

ENZO BIOCHEM INC
Form 10-Q
June 09, 2014
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Mark one

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

For the quarterly period ended April 30, 2014

or

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

For the transition period from _____ to _____

Commission File Number 001-09974

ENZO BIOCHEM, INC.

(Exact name of registrant as specified in its charter)

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

13-2866202
(IRS. Employer
Identification No.)

527 Madison Ave, New York, New York

10022

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(Address of Principal Executive office)

(Zip Code)

212-583-0100

(Registrant's telephone number, including area code)

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

Yes S No

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

Yes S No

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

Large accelerated filer Accelerated filer S Non-accelerated filer Smaller reporting company

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

Yes No S

As of May 28, 2014 the Registrant had approximately 43,826,000 shares of common stock outstanding.

ENZO BIOCHEM, INC.
FORM 10-Q
April 30, 2014

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

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

	April 30, 2014 (unaudited)	July 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 14,804	\$9,007
Accounts receivable, net of allowances	12,315	12,288
Inventories	8,976	8,805
Prepaid expenses and other	2,104	2,456
Total current assets	38,199	32,556
Property, plant and equipment, net	7,807	8,617
Goodwill	7,452	7,452
Intangible assets, net	8,714	9,943
Other assets	344	390
Total assets	\$ 62,516	\$58,958
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Loan payable	\$ 3,013	\$3,264
Accounts payable – trade	7,411	8,481
Accrued liabilities	10,960	11,776
Other current liabilities	761	331
Total current liabilities	22,145	23,852
Deferred taxes	138	200
Other liabilities	2,310	774
Total liabilities	\$ 24,593	\$24,826
Commitments and contingencies		
Stockholders' equity:		
Preferred Stock, \$.01 par value; authorized 25,000,000 shares; no shares issued or outstanding	—	—
Common Stock, \$.01 par value; authorized 75,000,000 shares; shares issued: 43,818,211 at April 30, 2014 and 40,569,393 at July 31, 2013	439	406
Additional paid-in capital	314,966	304,288
Accumulated deficit	(279,228)	(272,420)
Accumulated other comprehensive income	1,746	1,858

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Total stockholders' equity	37,923	34,132
Total liabilities and stockholders' equity	\$ 62,516	\$58,958

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

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

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2014	2013	2014	2013
Revenues:				
Clinical laboratory services	\$ 14,542	\$ 13,384	\$ 43,250	\$ 41,881
Product revenues	8,707	8,265	24,424	24,574
Royalty and license fee income	729	949	3,366	3,982
Total revenues	23,978	22,598	71,040	70,437
Operating expenses:				
Cost of clinical laboratory services	9,784	9,331	28,785	28,466
Cost of product revenues	3,800	4,219	11,511	12,546
Research and development	849	989	2,498	2,968
Selling, general, and administrative	10,605	11,032	31,217	33,340
Provision for uncollectible accounts receivable	684	928	2,468	3,857
Legal fee expense	1,911	1,708	4,788	4,850
Legal settlements, net	(3,100)	—	(3,100)	—
Total operating expenses	24,533	28,207	78,167	86,027
Operating loss	(555)	(5,609)	(7,127)	(15,590)
Other income (expense):				
Interest	(47)	(10)	(161)	(25)
Other	10	25	85	81
Foreign currency gain	144	(214)	460	119
Loss before income taxes	(448)	(5,808)	(6,743)	(15,415)
(Provision) benefit for income taxes	(7)	38	(65)	280
Net loss	\$(455)	\$(5,770)	\$(6,808)	\$(15,135)
Net loss per common share:				
Basic and diluted	\$(0.01)	\$(0.15)	\$(0.16)	\$(0.38)
Weighted average common shares outstanding:				
Basic and diluted	43,243	39,553	42,062	39,381

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

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

	Three Months		Nine Months	
	Ended		Ended	
	April 30,		April 30,	
	2014	2013	2014	2013
Net loss	\$(455)	\$(5,770)	\$(6,808)	\$(15,135)
Other comprehensive income (loss):				
Foreign currency translation adjustments	(21)	(39)	(112)	213
Comprehensive loss	\$(476)	\$(5,809)	\$(6,920)	\$(14,922)

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

ENZO BIOCHEM, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
Nine months ended April 30, 2014
(UNAUDITED)
(in thousands, except share data)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance at July 31, 2013	40,569,393	\$ 406	\$ 304,288	\$ (272,420)	\$ 1,858	\$ 34,132
Net (loss) for the period ended April 30, 2014	—	—	—	(6,808)	—	(6,808)
Share based compensation charges	—	—	497	—	—	497
Vesting of restricted stock	65,060	1	—	—	—	1
Net proceeds from issuance of common stock	3,018,112	30	9,457	—	—	9,487
Options issued in lieu of cash payment of incentive compensation award	—	—	90	—	—	90
Issuance of stock for employee 401(k) plan match	165,646	2	634	—	—	636
Foreign currency translation adjustments	—	—	—	—	(112)	(112)
Balance at April 30, 2014	43,818,211	\$ 439	\$ 314,966	\$ (279,228)	\$ 1,746	\$ 37,923

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

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

	Nine Months Ended April 30,	
	2014	2013
Cash flows from operating activities:		
Net loss	\$(6,808)	\$(15,135)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization of property, plant and equipment	1,628	2,003
Amortization of intangible assets	1,387	1,494
Provision for uncollectible accounts receivable	2,468	3,857
Income tax benefit	(65)	(280)
Share based compensation charges	497	437
Accrual for share based 401(k) employer match	472	496
Foreign currency transaction (gain)	(454)	(73)
Changes in operating assets and liabilities:		
Accounts receivable	(2,482)	(2,884)
Inventories	(144)	(442)
Prepaid expenses and other	385	264
Accounts payable – trade	(1,063)	178
Accrued liabilities, other current liabilities and other liabilities	1,445	1,569
Total adjustments	4,074	6,619
Net cash used in operating activities	(2,734)	(8,516)
Cash flows from investing activities:		
Capital expenditures	(570)	(772)
Security deposits and other	46	(72)
Net cash used in investing activities	(524)	(844)
Cash flows from financing activities:		
Net proceeds from issuance of common stock	9,455	3
Proceeds from borrowings under Credit Agreement	56,826	—
Repayments under Credit Agreement	(57,077)	—
Installment loan and capital lease obligation payments	(280)	(187)
Net cash provided by (used in) financing activities	8,924	(184)
Effect of exchange rate changes on cash and cash equivalents	131	112
Increase (decrease) in cash and cash equivalents	5,797	(9,432)
Cash and cash equivalents - beginning of period	9,007	15,076
Cash and cash equivalents - end of period	\$14,804	\$5,644

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

ENZO BIOCHEM, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of April 30, 2014
and for the three and nine months ended
April 30, 2014 and 2013

(Unaudited)
(Dollars in thousands, except share data)

Note 1 – Basis of Presentation

The accompanying consolidated financial statements include the accounts of Enzo Biochem, Inc. and its wholly-owned subsidiaries, Enzo Life Sciences, Enzo Clinical Labs, Enzo Therapeutics and Enzo Realty LLC, collectively referred to as the “Company” or “Companies”. The consolidated balance sheet as of April 30, 2014, the consolidated statements of operations and the consolidated statements of comprehensive income (loss) for the three and nine months ended April 30, 2014 and 2013, the consolidated statements of cash flows for the nine months ended April 30, 2014 and 2013, and the consolidated statement of stockholders’ equity for the nine months ended April 30, 2014 are unaudited. In the opinion of management, all adjustments (which include normal recurring adjustments) necessary to present fairly the financial position and operating results for the interim periods have been made. Certain information and footnote disclosure, normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States, have been condensed or omitted. The consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended July 31, 2013 and notes thereto contained in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission. The consolidated balance sheet at July 31, 2013 has been derived from the audited financial statements at that date. The results of operations for the three and nine months ended April 30, 2014 are not necessarily indicative of the results that may be expected for the fiscal year ending July 31, 2014.

Note 2 – Net loss per share

Basic net income (loss) per share represents net income (loss) divided by the weighted average number of common shares outstanding during the period. The dilutive effect of potential common shares if any, consisting of outstanding stock options and unvested restricted stock is determined using the treasury stock method. Diluted weighted average shares outstanding for the three and nine months ended April 30, 2014 and 2013 do not include the potential common shares from stock options and unvested restricted stock because to do so would be antidilutive, and as such is the same as basic weighted average shares outstanding.

During the three and nine months ended April 30, 2014, potential shares from unvested restricted stock excluded from the computation of diluted net loss per share were approximately 34,000 and 36,000 shares, respectively. During the

three and nine months ended April 30, 2013, potential shares from unvested restricted stock excluded from the computation of diluted net loss per share were approximately 17,000 and zero shares, respectively. For the three and nine months ended April 30, 2014, potential shares for “in the money” stock options excluded from the computation of diluted net loss per share were approximately 273,000 shares. During the three and nine months ended April 30, 2013, there were no potential shares from “in the money” stock options.

For the three and nine months ended April 30, 2014 the effect of approximately 170,000 and 744,000 shares respectively, of outstanding “out of the money” options to purchase common shares were excluded from the calculation of diluted net loss per share because their effect would be anti-dilutive. During the three and nine months ended April 30, 2013, approximately 726,000 and 731,000 shares respectively, were excluded from the calculation of diluted net loss per share.

Note 3 - Supplemental disclosure for statement of cash flows

For the nine months ended April 30, 2014 and 2013, income taxes paid by the Company were \$33 and \$46, respectively.

For the nine months ended April 30, 2014 and 2013, interest paid by the Company was \$161 and \$25, respectively.

For the nine months ended April 30, 2014 and 2013, the Company financed \$246 and \$282 respectively, in machinery and transportation equipment under installment loans.

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For the nine months ended April 30, 2014, no capital leases were entered into. For the nine months ended April 30, 2013, the Company entered into a capital lease for machinery and equipment with a cost basis of \$768.

For the nine months ended April 30, 2014 and 2013, the Company issued shares of common stock in settlement of its accrued share-based 401(k) employer match in the amount of \$636 and \$643, respectively.

For the nine months ended April 30, 2014, the Company recorded \$90 in additional paid in capital and reduced accrued liabilities by the same amount for options issued in lieu of cash payment of incentive compensation awards.

Note 4 - Inventories

Inventories consist of the following:

	April 30, 2014	July 31, 2013
Raw materials	\$1,154	\$922
Work in process	2,586	2,628
Finished products	5,236	5,255
	\$8,976	\$8,805

Note 5 – Goodwill and intangible assets

At April 30, 2014 and July 31, 2013, the Company's net carrying amount of goodwill, related to the Clinical Labs segment, is \$7,452.

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

	Gross	Accumulated Amortization	Net
July 31, 2013	\$28,214	\$ (18,271)	\$9,943
Amortization expense	—	(1,387)	(1,387)
Foreign currency translation	435	(277)	158

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April 30, 2014 \$28,649 \$ (19,935) \$8,714

Intangible assets consist of the following:

	April 30, 2014			July 31, 2013		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Patents	\$11,027	\$ (10,655	) \$372	\$11,027	\$ (10,587	) \$440
Customer relationships	12,692	(6,349	) 6,343	12,446	(5,448	) 6,998
Website and acquired content	1,042	(1,039	) 3	1,026	(980	) 46
Licensed technology and other	536	(426	) 110	513	(382	) 131
Trademarks	3,352	(1,466) 1,886	3,202	(874) 2,328
Total	\$28,649	\$ (19,935) \$8,714	\$28,214	\$ (18,271) \$9,943

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At April 30, 2014, information with respect to intangibles assets acquired is as follows:

	Useful life assigned	Weighted average remaining useful life
Customer relationships	8-15 years	6.5 years
Trademarks	5 years	3.5 years
Other intangibles	4-5 years	1.5 years

At April 30, 2014, the weighted average useful lives of amortizable intangible assets were approximately five and a half years.

Note 6 - Loan Payable

On June 7, 2013, the Company entered into a secured Revolving Loan and Security Agreement (the “Credit Agreement”) among the Company and certain of its subsidiaries, with Enzo Therapeutics as a guarantor, and Healthcare Finance Group, LLC (the “Lender”). The Credit Agreement, which expires in December 2016, provides for borrowings against eligible US receivables, as defined, of the Clinical Lab and Life Science segments up to \$8.0 million at defined eligibility percentages and provides for additional borrowings of \$4.0 million for increased eligible assets. Debt issuance costs of \$281 are being amortized over the life of the Credit Agreement. If the amount of borrowings outstanding under the revolving credit facility exceeds the borrowing base then in effect, or the Lender requires a reserve, the Company will be required to repay such borrowings in an amount sufficient to eliminate such excess. Interest on advances, payable monthly, is based on the three month LIBOR rate, with a floor of 1.25% plus an applicable margin of 4.0%. In the event of any default, the interest rate may be increased 3.0% over the current rate. The facility also carries a non-utilization fee of 0.50% per annum, payable monthly, on the unused portion of the Credit Agreement. The Credit Agreement requires a minimum borrowing of \$2.0 million. During the 2014 first quarter the Company notified the Lender to allow for borrowings against the eligible Life Science receivables. At April 30, 2014, the borrowings under the Credit Agreement related to the Clinical Lab and Life Science receivables aggregated \$3.0 million with \$1.1 million in additional availability based on current eligible receivables and permitted borrowing levels, as defined.

The Company’s obligations under the Credit Agreement are secured by primarily all the unencumbered U.S. assets of the Company, excluding buildings and intellectual property which the Lender has a negative pledge, and the capital stock of subsidiaries. The Credit Agreement includes customary affirmative and negative covenants and events of default and requires maximum levels of cash usage and minimum levels of liquidity, as defined, and provides for increased liquidity levels if operating results are not achieved. Negative covenants include among others, limitations on additional debt, liens, loans or investments, distributions, asset sales and affiliate transactions. Events of default include non-payment of principal and interest on debt outstanding, non-performance of covenants, material change in business, breach of representations, bankruptcy and insolvency, material judgments and changes in control. As of and during the nine months ended April 30, 2014, the Company is in compliance with the covenants.

Note 7 – Accrued Liabilities and Other Current Liabilities

Accrued liabilities consist of the following:

	April 30, 2014	July 31, 2013
Payroll, benefits, and commissions	\$3,811	\$4,794
Legal fee expense	3,344	3,104
Research and development	696	863
Professional fees	635	721
Other	2,474	2,294
	\$10,960	\$11,776

Other current liabilities consist of the following as of:

	April 30, 2014	July 31, 2013
Accrued legal settlement	\$400	—
Installment loans	212	\$182
Capital lease obligation	149	149
	\$761	\$331

Note 8 – Other Liabilities

Other liabilities consist of the following:

	April 30, 2014	July 31, 2013
Accrued legal settlement	\$1,600	\$—
Capital lease obligation, net of short term	398	505
Installment loans, net of short term	312	269
	\$2,310	\$774

As of April 30, 2014, future minimum payments under the capital lease, net of interest of \$52 aggregates \$535, including a short term debt portion of \$149 included in other current liabilities. Future minimum payments under the installment loans aggregate \$524, including a short term portion of \$212 included in other current liabilities. A total of \$1.6 million was recorded as accrued legal settlement which is further discussed in Note 13 Contingencies.

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

On March 28, 2013, the Company entered into a Controlled Equity OfferingSM Sales Agreement (the “Sales Agreement”) with Cantor Fitzgerald & Co., as sales agent (“Cantor”). Under the Sales Agreement, the Company may offer and sell, from time to time, through Cantor, shares of the Company’s common stock, par value \$0.01 per share (the “Common Stock”), having an aggregate offering price of up to \$20.0 million (the “Shares”). The Company will pay Cantor a commission of 3.0% of the aggregate gross proceeds received under the Sales Agreement. The Company is not obligated to make any sales of the Shares under the Sales Agreement. The offering of Shares pursuant to the Sales Agreement will terminate upon the earlier of (a) the sale of all of the Shares subject to the Sales Agreement or (b) the termination of the Sales Agreement by Cantor or the Company, as permitted therein. During the nine months ended April 30, 2014, the Company sold an aggregate of 3,018,112 of common stock under the Sales Agreement at an average price of \$3.14 per share and received proceeds of approximately \$9.5 million, net of expenses.

Share-based compensation

The Company has an incentive stock option plan (the “1999 Plan”), an incentive stock option and restricted stock award plan (the “2005 Plan”), and a long term incentive share award plan, (the “2011 Incentive Plan”), which are more fully

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described in Note 10 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 2013. The 2011 Plan, which is the only plan from which awards may now be granted, provides for the award to eligible employees, officers, directors, consultants and other persons of stock options, stock appreciation rights (SARs), restricted stock, restricted stock units, performance awards, and other stock-based awards.

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

	Three months ended April 30, 2014		Nine months ended April 30, 2013	
Stock options	\$255	\$46	\$367	\$61
Restricted stock	28	94	130	380
	\$283	\$140	\$497	\$441

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

	Three months ended April 30, 2014		Nine months ended April 30, 2013	
Cost of clinical laboratory services	\$3	\$2	\$7	\$7
Research and development	—	1	1	2
Selling, general and administrative	280	137	489	432
	\$283	\$140	\$497	\$441

No excess tax benefits were recognized during the nine month periods ended April 30, 2014 and 2013.

Stock Option Plans

The following table summarizes stock option activity during the nine month period ended April 30, 2014:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (000s)
Outstanding at July 31, 2013	726,645	\$ 10.39		
Awarded	665,117	\$ 2.82		
Exercised	—	\$		
Cancelled or expired	(219,734)	\$ 17.08		
Outstanding at end of period	1,172,028	\$ 4.84	3.6 years	\$ 1,525
Exercisable at end of period	391,261	\$ 7.22	3.1 years	\$ 163

On October 3, 2013, the Company awarded 10,000 options to an officer with an exercise price of \$2.53 and a five year term, which vest annually over four years. The fair value of the options granted was \$1.23 per share. The assumptions used to fair value this option award were as follows: expected life of 4.75 years, expected volatility 57.6%, risk free interest rate of 1.3% and no dividend yield. As of April 30, 2014, none of these options were vested.

On November 26, 2013, the Company awarded 271,591 options to two senior officers with an exercise price of \$3.00 and a four year term, which vest after one year. The award satisfies \$0.2 million of their fiscal 2013 incentive compensation award liability in lieu of cash. The fair value of the options granted was \$0.66 per share. The assumptions used to fair value this option award were as follows: expected life of 2.5 years, expected volatility 54.79%, risk free interest rate of 0.42% and no dividend yield. As of April 30, 2014, none of these options were vested.

On January 17, 2014, the Company awarded 267,797 options to two senior officers and the board of directors with an exercise price of \$2.70 and a five year term, which vest annually over two years. The fair value of the options granted was \$1.05 per share. The assumptions used to fair value this option award were as follows: expected life of 3.25 years, expected volatility 54.78%, a risk free interest rate of 0.90% and no dividend yield. As of April 30, 2014, none of these options were vested. Further on January 17, 2014, the Company awarded 95,729 options to executive officers with an exercise price of \$2.70 and a five year term, which vest annually over three years. The fair value of the options granted was \$1.10 per share. The assumptions used to fair value this option award were as follows: expected life of 3.5 years, expected volatility 55.45%, a risk free interest rate of 1.00% and no dividend yield. As of April 30, 2014, none of these options were vested.

On February 3, 2014, the Company awarded 20,000 options to an executive officer with an exercise price of \$2.75 and a five year term, which vest annually over three years. The fair value of the options granted was \$1.11 per share. The

assumptions used to fair value this option award were as follows: expected life of 3.5 years, expected volatility 55.07%, risk free interest rate of 0.84% and no dividend yield. As of April 30, 2014, none of these options were vested.

As of April 30, 2014, the total future compensation cost related to non-vested options, not yet recognized in the statements of operations, was \$0.4 million and the weighted average period over which the remaining expense of these awards is expected to be recognized is sixteen months.

Restricted Stock Awards

A summary of the activity pursuant to the Company's restricted stock awards for the nine months ended April 30, 2014 is as follows:

	Awards	Weighted Average Award Price
Outstanding at July 31, 2013	125,133	\$ 3.45
Awarded	3,000	3.35
Vested	(65,063)	(2.48)
Expired or forfeited	(11,160)	(1.70)
Unvested at end of period	51,910	\$ 5.05

The fair value of a restricted stock award is determined based on the closing stock price on the award date. As of April 30, 2014, there was approximately \$0.1 million of unrecognized compensation cost related to unvested restricted stock-based compensation to be recognized over a weighted average remaining period of approximately one year.

The total number of shares available for grant as equity awards from the 2011 Incentive Plan is approximately 1,664,000 shares as of April 30, 2014.

During the nine months ended April 30, 2013, the Company issued 216,556 shares from treasury stock and 9,419 newly issued shares to match a portion of its employees' 401(k) contributions. The Company recorded an expense of \$643 for the match, representing the fair value of the shares at the date of issuance, reducing treasury stock by \$3,074 for the average acquisition cost of such shares and adjusted additional paid in capital by \$2,458.

During the nine months ended April 30, 2014, the Company issued 165,646 shares to match a portion of its employees' 401(k) contributions. The Company recorded an expense of \$636 for the match, representing the fair value of the shares at the date of issuance and adjusted common stock and additional paid in capital by the same amount.

Note 10 - Income taxes

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

The Company's effective tax rate (provision) benefit for the three months ended April 30, 2014 was (2.1%) compared to a benefit of 0.7% during the three months ended April 30, 2013. The Company's effective tax rate (provision) benefit for the nine months ended April 30, 2014 was a provision of (1.0%) compared to a benefit of 1.8% during the nine months ended April 30, 2013. The tax (provision) benefit for the periods were based on state and local taxes and domestic and foreign tax for tax deductible intangibles. The Company's effective tax rate for both periods differed from the expected net operating loss carryforward benefit at the U.S. federal statutory rate of 34% primarily due to the inability to recognize such benefit. The carryforward benefit cannot be recognized because of uncertainties relating to future taxable income in terms of both its timing and its sufficiency, which would enable the Company to realize the federal carryforward benefit.

The Company files a consolidated Federal income tax return. The Company files combined returns with California, Michigan and New York State and City for certain subsidiaries. Other subsidiaries file separate state and foreign tax returns. With few exceptions, the periods that remain subject to examination are fiscal years ended July 31, 2011 through July 31, 2013. The Company's Federal income tax return for the fiscal year ended July 31, 2011 is currently under examination which is ongoing.

Note 11 – Royalty and licensing income

The Company's Life Science segment has a license agreement with QIAGEN Gaithersburg Inc. ("Qiagen") that began in 2005, whereby the Company earns quarterly royalties on the net sales of Qiagen products subject to the license until the expiration of the patent on April 24, 2018. During each of the three months ended April 30, 2014 and 2013, the Company recorded royalty income under the agreement of approximately \$0.7 million and \$0.9 million

respectively. During the nine months ended April 30, 2014 and 2013, the Company recorded royalty income under the agreement of approximately \$3.4 million and \$4.0 million, respectively.

Note 12 – Segment reporting

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

Management of the Company assesses assets on a consolidated basis only and, therefore, assets by reportable segment have not been included in the reportable segments below. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies contained in the Company's Annual Report on Form 10-K for the year ended July 31, 2013.

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

Three months ended April 30, 2014

	Clinical Labs	Life Sciences	Therapeutics	Other	Consolidated
Revenues:					
Clinical laboratory services	\$ 14,542	—	—	—	\$ 14,542
Product revenues	—	\$ 8,707	—	—	8,707
Royalty and license fee income	—	729	—	—	729
	14,542	9,436	—	—	23,978
Operating expenses:					
Cost of clinical laboratory services	9,784	—	—	—	9,784
Cost of product revenues	—	3,800	—	—	3,800
Research and development	—	599	\$ 250	—	849
Selling, general and administrative	5,091	3,278	—	\$ 2,236	10,605
Provision for uncollectible accounts receivable	684	—	—	—	684
Legal fee expense	282	766	—	863	1,911
Legal settlements, net	2,000	(5,100)	—	—	(3,100)
Total operating expenses	17,841	3,343	250	3,099	24,533
Operating income (loss)	(3,299)	6,093	(250)	(3,099)	(555)
Other income (expense)					
Interest	(10)	4	—	(41)	(47)
Other	7	(2)	—	5	10
Foreign currency gain	—	144	—	—	144
Income (loss) before income taxes	\$(3,302)	\$ 6,239	\$ (250)	\$(3,135)	\$ (448)
Depreciation and amortization included above	\$ 351	\$ 614	\$ —	\$ 23	\$ 988
Share-based compensation included in above:					
Cost of clinical laboratory services	\$ 2	1	—	—	\$ 3
Research and development	—	—	—	—	—
Selling, general and administrative	9	\$(4)	—	\$ 275	280
Total	\$ 11	\$(3)	—	\$ 275	\$ 283
Capital expenditures	\$ 90	\$ 36	\$ —	\$ —	\$ 126

Three months ended April 30, 2013

	Clinical Labs	Life Sciences	Therapeutics	Other	Consolidated
Revenues:					
Clinical laboratory services	\$13,384	—	—	—	\$ 13,384
Product revenues	—	\$ 8,265	—	—	8,265
Royalty and license fee income	—	949	—	—	949
	13,384	9,214	—	—	22,598
Operating expenses:					
Cost of clinical laboratory services	9,331	—	—	—	9,331
Cost of product revenues	—	4,219	—	—	4,219
Research and development	61	625	\$ 303	—	989
Selling, general and administrative	5,041	3,813	—	\$2,178	11,032
Provision for uncollectible accounts receivable	887	41	—	—	928
Legal fee expense	115	21	—	1,572	1,708
Total operating expenses	15,435	8,719	303	3,750	28,207
Operating income (loss)	(2,051)	495	(303)	(3,750)	(5,609)
Other income (expense)					
Interest	(12)	2	—	—	(10)
Other	6	12	—	7	25
Foreign currency gain	—	(214)	—	—	(214)
Income (loss) before income taxes	\$(2,057)	\$ 295	\$ (303)	\$(3,743)	\$(5,808)
Depreciation and amortization included above	\$354	\$ 778	\$ 4	\$25	\$ 1,161
Share-based compensation included in above:					
Cost of clinical laboratory services	\$2	—	—	—	\$ 2
Research and development	—	1	—	—	1
Selling, general and administrative	11	\$ —	—	—	—