ENZO BIOCHEM INC
Form 10-Q
March 13, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Mark one

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

For the quarterly period ended January 31, 2017

or

o 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 (Address of Principal Executive office)	10022 (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 x No o

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 x No o

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 o Accelerated filer x Non-accelerated filer o Smaller reporting company o

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

Yes o No x

As of March 1, 2017, the Registrant had 46,292,216 shares of common stock outstanding.

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Part 1 Financial Information

Item 1 Financial Statements

ENZO BIOCHEM, INC.

CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	January 31, 2017 (unaudited)	July 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 62,427	$ 67,777
Accounts receivable, net of allowances	15,355	14,592
Inventories	7,115	6,971
Prepaid expenses and other	1,982	2,057
Total current assets	86,879	91,397
Property, plant and equipment, net	8,168	8,214
Goodwill	7,452	7,452
Intangible assets, net	3,560	4,422
Other assets	332	336
Total assets	$ 106,391	$ 111,821
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable – trade	$ 10,285	$ 9,857
Accrued liabilities	6,421	8,211
Loan payable	—	1,557
Other current liabilities	859	943
Total current liabilities	17,565	20,568
Other liabilities	1,098	1,699
Total liabilities	$ 18,663	$ 22,267
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 and outstanding: 46,292,216 at January 31, 2017 and 46,267,619 at July 31, 2016	463	463
Additional paid-in capital	326,751	326,288
Accumulated deficit	(241,923)	(239,396)
Accumulated other comprehensive income	2,437	2,199

Total stockholders' equity	87,728	89,554
Total liabilities and stockholders' equity	$ 106,391	$ 111,821

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

ENZO BIOCHEM, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(in thousands, except per share data)

	Three Months Ended January 31,		Six Months Ended January 31,	
	2017	2016	2017	2016
Revenues:				
Clinical laboratory services	$18,837	$17,523	$37,395	$34,613
Product revenues	6,983	6,578	14,409	14,265
Royalty and license fee income	440	459	740	859
Total revenues	26,260	24,560	52,544	49,737
Operating costs, expenses and legal settlements, net:				
Cost of clinical laboratory services	11,052	10,535	21,948	20,867
Cost of product revenues	3,520	3,206	6,829	6,817
Research and development	483	861	1,305	1,728
Selling, general and administrative	11,165	11,280	22,639	21,505
Provision for uncollectible accounts receivable	679	459	1,348	1,163
Legal fee expense	370	2,411	742	4,012
Legal settlements, net	—	(11,650)	—	(18,450)
Total operating costs, expenses and legal settlements, net	27,269	17,102	54,811	37,642
Operating income (loss)	(1,009)	7,458	(2,267)	12,095
Other income (expense):				
Interest	79	(42)	125	(82)
Other	24	11	143	65
Foreign exchange loss	(94)	(388)	(455)	(518)
Income (loss) before income taxes	(1,000)	7,039	(2,454)	11,560
Provision for income taxes	(53)	(207)	(73)	(294)
Net income (loss)	$(1,053)	$6,832	$(2,527)	$11,266
Net income (loss) per common share:				
Basic	$(0.02)	$0.15	$(0.05)	$0.24
Diluted	$(0.02)	$0.15	$(0.05)	$0.24
Weighted average common shares outstanding:				
Basic	46,292	46,077	46,282	46,070
Diluted	46,292	46,518	46,282	46,353

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 Ended January 31,		Six Months Ended January 31,	
	2017	2016	2017	2016
Net income (loss)	$(1,053)	$6,832	$(2,527)	$11,266
Other comprehensive income (loss):				
Foreign currency translation adjustments	(16)	226	238	288
Comprehensive income (loss)	$(1,069)	$7,058	$(2,289)	$11,554

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

ENZO BIOCHEM, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
Six Months Ended January 31, 2017
(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, 2016	46,267,619	$ 463	$ 326,288	$ (239,396)	$ 2,199	$ 89,554
Net loss for the period ended January 31, 2017	—	—	—	(2,527)	—	(2,527)
Vesting of restricted stock	1,501	—	—	—	—	—
Exercise of stock options	23,096	—	71	—	—	71
Share-based compensation charges	—	—	392	—	—	392
Foreign currency translation adjustments	—	—	—	—	238	238
Balance at January 31, 2017	46,292,216	$ 463	$ 326,751	$ (241,923)	$ 2,437	$ 87,728

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

ENZO BIOCHEM, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(in thousands)

	Six Months Ended January 31,	
	2017	2016
Cash flows from operating activities:		
Net income (loss)	$(2,527)	$11,266
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization of property, plant and equipment	1,023	1,059
Amortization of intangible assets	819	843
Provision for uncollectible accounts receivable	1,348	1,170
Deferred income tax benefit	—	(5)
Share-based compensation charges	392	221
Accrual for share-based 401(k) employer match expense	354	439
Foreign exchange loss	420	333
Changes in operating assets and liabilities:		
Accounts receivable	(2,170)	(1,952)
Other receivables	—	6,650
Inventories	(238)	(20)
Prepaid expenses and other	67	350
Accounts payable – trade	238	693
Accrued liabilities, other current liabilities and other liabilities	(2,558)	(983)
Total adjustments	(305)	8,798
Net cash provided by (used in) operating activities	(2,832)	20,064
Cash flows from investing activities:		
Capital expenditures	(689)	(943)
Security deposits and other	2	2
Net cash used in investing activities	(687)	(941)
Cash flows from financing activities:		
Proceeds from borrowings under Credit Agreement	40,694	44,378
Repayments under Credit Agreement	(42,251)	(44,378)
Installment loan and capital lease obligation payments	(323)	(258)
Proceeds from the exercise of stock options	71	66
Net cash used in financing activities	(1,809)	(192)
Effect of exchange rate changes on cash and cash equivalents	(22)	(24)
Increase (decrease) in cash and cash equivalents	(5,350)	18,907
Cash and cash equivalents - beginning of period	67,777	18,109
Cash and cash equivalents - end of period	$62,427	$37,016

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

ENZO BIOCHEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of January 31, 2017
(Unaudited)
(Dollars in thousands, except share data)

Note 1 – Basis of Presentation

The accompanying consolidated financial statements include the accounts of Enzo Biochem, Inc. and its wholly-owned subsidiaries, Enzo Life Sciences, Enzo Clinical Labs, Enzo Therapeutics and Enzo Realty LLC, collectively or with one or more of its subsidiaries referred to as the "Company" or "Companies". The consolidated balance sheet as of January 31, 2017, the consolidated statements of operations and comprehensive income (loss) for the three and six months ended January 31, 2017 and 2016, and the consolidated statements of stockholders' equity and cash flows for the six months ended January 31, 2017 and 2016 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 interim financial statements should be read in conjunction with the consolidated financial statements for the year ended July 31, 2016 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, 2016 has been derived from the audited financial statements at that date. The results of operations for the three and six months ended January 31, 2017 are not necessarily indicative of the results that may be expected for the fiscal year ending July 31, 2017.

Effect of New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers: Topic 606*. ASU 2014-09 supersedes the current revenue recognition guidance, including industry-specific guidance. The new standard introduces a five-step model to achieve its core principle of the entity recognizing revenue to depict the transfer of goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, and on transfer of control, as opposed to transfer of risk and rewards. The standard also expands the required financial statement disclosures regarding revenue recognition. ASU 2014-09 will be effective for our interim periods and the fiscal year beginning August 1, 2018, and we do not expect to early adopt for reporting periods beginning after December 15, 2016. We expect to use retrospective application upon adoption. We are currently assessing the impact the adoption of ASU 2014-09 will have on the Company's combined consolidated financial statements. We continue to evaluate the impact of this standard on our Clinical Labs segment.

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

In March 2016, the FASB issued ASU 2016-09, *“Improvements to Employee Share-Based Payment Accounting,”* which requires all excess tax benefits or deficiencies to be recognized as income tax expense or benefit in the income statement. In addition, excess tax benefits should be classified along with other income tax cash flows as an operating activity in the statement of cash flows. Application of the standard is required for our annual and interim periods beginning August 1, 2017. We do not expect to early adopt the standard. We are in the process of determining the financial statement impact of this new standard on our consolidated financial statements and are currently unable to estimate the impact on our consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03 *Interest – Imputation of Interest.* The ASU was issued as part of the Simplification Initiatives, to simplify presentation of debt issuance costs. The amendments in the update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. We adopted this standard at the start of our fiscal year ending July 31, 2017. The adoption of this update had no material impact on our consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, *Simplifying the Measurement of Inventory (Topic 330).* ASU 2015-11 changes the measurement principle for inventory from the lower of cost or market to lower of cost or net realizable value. We adopted this standard for the fiscal year ending in July 31, 2017. The adoption of this update did not have any impact on our consolidated financial statements for the period ended January 31, 2017.

In January 2017, the FASB issued ASU 2017-04 Intangibles – Goodwill and Other – Simplifying the Test for Goodwill Impairment. The ASU eliminates step two in the current two-step process so that any goodwill impairment is measured as the amount by which the reporting unit's carrying amount exceeds its fair value. The ASU is effective for the Company in the first quarter of 2020 with early adoption permitted. The Company does not expect the adoption of this ASU to have a material impact on our consolidated financial statements.

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

Note 2 – Net income (loss) per share

Basic net income (loss) per share represents net income (loss) divided by the weighted average number of common shares outstanding during the period. As a result of the net loss for the three and six months ended January 31, 2017 diluted weighted average shares outstanding are the same as basic weighted average shares outstanding, and do not include the potential common shares from stock options and unvested restricted stock because to do so would be antidilutive.

For the three and six months ended January 31, 2017, the number of potential common shares ("in the money options") and unvested restricted stock excluded from the calculation of diluted earnings per share was 888,000 and 804,000, respectively. For the three and six months ended January 31, 2016, approximately 440,000 and 281,000 weighted average stock options were included in the calculation of diluted weighted average shares outstanding.

For the three and six months ended January 31, 2017, the effect of approximately 494,000 and 247,000 of outstanding "out of the money" options to purchase common shares were excluded from the calculation of diluted net income per

share because their effect would be anti-dilutive. For the three and six months ended January 31, 2016, the effect of approximately 235,000 and 305,000 of outstanding “out of the money” options to purchase common shares were excluded from the calculation of diluted net income per share because their effect would be anti-dilutive.

Note 3 - Supplemental disclosure for statement of cash flows

For the six months ended January 31, 2017 and 2016, income taxes paid by the Company were $996 and $53, respectively.

For the six months ended January 31, 2017 and 2016, interest paid by the Company was $77.

For the six months ended January 31, 2017 and 2016, the Company financed $69 and $76 respectively, in machinery and transportation equipment under installment loans.

During the six months ended January 31, 2017, the Company did not enter into any capital lease agreements. During the six months ended January 31, 2016, there was a total of $1,141 in capital lease agreements.

Note 4 - Inventories

Inventories consist of the following:

	January 31, 2017	July 31, 2016
Raw materials	$912	$951
Work in process	1,893	1,755
Finished products	4,310	4,265
	$7,115	$6,971

Note 5 – Goodwill and intangible assets

At January 31, 2017 and July 31, 2016, 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 in the Life Sciences segment is as follows:

	Gross	Accumulated Amortization	Net
July 31, 2016	$27,650	$ (23,228)	$4,422
Amortization expense	—	(819)	(819)
Foreign currency translation	(203)	160	(43)
January 31, 2017	$27,447	$ (23,887)	$3,560

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

	January 31, 2017			July 31, 2016		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Patents	$11,026	$ (10,922)	$104	$11,027	$ (10,905)	$122
Customer relationships	12,007	(8,739)	3,268	12,122	(8,331)	3,791
Website and acquired content	1,005	(1,005)	—	1,011	(1,011)	—
Licensed technology and other	475	(440)	35	485	(437)	48
Trademarks	2,934	(2,781)	153	3,005	(2,544)	461
Total	$27,447	$ (23,887)	$3,560	$27,650	$ (23,228)	$4,422

At January 31, 2017, information with respect to intangibles assets acquired is as follows:

	Useful life assigned	Weighted average remaining useful life
Customer relationships	8-15 years	3.5 years
Trademarks	5 years	0.5 year
Other intangibles	10 years	2.5 years

At January 31, 2017, the weighted average useful life of intangible assets is approximately three 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 MidCap Financial LLC. (formerly Healthcare Finance Group, LLC). The nominal interest rate for the six months ended January 31, 2017 and year ended July 31, 2016 was 5.25%. The effective interest rate for the credit agreement was 14.3% for the six months ended January 31, 2017 and 11.4% for the fiscal year ended July 31, 2016. The Credit Agreement expired and was repaid in full on December 7, 2016.

Note 7 – Accrued Liabilities and Other Current Liabilities

Accrued liabilities consist of the following:

	January 31, 2017	July 31, 2016
Payroll, benefits, and commissions	$3,737	$3,956
Legal fee expense	308	954
Professional fees	531	503
Research and development	72	300
Other	1,773	2,498
	$6,421	$8,211

Note 8 – Other Liabilities

Other liabilities consist of the following:

	January 31, 2017	July 31, 2016
Capital lease obligations, net of short term	$635	$794
Accrued legal settlement	400	800
Installment loans, net of short term	63	105
	$1,098	$1,699

As of January 31, 2017, future minimum payments under the capital leases, net of interest of $252 aggregates $771 including a short term debt portion of $136 included in other current liabilities. Future minimum payments under the installment loans aggregate $382, including a short term portion of $319 included in other current liabilities. A total of $0.4 million is included in other current liabilities and $0.4 million in other liabilities as accrued legal settlement which is further discussed in Note 12 - Contingencies.

Note 9 – Stockholders' Equity

Controlled Equity Offering

On March 28, 2013, the Company entered into a Controlled Equity Offering℠ 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.

On December 31, 2014, the Sales Agreement was amended in order for the Company to offer and sell, through Cantor, acting as agent, additional shares of Common Stock having an aggregate offering price of $20.0 million. In connection with the amendment to the Sales Agreement, the Company also filed with the Security and Exchange Commission ("SEC") a prospectus supplement dated December 31, 2014.

Most recently with respect to the Sales Agreement, the Company filed a "shelf" registration and prospectus supplement dated September 1, 2016 which was declared effective by the SEC on November 3, 2016.

During the six months ended January 31, 2017 and 2016, the Company did not sell any shares of Common Stock under the Sales Agreement.

Share-based compensation

The Company has an incentive stock option and restricted stock award plan (the "2005 Plan"), and a long term incentive share award plan, (the "2011 Incentive Plan"), which are more fully described in Note 10 to the consolidated

financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 2016. 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 January 31,		Six months ended January 31,	
	2017	2016	2017	2016
Stock options	$236	$104	$382	$208
Restricted stock	5	6	10	13
	$241	$110	$392	$221

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

	Three months ended January 31,		Six months ended January 31,	
	2017	2016	2017	2016
Cost of clinical laboratory services	$1	$2	$3	$3
Selling, general and administrative	240	108	389	218
	$241	$110	$392	$221

No excess tax benefits were recognized during the six month periods ended January 31, 2017 and 2016.

Stock Option Plans

The following table summarizes stock option activity during the six month period ended January 31, 2017:

	Options	Weighted Average Exercise	Weighted Average Remaining	Aggregate Intrinsic Value

		Price	Contractual Term	(000s)
Outstanding at July 31, 2016	1,808,875	$ 3.43		
Awarded	493,996	$ 7.07		
Exercised	(23,096)	$ 2.89		$ 149
Cancelled or expired	(5,000)	$ 4.47		
Outstanding at end of period	2,274,775	$ 4.23	1.4 years	$ 5,797
Exercisable at end of period	1,379,555	$ 3.18	0.5 years	$ 4,853

As of January 31, 2017, the total future compensation cost related to non-vested options, not yet recognized in the statements of operations, was $1.6 million and the weighted average period over which the remaining expense of these awards is expected to be recognized is twenty-three months.

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

Restricted Stock Awards

A summary of the activity pursuant to the Company's unvested restricted stock awards for the six months ended January 31, 2017 is as follows:

	Awards	Weighted Average Award Price
Outstanding at July 31, 2016	8,501	$ 4.13
Awarded	—	—
Vested	(1,501)	$ (3.89)
Forfeited	—	—
Unvested at end of period	7,000	$ 2.30

The fair value of a restricted stock award is determined based on the closing stock price on the award date. As of January 31, 2017, 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 ten months.

The fair value of the awards that vested during the six months ended January 31, 2017 and 2016 was $8 and $21, respectively.

The total number of shares available for grant as equity awards from the 2011 Incentive Plan is approximately 329,000 shares as of January 31, 2017.

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 for the three months ended January 31, 2017 was 5.3% compared to 2.9% for the three months ended January 31, 2016. The Company's effective tax rate provision for the six months ended January 31, 2017 and 2016 was 3.0% and 2.5%, respectively. The tax provision for the periods was based on state, local and foreign taxes. 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 Michigan and New York State and City for certain subsidiaries. Other subsidiaries file separate state and foreign tax returns.

Note 11 – Segment reporting

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

The Company evaluates segment performance based on segment income (loss) before taxes. Costs excluded from segment income (loss) before taxes and reported as “Other” consist of corporate general and administrative costs which are not allocable to the three reportable segments. Legal fee expense incurred to defend the Company’s intellectual property and other general corporate matters is considered a component of the Other segment. Legal fee expense specific to other segments’ activities has been allocated to those segments. Legal settlements, net represent activities for which royalties would have been received by the Company’s Life Sciences segment had the Company had agreements in place with plaintiffs for the patents or products covered by the settlements.

Management of the Company assesses assets on a consolidated basis only and, therefore, assets by reportable segment have not been included in the reportable segments below. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies contained in the Company's Annual Report on Form 10-K for the year ended July 31, 2016.

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

Three months ended January 31, 2017

	Clinical Labs	Life Sciences	Therapeutics	Other	Consolidated
Revenues:					
Clinical laboratory services	$18,837	—	—	—	$ 18,837
Product revenues	—	$ 6,983	—	—	6,983
Royalty and license fee income	—	440	—	—	440
	18,837	7,423	—	—	26,260
Operating costs, expenses and legal settlements, net:					
Cost of clinical laboratory services	11,052	—	—	—	11,052
Cost of product revenues	—	3,520	—	—	3,520
Research and development	—	516	$ (33)	—	483
Selling, general and administrative	5,897	2,905	—	$2,363	11,165
Provision for uncollectible accounts receivable	594	85	—	—	679
Legal fee expense	49	16	—	305	370
Total operating costs, expenses and legal settlements, net	17,592	7,042	(33)	2,668	27,269
Operating income (loss)	1,245	381	33	(2,668)	(1,009)
Other income (expense):					
Interest	(28)	12	—	95	79
Other	17	—	—	7	24
Foreign exchange loss	—	(94)	—	—	(94)
Income (loss) before income taxes	$1,234	$ 299	$ 33	$(2,566)	$ (1,000)
Depreciation and amortization included above	$394	$ 501	$ —	$20	$ 915
Share-based compensation included in above:					
Cost of clinical laboratory services	$1	—	—	—	$ 1
Selling, general and administrative	23	$ 15	—	$202	240
Total	$24	$ 15	$ —	$202	$ 241
Capital expenditures	$175	$ —	$ —	$—	$ 175

Three months ended January 31, 2016

	Clinical Labs	Life Sciences	Therapeutics	Other	Consolidated
Revenues:					
Clinical laboratory services	$17,523	—	—	—	$ 17,523
Product revenues	—	$ 6,578	—	—	6,578
Royalty and license fee income	—	459	—	—	459
	17,523	7,037	—	—	24,560
Operating costs, expenses and legal settlements, net:					
Cost of clinical laboratory services	10,535	—	—	—	10,535
Cost of product revenues	—	3,206	—	—	3,206
Research and development	—	661	$ 200	—	861
Selling, general and administrative	5,649	2,773	—	$2,858	11,280
Provision for uncollectible accounts receivable	467	(8)	—	—	459
Legal fee expense	57	5	—	2,349	2,411
Legal settlements, net	1,500				