gene-based therapeutic medicines and technologies. Our balance sheet remains strong. Working capital at year-end amounted to $73.5 million, and cash and cash equivalents, reflecting our positive cash flow position, exceeded $51 million, compared to $43 million a year ago. There is no debt, and shareholders' equity exceeds $87 million, up 58% over the past five years.

Enzo, a Strongly Positioned Company

We believe firmly that Enzo is uniquely and strongly positioned as a multi-faceted biotechnology company. Our accomplishments, and our potential, are resulting in increasing attention among institutional investors and analysts. There is much that remains to be done, but in addition to continuing to pursue excellence in diagnostics and therapeutics, we also remain firmly committed to enhancing the Company's value for all shareholders.

The accomplishments of our Company could not have been possible without the dedicated professionalism of our employees, and the support of our Board of Directors and shareholders. We gratefully acknowledge their contributions.

As we embark on our Company's 25th year, and look back at all that our Company has achieved, we are highly encouraged regarding what we earnestly believe will be an exceedingly bright future.

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 as a result of certain factors, including but not limited to, those discussed in "Risk Factors" and elsewhere in this memorandum. See "Note Regarding Forward-Looking Statements." 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, 2000, our cash and cash equivalents totaled $51.0 million, an increase of $7.8 million from July 31, 1999. We had working capital of $73.5 million at July 31, 2000 compared to $59.3 million at July 31,1999.

Net cash provided by operating activities for the year ended July 31, 2000 was approximately $4.9 million and as compared to net cash provided by operating activities of $11.1 million for the year ended July 31, 1999, which included $5.0 million of cash received in connection with the settlement of our litigation against Johnson & Johnson, Inc. The decrease in net cash provided by operating activities from fiscal 1999 to fiscal 2000 was primarily due to (i) the payment in full of such Johnson & Johnson litigation settlement during fiscal 1999 and (ii) an increase in accounts receivables in fiscal 2000.

Net cash used in investing activities of approximately $1.2 million in fiscal 2000 decreased by approximately $.3 million from fiscal 1999, primarily as a result of a decrease in capital expenditures.

Net cash provided by financing of $4.1 million in fiscal 2000 activities increased by $4.0 million from fiscal 1999 primarily as a result of the increase in proceeds from the exercise of stock options and warrants.

Net accounts receivable of $20.2 million and $15.0 million represented 147 days and 124 days of operating revenues at July 31, 2000 and 1999, respectively. The change in net accounts receivable is due to an increase in accounts receivable at the clinical reference laboratory of approximately $3.4 million and an increase of research products accounts receivable of approximately $1.8 million.

On October 19, 1994, we executed a settlement agreement with Johnson & Johnson, Inc. pursuant to which we received $15.0 million and a promissory note requiring Johnson & Johnson and its subsidiary, Ortho Diagnostics, Inc., to pay us $5.0 million a year on each of the four successive anniversaries of that date. The last payment was received in fiscal 1999. The litigation settlement amounted to approximately $21.9 million, net of legal fees. Pursuant to the terms of the settlement, all of our grants, licenses and intellectual property have been returned to us in totality.

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 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 million 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 esoteric testing. 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 clinical studies and research programs.

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 provision 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.

Results of Operations

Fiscal 1999 Compared to Fiscal 1998

Revenues from operations for the fiscal year ended July 31, 1999 were $44.3 million, an increase of $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 our clinical reference laboratory operations and an increase of $3.6 in revenues from research product sales over revenues for such activities in fiscal 1998. 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 research product revenues increased by $.3 million primarily as a result of an increase in sales from our distribution agreement 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.

Our provision for uncollectible accounts receivable increased by $.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 $13.2 million and $13.1 million represented an average of 172 days of operating revenues at July 31, 1999 and 1998, 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 1999. 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 $2.7 million in fiscal 1999, as compared to income before (provision) benefit 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 (provision) benefit for taxes on income from the clinical reference laboratories activities amounted to $2.4 million (8% 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, we 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, we 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.

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, 2000 and 1999, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended July 31, 2000. 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, 2000 and 1999 and the consolidated results of its operations and its cash flows for each of the three years in the period ended July 31, 2000, in conformity with accounting principles generally accepted in the United States.

Melville, New York
October 16, 2000

Ernst & Young LLP

ENZO BIOCHEM, INC.
CONSOLIDATED BALANCE SHEET
July 31, 2000 and 1999

ASSETS	**2000**	**1999**
Current assets:		
Cash and cash equivalents	$ 51,027,000	$ 43,218,000
Accounts receivable, less allowance for doubtful accounts of $5,890,000 in 2000 and $6,027,000 in 1999	20,211,200	15,007,700
Inventories	1,798,900	1,426,700
Deferred taxes	3,008,500	1,186,300
Other	1,071,100	846,700
Total current assets	77,116,700	61,685,400
Property and equipment, at cost less accumulated depreciation and amortization	2,800,600	2,824,200
Cost in excess of fair value of net tangible assets acquired, less accumulated amortization of $4,610,100 in 2000 and $4,239,600 in 1999	8,193,200	8,563,700
Deferred patent costs, less accumulated amortization of $4,802,800 in 2000 and $4,080,400 in 1999	4,047,900	4,311,900
Deferred taxes	—	1,388,700
Other	126,800	127,000
	$ 92,285,200	$ 78,900,900
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	$ 1,470,500	$ 1,196,100
Income taxes payable	375,700	300,000
Accrued legal fees	664,600	65,000
Accrued payroll	301,400	364,000
Other accrued expenses	812,100	437,300
Total current liabilities	3,624,300	2,362,400
Deferred taxes	688,900	—
Deferred liability	795,700	890,500
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: 25,583,700 in 2000 and 24,957,700 in 1999	255,800	249,600
Additional paid-in capital	97,349,600	92,452,200
Accumulated deficit	(10,429,100)	(17,053,800)
Total stockholders' equity	87,176,300	75,648,000
	$ 92,285,200	$ 78,900,900

See accompanying notes.

ENZO BIOCHEM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2000, 1999 and 1998

	2000	1999	1998
Revenues:			
Research product revenues	$18,553,500	$16,278,600	$12,660,900
Clinical laboratory services	31,475,100	28,040,800	27,756,100
	50,028,600	44,319,400	40,417,000
Costs and expenses:			
Cost of research product revenues	7,521,700	7,883,700	7,496,600
Cost of clinical laboratory services	8,505,700	8,285,000	8,247,200
Research and development expense	5,430,900	4,427,000	3,983,500
Selling expense	3,240,800	2,782,800	2,728,000
Provision for uncollectable accounts receivable	11,294,000	9,960,800	9,627,500
General and administrative expense	8,951,700	7,577,400	7,648,600
	44,944,800	40,916,700	39,731,400
Income before interest income, and (provision) benefit for taxes on income	5,083,800	3,402,700	685,600
Interest income, net	2,584,600	1,983,900	1,884,600
Income before (provision) benefit for taxes on income	7,668,400	5,386,600	2,570,200
(Provision) benefit for taxes on income	(1,043,700)	1,128,400	821,600
Net income	$ 6,624,700	$ 6,515,000	$ 3,391,800
Net income per common share:			
Basic	$.26	$.26	$.14
Diluted	$.25	$.26	$.13
Denominator for per share calculation:			
Basic	25,330,000	24,933.000	24,653,000
Diluted	26,986,000	25,477.000	25,746,000

See accompanying notes.

ENZO BIOCHEM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2000, 1999 and 1998

	Common Stock Shares	Common Stock Amount	Additional paid-in Capital	Accumulated deficit	Total Shareholders' equity
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)	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 paid-in capital due to issuance of Exchange of stock for debt, net of offering costs 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
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

See accompanying notes.

ENZO BIOCHEM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2000, 1999 and 1998

	2000	1999	1998
Cash flows from operating activities:			
Net income	$ 6,624,700	$ 6,515,000	$ 3,391,800
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of property and equipment	832,100	883,300	853,000
Amortization of costs in excess of fair value of net tangible assets acquired	370,500	370,500	370,500
Amortization of deferred patent costs	722,400	677,800	640,000
Provision for uncollectible accounts receivable	11,294,000	9,960,800	9,627,500
Deferred income tax provision (benefit)	255,400	(1,550,000)	(1,025,000)
Issuance of warrants as compensation for services performed	100,000	—	150,000
Issuance of stock as compensation for services performed	57,400	—	—
Other	—	—	6,600
Accretion of interest on note receivable	—	(58,400)	(253,000)
Issuance of stock for employee 401(k) plan	201,600	187,500	134,500
Deferred liability	(94,800)	(64,500)	(35,500)
Changes in operating assets and liabilities:			
Note receivable — litigation settlement	—	5,000,000	5,000,000
Accounts receivable before provision for uncollectible amounts	(16,497,500)	(10,772,100)	(11,838,500)
Inventories	(372,200)	(33,700)	166,000
Other assets	160,600	(2,800)	967,500
Trade accounts payable and accrued expenses	246,200	(199,300)	211,900
Income taxes payable	494,100	136,000	36,000
Accrued legal fees	599,600	15,000	(5,800)
Accrued payroll	(62,600)	4,200	(142,000)
Total adjustments	(1,693,200)	4,554,300	4,863,700
Net cash provided by operating activities	4,931,500	11,069,300	8,255,500
Cash flows from investing activities:			
Capital expenditures	(790,500)	(1,137,600)	(577,700)
Patent costs deferred	(458,400)	(431,000)	(441,100)
Decrease in security deposits	200	21,200	4,200
Net cash used in investing activities	(1,248,700)	(1,547,400)	(1,014,600)
Cash flows from financing activities:			
Payments of obligations under capital leases	—	(8,900)	(8,900)
Proceeds from the exercise of stock options and warrants	4,126,200	162,500	1,097,800
Payment of long term debt	—	—	(37,700)
Net cash provided by financing activities	4,126,200	153,600	1,051,200
Net increase in cash and cash equivalents	7,809,000	9,675,500	8,292,100
Cash and cash equivalents at the beginning of the year	43,218,000	33,542,500	25,250,400
Cash and cash equivalents at the end of the year	$ 51,027,000	$ 43,218,000	$ 33,542,500

See accompanying notes.

ENZO BIOCHEM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2000, 1999 and 1998

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 which is approximately three months from date purchased. The market values of these securities, as determined by quoted sources, aggregated $49,789,900 and $42,637,800 at July 31, 2000 and 1999, respectively, and approximated cost at the respective dates.

Concentration of credit risk

Approximately 82% and 88% at July 31, 2000 and 1999, respectively, 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 July 31, 1998 was approximately 10% 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.

At July 31, 2000 and 1999, 5% and 2% 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 16%, 22% and 21% of consolidated operating revenues in fiscal 2000, 1999 and 1998, respectively.

Inventories

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

Property and equipment

Property and equipment are 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.

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

Note 1—Business and summary of significant accounting policies — *(Continued)*
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 program are complex and subject to interpretation for which action for noncompliance includes fines, penalties and exclusion from the Medicare program. 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.

Impairment of long-lived assets

In accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" ("SFAS No. 121"), 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 by those assets are less than the assets' carrying amount. Company management believes that no impairment to its long-lived assets has occurred.

Effect of 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. In recent actions, the SEC has further delayed the required implementation date which, for the Company, will be no later than the fourth quarter of fiscal 2001, retroactive to the beginning of the fiscal year. Although the Company cannot fully assess the impact of SAB 101 at this time, the Company's preliminary conclusion is that the implementation of SAB 101 will not have a material effect on the timing of when the Company recognizes revenue.

In July, 2000 the Financial Accounting Standards Board's Emerging Issues Task Force (EITF or Task Force) reached a consensus on Issue No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent" (Issue

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

99-19). This Issue interprets SAB 101 and addresses when a company should report revenue as the gross amount billed to a customer verses the net amount earned by the company in the transaction. At the EITF's July 2000 meeting, the Task Force reached a conclusion that specific "indicators" should be used by companies to determine if it is more appropriate for them to record revenues on a "gross" versus a "net" basis. These "indicators" include, but are not limited to, 1) whether the vendor is the primary obligor in the transaction, 2) whether the vendor assumes general inventory risk, and 3) whether the vendor has latitude for setting the pricing for the goods or services it sells to its customers. Absence of these indicators might indicate that revenue should be recorded on a "net" basis. However, these three indicators are not considered by the Task Force to be presumptive, and their absence would not necessarily require that revenue be recorded on a "net" basis. Instead, additional indicators, prepared by the Task Force, should also be evaluated based on a facts and circumstances basis to determine the appropriate revenue reporting.

Currently, the Company reports revenue from certain non-exclusive distribution agreements under the "gross" method based on amounts billed to their customers. If the Company were to have to change their revenue reporting to the "net" method, the Company would record revenue equal to net amounts earned (i.e. the gross profit) under certain non-exclusive distribution agreements. The Company would have to apply the Consensus reached under Issue 99-19 no later than the fourth quarter of fiscal 2001. Upon application, prior period financial statements would be reclassified to conform to the Consensus. Application of Issue 99-19 would have no impact on previously reported gross profit, operating income, or net income, but could result in the Company reporting lower revenues form certain non-exclusive distribution agreements for all periods presented. The Company is currently reviewing the Consensus and related indicators to determine the impact that the Consensus may have on the way the Company reports certain non-exclusive distribution agreement revenues.

Net income per share

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

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

	2000	1999	1998
Numerator:			
Net income for numerator for basic and diluted net income per common share	$ 6,624,700	$ 6,515,000	$ 3,391,800
Denominator:			
Denominator for basic net income per common share-weighted-average shares	25,330,000	24,933,000	24,653,000
Effect of dilutive employee and director stock options and warrants (a)	1,656,000	544,000	1,093,000
Denominator for diluted net income per share-adjusted weighted-average shares	26,986,000	25,477,000	25,746,000
Basic net income per share	$ .26	$ .26	$ .14
Diluted net income per share	$ .25	$ .26	$ .13

(a) Potentially dilutive employee and director stock options and warrants that have been excluded from this amount because they are anti-dilutive amounted to 0, 724,000 and 89,000 in fiscal 2000, 1999 and 1998, respectively.

Note 2—Supplemental disclosure for statement of cash flows

For the year ended July 31, 1998, the Company paid cash for interest of approximately $5,000.

For the years ended July 31, 2000, 1999 and 1998, the Company paid cash for income taxes of approximately $294,000, $286,000 and $176,000 respectively.

Note 3—Inventories

At July 31, 2000 and 1999 inventories consist of:

	2000	1999
Raw materials	$ 94,800	$ 108,100
Work in process	1,040,000	833,400
Finished products	664,100	485,200
	$ 1,798,900	$1,426,700

Note 4—Property and equipment

At July 31, 2000 and 1999, property and equipment consist of:

	2000	1999
Laboratory machinery and equipment	$ 2,551,600	$2,349,200
Leasehold improvements	2,470,800	2,266,500
Office furniture and equipment	5,107,600	4,848,800
	10,130,000	9,464,500
Accumulated depreciation and amortization	7,329,400	6,640,300
	$ 2,800,600	$2,824,200

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, 2000 and November 30, 2004. Certain officers and directors 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 $1,017,000, $986,000 and $924,000 in fiscal 2000, 1999 and 1998, respectively.

Total consolidated rent expense incurred by the Company during fiscal 2000, 1999 and 1998 was approximately $1,547,000, $1,527,000 and $1,382,000 respectively. Minimum annual rentals under operating lease commitments for fiscal years ending July 31 are as follows:

2001	$1,279,000
2002	1,234,000
2003	1,252,000
2004	1,055,000
2005	318,000
	$5,138,000

Note 6—Litigation

Patent Infringement—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

Note 6—Litigation — *(Continued)*

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 Enzo's 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's '065' patent. The petition was denied on December 1, 1999. 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, which will 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.

Patent Infringement – 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 (provision) benefit is calculated under the provisions of SFAS No. 109.

	2000	1999	1998
Current			
Federal	$ (616,300)	$ (108,000)	$ (76,000)
State and local	(172,000)	(313,600)	(127,400)
Deferred	(255,400)	1,550,000	1,025,000
(Provision) benefit for income taxes	$(1,043,700)	$1,128,400	$ 821,600

Note 7—Income taxes — *(Continued)*

Current Federal income taxes provided for in fiscal 2000, 1999 and 1998 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:

	2000	1999
Deferred tax liability:		
Deferred patent costs	$(1,693,600)	$(1,804,000)
Deferred tax assets:		
Provision for uncollectable accounts receivable	914,500	1,517,000
Net operating loss carry forwards	2,023,400	4,473,000
Alternative minimum tax credits	742,500	586,000
Other	332,800	373,000
	4,013,200	6,949,000
Valuation allowance for deferred tax assets	—	(2,570,000)
Net deferred tax asset	$ 2,319,600	$ 2,575,000

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 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 $2,570,000, $3,928,000 and $2,326,000 in fiscal 2000, 1999 and 1998, respectively.

The Company has net operating loss carry forwards of approximately $4,924,000 which are due to expire through 2011. The Company realized a benefit from the utilization of net operating loss carryforwards of $2,450,000, $2,306,000 and $1,877,000 in fiscal 2000, 1999 and 1998, respectively. The Company also has alternative minimum tax credits which do not expire.

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

	2000	1999	1998
Federal statutory rate	34%	34%	34%
Expenses not deductible for income tax return purposes	4%	4%	7%
State income taxes, net of federal tax deduction and change in deferred tax asset valuation reserve	9%	—	(2%)
Change in deferred tax asset valuation reserve and benefits recognized from net operating losses	(33%)	(59%)	(71%)
	14%	(21%)	(32%)

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,

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

"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.

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 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. In 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 option plans for the years ended July 31, 2000, 1999 and 1998 under SFAS No. 123 is as follows:

	2000		1999		1998	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of year	2,700,939	$ 8.98	2,169,251	$ 9.15	2,124,989	$ 8.13
Granted	84,000	25.38	603,500	8.41	273,000	13.51
Exercised	(571,650)	7.04	(26,432)	5.98	(212,612)	3.72
Terminated	(17,964)	11.93	(45,380)	13.40	(16,126)	12.41
Outstanding at end of year	2,195,325	$10.08	2,700,939	$ 8.98	2,169,251	$ 9.15
Exercisable at end of year	1,554,465	$ 9.42	1,793,183	$ 8.40	1,602,767	$ 8.51
Weighted average fair value of options granted during year	$ 19.50		$ 5.80		$ 9.40	

The following table summarizes information for stock options outstanding at July 31, 2000:

	Options Outstanding			Options Exercisable	
Range of Exercise prices	Shares	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
$1.29-$2.93	66,608	.54 years	$ 1.61	66,608	$ 1.61
$3.89-$6.59	52,826	2.25 years	4.21	52,826	4.21
$6.70-$9.83	1,172,645	4.96 years	8.08	951,301	8.34
$10.13-$13.38	777,901	7.25 years	12.24	454,986	12.98
$15.71-$21.37	110,345	8.05 years	19.49	28,744	16.64
$43.81	15,000	9.46 years	43.81	—	—
	2,195,325			1,554,465	

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

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 .69 for grants during July 31, 1998, .68 for grants during fiscal year 1999 and .80 for grants during fiscal year 2000, and a weighted-average expected life of the options of 7 years at July 31, 2000, 1999 and 1998.

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:

	2000	1999	1998
Pro forma net income:	$4,278,000	$4,426,080	$1,841,000
Pro forma net income per share:			
Basic	$.17	$.18	$.08
Diluted	$.16	$.18	$.07

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 option 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, 2000, the Company has not awarded any shares of common stock under this plan.

Warrants

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 2000, 1999 and 1998, 7,460, 7,800 and 186,579 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 2000, 42,490 of these warrants were exercised and 24,212 were canceled. As of July 31, 2000, there are no warrants outstanding.

* * * * * *

As of July 31, 2000, the Company has reserved 4,211,133 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 with a minimum 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, 2000, 1999 and 1998, 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, which was funded by stock issuances, was $201,600, $187,500 and $134,500 in fiscal years 2000, 1999, and 1998, respectively.

Note 11—Quarterly financial data (unaudited)

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

	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	$ 0.06	$ 0.06	$ 0.08	$ 0.06
Diluted income per common share	$ 0.06	(1)$0.05	$ 0.08	$ 0.06

(1) The Company's $0.01 difference in the fully diluted income per common share as reported in the January 31, 2000 Form 10-Q relates to an adjustment in the calculation of the impact of dilutive employee and director stock options and warrants.

Note 12—Segment Information

The Company follows the provisions of 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 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,		
	2000	1999	1998	2000	1999	1998	2000	1999	1998	2000	1999	1998
Operating revenues:												
Research product revenues	$18,554	$16,279	$12,661	—	—	—	—	—	—	$18,554	$16,279	$12,661
Clinical laboratory services	—	—	—	$31,475	$28,041	$27,756	—	—	—	31,475	28,041	27,756
Cost and expenses:												
Cost of research product revenues	7,522	7,884	7,497	—	—	—	—	—	—	7,522	7,884	7,497
Cost of clinical laboratory services	—	—	—	8,506	8,285	8,247	—	—	—	8,506	8,285	8,247
Research and development expense	5,431	4,427	3,983	—	—	—	—	—	—	5,431	4,427	3,983
Depreciation and amortization	814	744	691	1,111	1,188	1,173	—	—	—	1,925	1,932	1,864
Interest income	—	—	—	—	23	39	$2,585	$1,961	$1,846	2,585	1,984	1,885
Income before (provision) benefit for taxes on income	$ 3,840	$ 2,661	$ 157	$ 3,720	$ 2,363	$ 2,195	$ 108	$ 363	$ 218	$ 7,668	$ 5,387	$ 2,570

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:

	2000	1999	1998
United States	$ 8,076	$ 3,813	$ 1,171
Foreign Countries	10,478	12,466	11,490
	$18,554	$16,279	$12,661

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
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
Vice President,
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(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 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
1999 Fiscal Year (August 1, 1998 to July 31, 1999):		
1st Quarter	$ 12.50	$ 6.38
2nd Quarter	$ 13.75	$ 9.63
3rd Quarter	$ 12.94	$ 8.00
4th Quarter	$ 19.94	$ 9.75
2000 Fiscal Year (August 1, 1999 to July 31, 2000):		
1st Quarter	$ 36.89	$16.13
2nd Quarter	$139.00	$20.75
3rd Quarter	$104.19	$31.81
4th Quarter	$ 75.75	$31.63

On October 13, 2000, the last sale price of the Common Stock of the Company as reported on the New York Stock Exchange was $44.81.

As of October 13, 2000, the Company had approximately 1,257 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.

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