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ACCEL8 TECHNOLOGY CORP
Form 10-Q
March 16, 2009

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 January 31, 2009
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: 0-11485

ACCEL8 TECHNOLOGY CORPORATION

(Exact name of registrant as specified in its charter)

COLORADO

84-1072256

(State or other jurisdiction
of incorporation or organization)

(I.R.S. Employer Identification No.)

7000 N Broadway, Bldg. 3-307, Denver, CO 80221

(Address of principal executive offices) (Zip Code)

(303) 863-8088

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed
since last report)

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 was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer

Accelerated filer

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

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 10,226,210

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Item 1. Financial Statements

Accelr8 Technology Corporation

Condensed Balance Sheets

ASSETS

| | January 31, 2009 (Unaudited) | July 31, 2008 |
|---|---------------------------------|-----------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 986,857 | \$ 1,233,100 |
| Accounts receivable | 50,000 | 6,334 |
| Inventory | 78,905 | 97,268 |
| Prepaid expenses and other current assets | 24,562 | 39,338 |
| Total current assets | 1,140,324 | 1,376,040 |
| Property and equipment, net | 26,026 | 37,398 |
| Investments, net | 1,055,440 | 1,067,327 |
| Intellectual property, net (Note 3) | 3,246,075 | 3,346,701 |
| Total assets | \$ 5,467,865 ===== | \$ 5,827,466 ===== |

LIABILITIES AND SHAREHOLDERS' EQUITY

| | | |
|---|-----------------------|-----------------------|
| Current liabilities: | | |
| Accounts payable | \$ 98,115 | \$ 133,628 |
| Accrued compensation and other liabilities | 18,455 | 25,889 |
| Deferred revenue | 97,506 | 112,651 |
| Total current liabilities | 214,076 | 272,168 |
| Long-term liabilities: | | |
| Deferred compensation | 1,092,939 | 1,142,327 |
| Total liabilities | 1,307,015 | 1,414,495 |
| Commitments and Contingencies | | |
| Shareholders' equity | | |
| Common Stock, no par value; 14,000,000 shares authorized; 10,226,210 shares issued and outstanding | 13,803,820 | 13,803,820 |
| Contributed capital | 1,048,894 | 922,586 |
| Accumulated (deficit) | (10,418,264) | (10,039,835) |
| Shares held for employee benefit (1,129,110 shares at cost) | (273,600) | (273,600) |
| Total shareholders' equity | 4,160,850 | 4,412,971 |
| Total liabilities and shareholders' equity | \$ 5,467,865 ===== | \$ 5,827,466 ===== |

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Accelr8 Technology Corporation
 Condensed Statements of Operations
 For the Three and Six Months ended January 31, 2009 and 2008
 (Unaudited)

| | 3 Months Ended January 31 2009 | 2008 | 6 Months Ended January 31 2009 | 2008 |
|---------------------------------------|-----------------------------------|--------------|-----------------------------------|----------|
| | ----- | ----- | ----- | ----- |
| Revenues: | | | | |
| OptiChem(R) revenues | \$ 14,493 | \$ 39,058 | \$ 15,145 | \$ 53, |
| Technical development fees | 300,000 | -- | 600,000 | - |
| Option fees | -- | 45,455 | -- | 45, |
| License fees | 50,000 | 50,000 | 50,000 | 100, |
| | ----- | ----- | ----- | ----- |
| Total Revenues | 364,493 | 134,513 | 665,145 | 199, |
| | ----- | ----- | ----- | ----- |
| Costs and expenses: | | | | |
| Research and development | 194,603 | 252,109 | 354,380 | 521, |
| General and administrative | 213,714 | 157,215 | 464,177 | 408, |
| Amortization | 61,753 | 61,691 | 123,296 | 121, |
| Marketing and sales | 5,663 | 2,631 | 6,829 | 9, |
| Depreciation | 5,686 | 12,036 | 11,372 | 27, |
| Cost of sales | -- | 7,719 | -- | 9, |
| | ----- | ----- | ----- | ----- |
| Total costs and expenses | 481,419 | 493,401 | 960,054 | 1,096, |
| | ----- | ----- | ----- | ----- |
| Loss from operations | (116,926) | (358,888) | (294,909) | (897, |
| | ----- | ----- | ----- | ----- |
| Other income: | | | | |
| Interest and dividend income | 5,154 | 12,612 | 14,068 | 36, |
| Unrealized gain (loss) on investments | (42,558) | (44,371) | (97,588) | (18, |
| Gain (loss) on sale of equipment | -- | 50,407 | -- | 51, |
| | ----- | ----- | ----- | ----- |
| Total other income | (37,404) | 18,648 | (83,520) | 70, |
| | ----- | ----- | ----- | ----- |
| Net loss | \$ (154,330) | \$ (340,240) | \$ (378,429) | \$ (827, |
| | ===== | ===== | ===== | ===== |
| Net loss per share: | | | | |
| Basic and diluted net loss per share | \$ (.02) | \$ (.03) | \$ (.04) | \$ (|
| | ===== | ===== | ===== | ===== |
| Weighted average shares outstanding | 10,226,210 | 9,971,210 | 10,226,210 | 9,971, |
| | ===== | ===== | ===== | ===== |

Condensed Statements of Cash Flows
 For the Six Months Ended January 31, 2009 and 2008
 (Unaudited)

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| | 2009 | 2008 |
|---|--------------|--------------|
| | ----- | ----- |
| Cash flows from operating activities: | | |
| Net loss | \$ (378,429) | \$ (827,364) |
| Adjustments to reconcile net (loss) to net cash (used in) operating activities: | | |
| Depreciation | 11,372 | 27,111 |
| Amortization | 123,296 | 121,737 |
| Fair value of stock options granted for services | 126,308 | 38,058 |
| Unrealized holding (gain) loss on investments | 97,588 | 18,019 |
| Reinvested earnings - interest and dividends | (10,701) | (15,836) |
| (Gain) on sale of fixed assets | 0 | (51,761) |
| (Increase) decrease in assets: | | |
| Accounts receivable | (43,666) | (5,625) |
| Inventory | 18,363 | 7,795 |
| Prepaid expense and other | 14,776 | 5,238 |
| Increase (decrease) in liabilities: | | |
| Accounts payable | (35,513) | 58,817 |
| Accrued liabilities | (7,434) | (5,894) |
| Deferred revenue | (15,145) | 130,728 |
| Deferred compensation | (49,388) | 38,058 |
| | ----- | ----- |
| Net cash (used in) operating activities | (148,573) | (460,919) |
| | ----- | ----- |
| Cash flows from investing activities: | | |
| Sales proceeds - fixed assets | 0 | 70,000 |
| Purchases of equipment and patents | (22,670) | (49,134) |
| Contribution to deferred compensation trust | (75,000) | (75,000) |
| | ----- | ----- |
| Net cash used in investing activities | (97,670) | (54,134) |
| | ----- | ----- |
| Decrease in cash and cash equivalents | (246,243) | (515,053) |
| Beginning balance | 1,233,100 | 1,393,669 |
| | ----- | ----- |
| Ending balance | \$ 986,857 | \$ 878,616 |
| | ===== | ===== |

Note 1. Basis of Presentation

The financial statements included herein have been prepared by Accelr8 Technology Corporation (the "Company") without audit, pursuant to the rules and regulations of the United States Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted as allowed by such rules and regulations. The Company believes that the disclosures are adequate to make the information presented not misleading. These financial statements should be read in conjunction with our annual audited financial statements dated July 31, 2008, included in our annual report on Form 10-KSB as filed with the SEC. Management believes that the accompanying unaudited financial statements are prepared in

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conformity with generally accepted accounting principles, which require the use of management estimates, and contain all adjustments (including normal recurring adjustments) necessary to present fairly the operations and cash flows for the periods presented. The results of operations for the three months and six months ended January 31, 2009 may not be indicative of the results of operations for the year ended July 31, 2009.

Note 2. Summary of Significant Accounting Policies

Use of Estimates

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

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash equivalents, accounts receivable, and notes receivable, including receivables from major customers. The Company grants credit to domestic and international clients in various industries. Exposure to losses on accounts receivable is principally dependent on each client's financial position. The Company performs ongoing credit evaluations of its clients' financial condition.

Estimated Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, investments and other long-term liabilities approximates fair value at January 31, 2009 and July 31, 2008. The carrying value of all other financial instruments potentially subject to valuation risk, principally consisting of accounts receivable and accounts payable, also approximate fair value.

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Income Taxes

The Company adopted the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 48 ("FIN 48") "Accounting for Uncertainty in Income Taxes," on August 1, 2007. The adoption of FIN 48 resulted in no adjustment to opening retained earnings. The Company has no unrecognized tax benefits. Should the Company determine that any penalty and interest be accrued as a result of current or future tax positions taken on its returns, such penalties and interest will be accrued in its financial statements as other non-interest expense and as interest expense during the period in which such determination is made.

The Company files federal and state income tax returns. These returns are subject to examination by taxing authorities for all tax years after 2002.

Note 3. Recently Issued Accounting Pronouncements

In December 2007, the FASB issued FAS 160 which changes the accounting and reporting for minority interests. Minority interests will be recharacterized as noncontrolling interests and will be reported as a component of equity separate from the parent's equity, and purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions.

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In addition, net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement and, upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. FAS 160 is effective for annual periods beginning on or after December 15, 2008. The Company does not expect the adoption of FAS 160 to have an effect on its financial statements.

In December 2007, the FASB issued SFAS 141(revised 2007), Business Combinations ("SFAS 141R"). SFAS 141R will significantly change the accounting for business combinations in a number of areas including the treatment of contingent consideration, contingencies, acquisition costs, intellectual property research & development and restructuring costs. In addition, under SFAS 141R, changes in deferred tax asset valuation allowances and acquired income tax uncertainties in a business combination after the measurement period will impact income tax expense. SFAS 141R is effective for fiscal years beginning after December 15, 2008. The Company has not yet determined the impact, if any, of SFAS 141R on its financial statements.

In April 2008, the FASB issued Staff Position FAS 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP FAS 142-3") which amends the factors an entity should consider in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FAS No. 142, "Goodwill and Other Intangible Assets" ("FAS No. 142"). FSP FAS 142-3 applies to intangible assets that are acquired individually or with a group of assets and

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intangible assets acquired in both business combinations and asset acquisitions. It removes a provision under FAS No. 142, requiring an entity to consider whether a contractual renewal or extension clause can be accomplished without substantial cost or material modifications of the existing terms and conditions associated with the asset. Instead, FSP FAS 142-3 requires that an entity consider its own experience in renewing similar arrangements. An entity would consider market participant assumptions regarding renewal if no such relevant experience exists. FSP FAS 142-3 is effective for year ends beginning after December 15, 2008 with early adoption prohibited. We have not yet determined the effect, if any, of the adoption of this statement on our financial condition or results of operations.

Note 4. Intellectual Property

Intellectual property consisted of the following:

| | January 31, 2009 ----- | July 31, 2008 ----- |
|-----------------------------|---------------------------|------------------------|
| OptiChem(R) Technologies | \$ 4,454,538 | \$ 4,454,538 |
| Patents | 434,302 | 411,632 |
| Trademarks | 49,019 | 49,019 |
| | ----- | ----- |
| Total intellectual property | 4,937,859 | 4,915,189 |
| Accumulated amortization | (1,691,784) | (1,568,488) |
| Net intellectual property | \$ 3,246,075 | \$ 3,346,701 |
| | ===== | ===== |

Intellectual properties are recorded at cost and are being amortized on a straight-line basis over their estimated useful lives of 20 years, which approximates the patent and patent application life of the OptiChem(R) technologies. Amortization expense was \$123,296 and \$121,737, respectively, for the six months ended January 31, 2009 and 2008.

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The Company routinely evaluates the recoverability of its long-lived assets based upon estimated future cash flows from or estimated fair value of such long-lived assets. If in management's judgment, the anticipated undiscounted cash flows or estimated fair value are insufficient to recover the carrying amount of the long-lived asset, the Company will determine the amount of the impairment, and the value of the asset will be written down. Management believes that the fair value of the technology exceeds the carrying value. However, it is possible that future impairment testing may result in intangible asset write-offs, which could adversely affect the Company's financial condition and results of operations.

Note 5. Research and Option Agreement and License and Supply Agreements

Effective May 16, 2008, the Company and Becton, Dickinson and Company ("BD") entered into a Research and Option Agreement (the "Agreement").

The Agreement provides for the establishment of a research program until October 31, 2009 whereby BD will fund certain research work by the Company relating to the Company's BACcel(TM) rapid pathogen diagnostics platform (the

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"BACcel(TM) Platform"). The research program includes mutually agreed upon milestones to support BD's product development planning. Under the terms of the Agreement, in connection with the research program, the Company will receive certain periodic payments from BD between the date of the Agreement and July 1, 2009.

The Agreement also grants BD an option to acquire for an upfront payment an exclusive license (the "Exclusive License") from the Company for certain know-how and patent rights relating to the BACcel (TM) Platform. The Exclusive License also provides for the Company to receive royalty payments on worldwide sales. The Exclusive License contains certain diligence requirements for BD to develop and commercialize such products. If BD exercises the option but fails to meet certain terms of the Exclusive License, the Company has the option to convert the Exclusive License to a non-exclusive license. If BD does not exercise the Exclusive License Accelr8 will receive a non-exclusive license from BD for certain intellectual property.

Pursuant to the Agreement, from the date of the Agreement until October 31, 2009, the Company agreed not to engage in or participate in any discussions or negotiations with parties other than BD for the joint development of, licensing of or intellectual property relating to the BACcel(TM) Platform.

Unless earlier terminated pursuant to the terms of the Agreement, the Agreement shall terminate upon the Exclusive License Agreement or the non-exclusive license from BD to the Company coming into effect.

On November 24, 2007 the Company extended the non-exclusive Slide H license for three more years, to expire on November 23, 2010. Terms of the extended license are similar to those of the original license, which is \$100,000, \$50,000 for a prepaid license and \$50,000 in prepaid royalties. The Company granted another royalty-bearing license to Schott Jenaer Glas GmbH for Streptavidin slides (Slide HS) for two years that expires on December 31, 2008. The terms were \$100,000; \$50,000 for a prepaid license and \$50,000 in prepaid royalties.

The Company entered into an exclusive seven-year license with NanoString Technologies Inc. on October 5, 2007. The license grants to NanoString the right to apply OptiChem(R) coatings to NanoString's proprietary molecular detection products. Pursuant to the license agreement, NanoString paid the Company a

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non-refundable fee of \$100,000 of which \$50,000 was credited against future royalties. Under the royalty-bearing license, NanoString is to pay the Company a royalty at the rate of eight percent (8%) of net sales for sales up to \$500,000 of NanoString licensed products. The royalty rate on the second \$500,000 of net sales is six percent (6%), and the royalty thereafter is four percent (4%). Royalties of \$652 were earned during the three months ended October 31, 2008.

On November 24, 2007 the Company extended the non-exclusive Slide H license with Schott Jenaer Glas GmbH for three more years, to expire on November 23, 2010. Terms of the extended license are similar to those of the original

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license, which is \$100,000, \$50,000 for a prepaid license and \$50,000 in prepaid royalties. On January 9, 2009 the Company extended the non-exclusive Slide H license with Schott Jenaer Glas GmbH for one additional year, from November 24, 2010 to November 24, 2011, for which we received \$50,000 in prepaid royalties at the same royalty rate (6%). The Company had also granted another royalty-bearing license to Schott Jenaer Glas GmbH for Streptavidin slides (Slide HS) for two years that expired on December 31, 2008. The Company entered into an exclusive seven-year license with NanoString Technologies Inc. on October 5, 2007. The license grants to NanoString the right to apply OptiChem(R) coatings to NanoString's proprietary molecular detection products. Pursuant to the license agreement, NanoString paid the Company a non-refundable fee of \$100,000 of which \$50,000 was credited against future royalties for a Slide H extension. Under the royalty-bearing license, NanoString is to pay the Company a royalty at the rate of eight percent (8%) of net sales for sales up to \$500,000 of NanoString licensed products. The royalty rate on the second \$500,000 of net sales is six percent (6%), and the royalty thereafter is four percent (4%).

Note 6. Employee Stock Based Compensation

On January 31, 2009, there were Common Stock options outstanding at prices ranging from \$1.45 to \$4.50 with expiration dates between May 6, 2009 and October 28, 2018. For the three months ended January 31, 2009 and 2008, stock options exercisable into 1,180,000 and 987,500 shares of Common Stock, respectively, were not included in the computation of diluted earnings per share because their effect was antidilutive.

For the quarters ended January 31, 2009 and 2008, the Company accounted for stock based compensation to employees and directors using SFAS No. 123 (revised 2004), "Share-Based Payment" (SFAS 123R), which replaces SFAS 123 and supersedes APB Opinion No. 25. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. Under SFAS 123R, we apply the standard to new awards, and to awards modified, repurchased, or cancelled after the required effective date. Additionally, compensation cost for the unvested portion of awards outstanding as of the effected date of SFAS 123R are recognized as compensation expense as the requisite service is rendered after the required effective date.

The fair value of options granted under the stock option agreements and stock-based compensation plans are estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants for the three months and six months ended January 31, 2009 and January 1, 2008: no dividend yield; risk free interest rate of 4% to 5%; expected life of 3-10 years; and expected volatility of 66% to 51%. The weighted average remaining contractual life of options outstanding at January 31, 2009 and 2008 was 4.50 and 4.11 years.

As of January 31, 2009, the total unrecognized share-based compensation cost

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related to unvested stock options was approximately \$65,690. For the three-month periods ended January 31, 2009 and January 31, 2008 the Company recognized

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\$30,832 and \$18,249 and for the six-month periods ended January 31, 2009 and January 31, 2008 the Company recognized \$126,308 and \$38,058 in stock based compensation costs related to the issuance of stock options to employees. This cost was calculated in accordance with SFAS No. 123R and is reflected in the Company's operating expenses.

Note 7. Stockholders Equity

On March 6, 2008, we held a closing on the sale (the "Offering") to accredited investors of an aggregate of 200,000 shares of the Company's no par value Common Stock sold at \$4.00 per share (the "Common Stock") and warrants to purchase 100,000 shares of Common Stock at a purchase price of \$5.50 per share that expire 30 months from the date of issuance (the "Warrants") (the "Common Stock and the Warrants are referred to herein as the "Securities").

Pursuant to the Stock Purchase Agreements, if during the period commencing on March 6, 2008 and ending on March 6, 2009, we issue additional shares (the "Additional Shares") of Common Stock or Common Stock Equivalents (as defined in the Stock Purchase Agreement) at a purchase, exercise or conversion price less than \$4.00 per share (subject to certain adjustments for splits, recapitalizations and reorganizations), then we will issue additional shares of Common Stock to the investors so that the effective purchase price per share will be the same per share purchase, exercise or conversion price of the Additional Shares (subject to certain exceptions set forth in the Stock Purchase Agreement). Notwithstanding the foregoing, the effective price per share will not be adjusted below \$3.00 per share. As of March 6, 2009 we issued no additional shares.

The Warrants have customary weighted-average anti-dilution rights with respect to any subsequent issuance of common stock or common stock equivalents at a price less than \$5.50 per share (subject to adjustment), and otherwise in connection with forward or reverse stock splits, stock dividends, recapitalizations, and the like. The anti-dilution provisions are not applicable to employee stock options and shares issued in connection with certain mergers and acquisitions. The Company received \$800,000 in proceeds from the sale of the Securities. The Company paid no commissions in connection with the Offering. Investors in the units have "piggyback" registration rights with respect to the resale of the shares of Common Stock, as well as the shares issuable upon exercise of the Warrants.

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Item 2. Management's Discussion and Analysis of Financial Condition and Result of Operations

Forward Looking Information

This Quarterly Report on Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the Company, intends that such forward-looking statements be subject to the safe harbors created thereby. These forward-looking statements, which can be identified by the use of words such as "may," "will," "expect," "anticipate," "estimate," or "continue," or variations thereon or comparable terminology, include the plans and objectives of management for

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future operations, including plans and objectives relating to the products and future economic performance of the Company. In addition, all statements other than statements of historical facts that address activities, events, or developments the Company expects, believes, or anticipates will or may occur in the future, and other such matters, are forward-looking statements.

The forward-looking statements included herein are based on current expectations that involve a number of risks and uncertainties. These forward-looking statements are based on assumptions that the Company will retain key management personnel, BD will exercise the Exclusive License, the Company will be successful in the development of the BACcel(TM) system, the Company will have sufficient capital to complete the development of the BACcel(TM) system, the Company will be able to protect its intellectual property, the Company's ability to respond to technological change, that the Company will accurately anticipate market demand for the Company's products and that there will be no material adverse change in the Company's operations or business. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Company. Although the Company believes that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate and, therefore, there can be no assurance that the results contemplated in forward-looking statements will be realized. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

The following discussion should be read in conjunction with the Company's unaudited condensed financial statements and related notes included elsewhere herein. The Company's future operating results may be affected by various trends and factors which are beyond the Company's control. These include, among other factors, general public perception of issues and solutions, and other uncertain business conditions that may affect the Company's business. The Company cautions the reader that a number of important factors discussed herein, and in other reports, filed with the Securities and Exchange Commission including the risks in the section entitled "Risk Factors" its 10-KSB for the year ended July 31, 2008, could affect the Company's actual results and cause actual results to differ materially from those discussed in forward-looking statements.

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Overview

Our vision is to develop and commercialize an innovative diagnostic system for use with critically ill patients for rapid identification of bacteria and specific strains based on the presence of major antibiotic resistance mechanisms. Our business strategy is to demonstrate the value of our technology in the broad market for biomedical products with the intent of licensing our proprietary technology to established market leaders.

We are developing the BACcel(TM) system, a rapid bacterial diagnostic platform, by integrating our proprietary technologies into an automated system. Proprietary technologies include OptiChem(R) surface coatings, and various innovative assay processing methods. We have received patents or we have patent applications pending for the major technology components, methods, and systems.

The BACcel(TM) system development project began with a number of innovative analytical biological concepts that had no direct precedent, but which adapted well-accepted microbiological testing principles for automated analysis. Until now, these testing principles have only been applied to cultures that contain hundreds of millions of bacteria descended from single organisms, hand-selected as cultured colonies grown from a patient specimen.

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The BACcel(TM) system is based on simple transformations of standard methods, using advanced automation technology to achieve substantially better performance than is possible with current testing methods. We believed that speed and precision should be possible by analyzing, as individuals, many thousands of cells extracted directly from the patient specimen. This contrasts with standard culturing in which the descendants of fewer than ten cells are presumed to represent the entire infectious bacterial population in a specimen, and with which many hours of repeated growth are required to perform analyses. Typically, initial testing requires 2-3 days, which is too late to help guide the physician to make treatment decisions for critically ill patients who often become infected with drug-resistant bacteria. As a result, initial therapy typically proves inadequate in 20% to 40% of such cases, causing high mortality, serious medical complications, and extended length of stay.

Published studies on ICU patients consistently show that a hospital-acquired infection doubles the risk of mortality and complications. Infection with a multi-resistant organism quadruples risks relative to comparable un-infected patients. The most important reason for elevated risk is inadequate initial therapy, caused by widespread and complex mechanisms of drug resistance.

We intend the BACcel(TM) system to report bacterial quantitation and identification within 2 hours of patient specimen processing. We plan to augment the first reported identification with additional identification of major antibiotic resistance mechanisms.

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We believe that resistance mechanism identification will require no more than 4 additional hours for a test battery, with some results becoming available more quickly than others. We have presented research results to the clinical community that are consistent with our performance objectives.

The purpose of this strategy is to narrow the drug choices for initial therapy by identifying major resistance mechanisms that are likely to cause drugs to fail. If successful, this approach would help the physician to subtract ineffective drugs from the list of available drugs, leaving those that are most likely to control the infection as initial therapy.

For example, the first report might state that a significant number of common "Staph" is present in a patient specimen, likely causing a patient's infection. The second report might then state that all of the organisms fall into a major antibiotic resistance group known as "MRSA" (methicillin resistant Staphylococcus aureus, often referred to as "superbugs" in news reports because of their multiple drug resistance). This identification eliminates from consideration the most important drugs otherwise preferred for treating Staph infections.

The same follow up report would also include the identification of additional important resistance mechanisms that might similarly rule out the next most important drugs. In this way, we believe that the BACcel(TM) system will systematically test for the most significant resistance mechanisms. This would leave the physician with specific drug choices that are most likely to prove effective. From these, the physician would then be able to hold in reserve those drugs considered "salvage" or "last choice" drugs. This approach of reserving drugs helps to delay the emergence of resistance for the few drugs still available to treat highly resistant strains.

Present practices cannot provide specific guidance, so the physician now has no choice but to use drugs that would otherwise be reserved, in order to assure initial infection control but thereby accelerating the risk of losing their

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value.

Popular news media have reported widely about MRSA as a multi-resistant "superbug." However, organizations such as the CDC (US Centers for Disease Control and Prevention) and IDSA (Infectious Diseases Society of America) have also identified other multi-drug resistant organisms as presenting even greater threats. They include Pseudomonas, Acinetobacter, E. coli, and Klebsiella. In the hospital ICU, MRSA typically causes no more than about 30% of mortality attributed to acquired infections. The other organisms just listed account for a much higher percentage.

To the best of management's knowledge, based on outside opinions and direct market research, Accelr8 is the only organization in the world to be developing a rapid diagnostic solution that includes these organisms and strain types.

To date, we have established the functional requirements of the BACcel(TM) platform. We have begun testing the specific analyses required in the BACcel(TM) system and published the results at major scientific and clinical conferences. We have been guided by leading medical experts in our development strategy and research prototype design.

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During the next twelve months, the Company intends to expand its experimental data to characterize and validate test performance to be used in future versions of the BACcel(TM) system. In addition, we expect to further define requirements for a commercial research product in advance of clinical product development.

In parallel to the BACcel(TM) system development, we have developed and independently licensed OptiChem(R) surface coatings to other companies for use in microarraying and other molecular detection products. We have granted Schott Jenaer Glas GmbH, a global leader in high-quality glass manufacturing, a non-exclusive license to manufacture and market microarraying slides using OptiChem(R) coatings. We have also licensed NanoString Technologies Inc. to use OptiChem(R) in their innovative molecular bar-coding systems for high-sensitivity gene expression analysis.

During the quarter ended January 31, 2008, we placed two development systems in outside academic research facilities. One system is in the Denver Health Medical Center. The other is in Barnes-Jewish Hospital, St. Louis. The outside investigators are using the systems for technical validation of the analytical methods.

We intend to continue making technical presentations concerning our research results to the clinical community for the remainder of 2009 and beyond. Research collaborators at Denver Health and Barnes-Jewish may contribute at these presentations.

During the quarter ended January 31, 2009, we also continued scale-up and expansion of our proprietary antibody development. These materials provide support for BACcel(TM) system development, outside research collaborations, and additional test development. We have also initiated development of secondary indicators to augment the antibodies in robust identification methods.

On January 6, 2009, Accelr8 Technology Corporation (the "Company") was notified by the staff of the NYSE Alternext US LLC (the "Exchange"), formerly known as the American Stock Exchange, Inc., that the staff has determined, following a review of publicly available information, that the Company is not in compliance with Section 1003(a)(iii) of the NYSE Alternext Company Guide (the "Company Guide") in that it has stockholder equity of less than \$6 million and losses from continued operations and net losses in its five most recent fiscal years.

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In order to maintain its listing, the Company submitted a plan on February 6, 2009 (the "Plan") advising the Exchange of action it has taken or will take, that would bring it into compliance with the continued listing standards. Subject to the Plan being accepted by the Exchange, the Company would have up to July 6, 2010 to implement the Plan, during which time period the Company would be subject to periodic review to determine whether it is making progress consistent with the Plan.

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Recently Issued Accounting Pronouncements

In February 2007, the FASB issued FASB SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, to expand the use of fair value measurement by permitting entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS 159 is effective beginning the first fiscal year that begins after November 15, 2007. The Company is evaluating fair value of all financial assets. It is not anticipated that application will result in any material changes in such assets.

In December 2007, the FASB issued FAS 160 which changes the accounting and reporting for minority interests. Minority interests will be recharacterized as noncontrolling interests and will be reported as a component of equity separate from the parent's equity, and purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions.

In addition, net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement and, upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. FAS 160 is effective for annual periods beginning on or after December 15, 2008. The Company does not expect the adoption of FAS 160 to have an effect on its financial statements.

In December 2007, the FASB issued SFAS 141(revised 2007), Business Combinations ("SFAS 141R"). SFAS 141R will significantly change the accounting for business combinations in a number of areas including the treatment of contingent consideration, contingencies, acquisition costs, IPR&D and restructuring costs. In addition, under SFAS 141R, changes in deferred tax asset valuation allowances and acquired income tax uncertainties in a business combination after the measurement period will impact income tax expense. SFAS 141R is effective for fiscal years beginning after December 15, 2008. The Company has not yet determined the impact, if any, of SFAS 141R on its financial statements.

CHANGES IN RESULTS OF OPERATIONS: THREE MONTHS ENDED JANUARY 31, 2009 COMPARED TO THREE MONTHS ENDED JANUARY 31, 2008.

During the three months ended January 31, 2009, OptiChem(R) revenues were \$14,493 as compared to \$39,058 during the three month period ended January 31, 2008, a decrease of \$24,565 or 62.8%. The decrease was due to the licensing of the production of slides to others while retaining a royalty interest only.

Technical development fees during the three-month period ended January 31, 2009 were \$300,000 as compared to \$0 during the three-month period ended January 31, 2008, an increase of \$300,000 or 100%. Technical development fees were received as a result of the Research and Option Agreement with BD entered into in May 2008.

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There were option fees of \$0 during the three months ended January 31, 2009 compared to \$45,455 during the three months ended January 31, 2008. This was the result of receiving an option payment from Becton Dickinson & Company of \$100,000 which expired by its terms on March 31, 2008. The amount represents the earned portion of such option contract during the three months ended January 31, 2008.

The license fees of \$50,000 during the three months ended January 31, 2009 and 2008 were the result of License Agreements entered into with Schott Jenaer Glas GmbH for Slide H to produce and sell the Company's technology, on coated OptiChem(R) slides.

Research and development expenses for the three months ended January 31, 2009 were \$194,603 as compared to \$252,109 during the three months ended January 31, 2008, a decrease of \$57,506 or 22.8%. This decrease was primarily due to decreased direct supply costs related to the development of the BACcel(TM) system.

During the three months ended January 31, 2009, general and administrative expenses were \$213,714 as compared to \$157,215 during the three months ended January 31, 2008, an increase of \$56,499 or 35.9%. The increase was primarily due to increases in legal costs (Patent filings), and corporate and shareholder expenses.

The increase in amortization was negligible for the three months ended January 31, 2009 as compared to the three month period ended January 31, 2008.

Marketing and sales expenses for the three months ended January 31, 2009 were \$5,663 as compared to \$2,631 during the three months ended January 31, 2008, an increase of \$3,032. The increase was primarily due to expenses related to presentations at scientific conferences.

Depreciation for the three months ended January 31, 2009 was \$5,686 as compared to \$12,036 during the three months ended January 31, 2008, a decrease of \$6,350 or 52.7%. The decreased depreciation was the result of some assets becoming fully depreciated during the three months ended January 31, 2008, coupled with no new purchases of on-site lab equipment during the quarter ended January 31, 2009 and sale of used equipment.

Costs of goods sold during the three months ended January 31, 2009 were \$0 as compared to \$7,719 during the three months ended January 31, 2008, a decrease of \$7,719 or 100%. The decrease in cost of goods sold was primarily the result of the licensing OptiChem(R) coating production to others.

As a result of the above factors, loss from operations for the three months ended January 31, 2009 was \$116,926 as compared to a loss of \$358,888 during the three months ended January 31, 2008, a decreased loss of \$241,962 or 67.4%.

Interest and dividend income during the three months ended January 31, 2009 was \$5,154 as compared to \$12,612 during the three months ended January 31, 2008, a decrease of \$7,458 or 59.1%. Interest income decreased as a result of decreased interest rates and reduced amounts of cash held by the Company.

An unrealized holding loss on investments held in the deferred compensation trust for the three months ended January 31, 2009 was \$42,558 as compared to an unrealized loss of \$44,371 during the three months ended January 31, 2008, a decrease of \$1,813. The change was a result of market fluctuations in the price

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of marketable securities held in the deferred compensation trust.

Gain on the sale of equipment was \$0 during the three months ended January 31, 2009 as compared to \$50,407 during the three months ended January 31, 2008. The gain on the sale of equipment was the result of the sale of used microarray printers.

As a result of these factors, net loss for the three months ended January 31, 2009 was \$154,330 as compared to \$340,240 during the three months ended January 31, 2008, a decreased loss of \$185,910 or 54.6%.

CHANGES IN RESULTS OF OPERATIONS: SIX MONTHS ENDED JANUARY 31, 2009 COMPARED TO SIX MONTHS ENDED JANUARY 31, 2008.

During the six months ended January 31, 2009, OptiChem(R) revenues were \$15,145 as compared to \$53,642 during the six month period ended January 31, 2008, a decrease of \$38,497 or 71.7%. The decrease was due to the licensing of the production of slides to others while retaining a royalty interest only.

Technical development fees during the six-month period ended January 31, 2009 were \$600,000 as compared to \$0 during the six-month period ended January 31, 2008, an increase of \$600,000 or 100%. Technical development fees were received as a result of the Research and Option Agreement with BD entered into in May 2008.

Option fees during the six months ended January 31, 2009 were \$0 as compared to \$45,455 during the six months ended January 31, 2008. The option fee for the six months ended January 31, 2008 consisted of the earned portion of an option from Becton Dickinson & Company which expired on March 31, 2008. We now receive research funding from Becton Dickinson quarterly.

License fees during the six months ended January 31, 2009 were \$50,000 as compared to \$100,000 during the six months ended January 31, 2008, a decrease of \$50,000 or 50%. The license fees during the six months ended January 31, 2009 were the result of an extension of the existing License Agreement entered into with Schott Jenaer Glas GmbH to produce and sell the Company's technology on coated OptiChem(R) Slide H. The license was extended to cover November 24, 2010 to November 24, 2011.

Research and development expenses for the six months ended January 31, 2009 were \$354,380 as compared to \$521,176 during the six months ended January 31, 2008, a decrease of \$166,796 or 32.0%. This decrease was primarily due to decreased consulting/engineering fees related to the development of the BACcel(TM) platform.

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During the six months ended January 31, 2009, general and administrative expenses were \$464,177 as compared to \$408,282 during the six month period ended January 31, 2008, an increase of \$55,895 or 13.7%. The increase was primarily due to increases in legal costs (Patent filings), and corporate and shareholder expenses.

Marketing and sales expenses for the six months ended January 31, 2009 were \$6,829 as compared to \$9,143 during the six months ended January 31, 2008, a decrease of \$2,314 or 25.3%. The decrease was primarily due to timing of expenses related to presentations at scientific conferences.

Depreciation for the six months ended January 31, 2009 was \$11,372 as compared to \$27,111 during the six months ended January 31, 2008, a decrease of \$15,739 or 58.1%. The decreased depreciation was the result of some assets becoming

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fully depreciated during the year ended July 31, 2008, coupled with no new purchases of on-site lab equipment during the first six months of the current year and sale of used equipment.

Cost of goods sold during the six months ended January 31, 2009 were \$0 as compared to \$9,032 during the six months ended January 31, 2008, a decrease of \$9,032 or 100%. The decrease in cost of goods sold was primarily the result of the licensing OptiChem(R) coating production to others.

As a result of the above factors, loss from operations for the six months ended January 31, 2009 was \$294,909 as compared to a loss of \$897,384 during the six months ended January 31, 2008, a decrease of losses of \$602,475 or 67.1%.

Investment and dividend income during the six months ended January 31, 2009 was \$14,068 as compared to \$36,278 during the six months ended January 31, 2008 a decrease of \$22,210 or 61.2%. Interest income decreased as a result of decreased interest rates and the amounts of cash held by the Company.

An unrealized holding loss on investments held in the deferred compensation trust for the six months ended January 31, 2009 was \$97,588 as compared to a loss of \$18,019 for the six months ended January 31, 2008, an increased loss of \$79,569. The change was the result of market fluctuations in the price of marketable securities held in the deferred compensation trust.

Gain on the sale of equipment was \$0 during the six months ended January 31, 2009 as compared to \$51,761 during the six months ended January 31, 2008. The gain on the sale of equipment was the result of the sale of used microarray printers.

As a result of these factors, net loss for the six months ended January 31, 2009 was \$378,429 as compared to \$827,364 during the six months ended January 31, 2008, a decreased loss of \$448,935 or 54.3%.

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Capital Resources and Liquidity

At January 31, 2009, as compared to July 31, 2008, cash and cash equivalents decreased by \$246,243 from \$1,233,100 to \$986,857, or approximately 20% and the Company's working capital decreased \$177,624 or 16.1% from \$1,103,872 to \$926,248. During the same period, shareholders' equity decreased from \$4,412,971 to \$4,160,850.

The net cash used in operating activities was \$148,573 during the six months ended January 31, 2009 compared to cash used in operating activities of \$460,919 during the six months ended January 31, 2008. The principal elements that gave rise to the decrease of cash used in operating activities were a decrease in the net loss of \$448,935, a decrease in liabilities and deferred revenue that consists of: accounts payable of \$35,513; deferred revenue of \$15,145 and deferred compensation of \$49,388.

Our primary use of capital has been for the research and development of the BACcel(TM) system. The Company has historically funded its operations generally through its existing cash balances, cash flow generated from operations and the sale of equity securities. Notwithstanding our investments in research and development, there can be no assurance that BD will exercise their Exclusive License, that the BACcel(TM) system or any of our other products will be successful, or even if they are successful, will provide sufficient revenues to continue our current operations. Our working capital requirements are expected to increase in line with the growth of our business. We have no lines of credit or other bank or off balance sheet financing arrangements. We believe our

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capital requirements will continue to be met with our existing cash balance, additional issuance of equity or debt securities and/or the exercise of the BD Exclusive License or a capital infusion from potential partners in the development of the BACcel(TM) system. If we are unable to realize any revenues from our products, we will require additional funds from other sources to continue operations. Further, if capital requirements vary materially from those currently planned, we may require additional capital sooner than expected.

Management believes that current cash balances plus cash flow from operations will be sufficient to fund our capital and liquidity needs for the next 12 months.

Thereafter, the Company may have to seek capital resources from other sources to meet its obligations in the future. There can be no assurance that such capital will be available in sufficient amounts or on terms acceptable to us, if at all. Additional issuances of equity or convertible debt securities will result in dilution to our current common stockholders.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

The Company's interest income is sensitive to fluctuations in the general level of U.S. interest rates. As such, changes in U.S. interest rates affect the interest earned on the Company's cash, cash equivalents, and short-term investments.

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Item 4. Controls and Procedures

An evaluation was conducted under the supervision and with the participation of the Company's management, including Thomas V. Geimer, the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of January 31, 2009. Based on that evaluation, Mr. Geimer concluded that the Company's disclosure controls and procedures were effective as of such date to ensure that information required to be disclosed in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. Such officers also confirm that there was no change in the Company's internal control over financial reporting during the quarter ended January 31, 2009.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Not Applicable.

Item 1A. Risk Factors

There have been no material changes to the Risk Factors discussed in our Annual Report on Form 10-KSB for the fiscal year ended July 31, 2008 filed with the Securities and Exchange Commission on October 29, 2008 and investors are encouraged to review those risk factors in detail before making any investment in the Company's securities.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

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Not Applicable.

Item 3. Defaults upon Senior Securities

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders

The Annual Meeting of the Company's Shareholders was held on December 18, 2008. The matters considered at the meeting were:

- a) The election of Thomas V. Geimer, A. Alexander Arnold III, and Charles E. Gerretson to the Company's Board of Directors;
- b) To ratify the selection of Comiskey & Company, P.C. as the independent public accountants of the Company for the fiscal year ending July 31, 2009.

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Each of the nominees was elected to the Board of Directors and Comiskey & Company, P.C. were ratified as the Company's independent public accountants.

The votes cast at the annual meeting upon the matters considered were as follows:

| | For --- | Withhold ----- |
|-------------------------|------------|-------------------|
| Election of Directors | | |
| Thomas V. Geimer | 6,969,558 | 91,961 |
| A. Alexander Arnold III | 7,041,052 | 20,467 |
| Charles E. Gerretson | 7,026,350 | 35,169 |

A. Alexander Arnold III subsequently resigned as a member of the Board of Directors and John Kucera was appointed a director to fill the vacancy.

Ratification of Comiskey & Company, P.C. as the independent registered public accountants firm of the Company for the fiscal year ending July 31, 2009.

| For --- | Against ----- | Withhold ----- |
|------------|------------------|-------------------|
| 6,968,963 | 79,908 | 12,648 |

Item 5. Other Information

None.

Item 6. Exhibits

a) Exhibits:

Exhibit 31.1 Certification of Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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Exhibit 31.2 Certification of Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.1 Certification of Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: March 16, 2009

ACCEL8 TECHNOLOGY CORPORATION

/s/ Thomas V. Geimer

Thomas V. Geimer, Secretary,
Chief Executive Officer and
Chief Financial Officer

/s/ Bruce H. McDonald

Bruce H. McDonald, Principal
Accounting Officer

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