

Accelerate Diagnostics, Inc  
Form 10-Q  
November 08, 2013

**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 September 30, 2013

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: 001-31822

**ACCELERATE DIAGNOSTICS, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction  
of incorporation or organization)

**84-1072256**

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

**3950 South Country Club, Suite 470**  
**Tucson, Arizona 85714**  
(Address of principal executive offices)(Zip Code)

Registrant's telephone number, including area code:

**(520) 365-3100**

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 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 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) 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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As of November 1, 2013, there were 41,469,521 shares of the registrant's common stock outstanding.

**INDEX**

|  |    |
|--|----|
| PART I - FINANCIAL INFORMATION   | 3  |
| Item 1 Financial Statements  | 3  |
| Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations | 14 |
| Item 3 Quantitative and Qualitative Disclosures about Market Risk                            | 19 |
| Item 4 Controls and Procedures   | 19 |
| PART II - OTHER INFORMATION  | 19 |
| Item 1 Legal Proceedings   | 19 |
| Item 1A Risk Factors   | 19 |
| Item 2 Unregistered Sales of Equity Securities and Use of Proceeds                           | 19 |
| Item 3 Defaults Upon Senior Securities   | 20 |
| Item 4 Mine Safety Disclosures   | 20 |
| Item 5 Other Information   | 20 |
| Item 6 Exhibits  | 20 |



## PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

ACCELERATE DIAGNOSTICS, INC.  
 CONDENSED BALANCE SHEETS  
 SEPTEMBER 30, 2013 AND DECEMBER 31, 2012  
 (unaudited)

## ASSETS

|                             | <u>September<br/>30,</u> | <u>December<br/>31,</u> |
|-----------------------------|--------------------------|-------------------------|
|                             | <u>2013</u>              | <u>2012</u>             |
| Current assets:             |                          |                         |
| Cash and cash equivalents   | \$33,452,907             | \$12,068,747            |
| Investments                 | 10,959,880               | —                       |
| Trade accounts receivable   | 106,242                  | 763,899                 |
| Prepaid expenses and other  | 115,003                  | 16,379                  |
| Total current assets        | \$44,634,032             | \$12,849,025            |
| Property and equipment, net | 1,039,039                | 147,811                 |
| Intellectual property, net  | 259,879                  | 319,280                 |
| Total Assets                | \$45,932,950             | \$13,316,116            |

## LIABILITIES AND SHAREHOLDERS' EQUITY

|  |               |               |
|--|---------------|---------------|
| Current liabilities:   |               |               |
| Accounts payable   | \$6,761       | \$299,650     |
| Accrued compensation and other liabilities   | 321,174       | 870,384       |
| Deferred revenue and income  | 84,008        | 78,034        |
| Total current liabilities  | \$411,943     | \$1,248,068   |
| Long-term liabilities  | 526,666       | —             |
| Total liabilities  | \$938,609     | \$1,248,068   |
| Shareholders' equity:  |               |               |
| Common stock, \$0.001 par value;<br>55,000,000 shares common shares authorized (as of September 2013) and 45,000,000<br>(as of December 31, 2012); 41,467,771 (2013) and 25,331,939 (2012) shares issued<br>and outstanding. 5,000,000 preferred shares authorized and none outstanding (as of<br>September 30 2013) | 41,468        | 25,332        |
| Contributed capital  | 74,266,169    | 31,244,462    |
| Accumulated deficit  | (29,324,203 ) | (19,201,746 ) |
| Accumulated other comprehensive income   | 10,907        | —             |

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|  |              |              |
|--|--------------|--------------|
| Total shareholders' equity                 | 44,994,341   | 12,068,048   |
| Total liabilities and shareholders' equity | \$45,932,950 | \$13,316,116 |

See accompanying notes to financial statement.

ACCELERATE DIAGNOSTICS, INC.  
 CONDENSED STATEMENT OF OPERATIONS  
 (unaudited)

|  | For the three months ended<br>September 30 |                | For the nine months ended<br>September 30 |                |
|--|--|----------------|---|----------------|
|  | 2013                                       | 2012           | 2013                                      | 2012           |
| Revenues:  |  |                |   |                |
| OptiChem revenue   | \$ 12,797                                  | \$ 5,115       | \$ 35,848                                 | \$ 37,033      |
| Total revenues   | \$ 12,797                                  | \$ 5,115       | \$ 35,848                                 | \$ 37,033      |
| Costs and expenses:  |  |                |   |                |
| Research and development                                     | \$ 2,654,005                               | \$ 200,094     | \$ 6,996,462                              | \$ 402,849     |
| Sales, general and administrative                            | 1,052,042                                  | 1,632,984      | 2,915,549                                 | 2,795,187      |
| Amortization   | 19,211                                     | 10,615         | 57,692                                    | 139,373        |
| Depreciation   | 84,208                                     | 551            | 191,161                                   | 1,581          |
| Total costs and expenses                                     | \$ 3,809,466                               | \$ 1,844,244   | \$ 10,160,864                             | \$ 3,338,990   |
| Loss from operations   | (\$3,796,669 )                             | (\$1,839,129 ) | (\$10,125,016 )                           | (\$3,301,957 ) |
| Other expense  | (8,951 )                                   | (2,001,615 )   | (10,432 )                                 | (1,968,230 )   |
| Interest and dividend income                                 | 9,006                                      | 4,400          | 12,991                                    | 10,509         |
| Total other income / (expense)                               | 55   | (1,997,215 )   | 2,559                                     | (1,957,721 )   |
| Net loss   | (\$3,796,614 )                             | (\$3,836,344 ) | (\$10,122,457 )                           | (\$5,259,678 ) |
| Net loss per share: Basic and diluted net loss per share     | (\$0.10 )                                  | (\$0.15 )      | (\$0.28 )                                 | (\$0.33 )      |
| Weighted average shares outstanding                          | 39,774,961                                 | 25,004,820     | 35,991,378                                | 16,057,977     |
| Other comprehensive loss:                                    |  |                |   |                |
| Net loss   | (\$3,796,614 )                             | (\$3,836,344 ) | (\$10,122,457 )                           | (\$5,259,678 ) |
| Net unrealized gain/(loss) on available-for-sale investments | 10,907                                     | —              | 10,907                                    | —              |
| Comprehensive loss   | (\$3,785,707 )                             | (\$3,836,344 ) | (\$10,111,550 )                           | (\$5,259,678 ) |

See accompanying notes to financial statements.





ACCELERATE DIAGNOSTICS, INC.  
 CONDENSED STATEMENTS OF CASH FLOWS  
 FOR THE NINE MONTH PERIODS ENDED SEPTEMBER 30, 2013 AND 2012  
 (Unaudited)

|   |                  |                 |
|---|------------------|-----------------|
| Cash flows from operating activities:   | 2013             | 2012            |
| Net loss  | (\$ 10,122,457 ) | (5,259,678 )    |
| Adjustments to reconcile net loss to net cash (used in) operating activities: |                  |                 |
| Depreciation  | 191,161          | 1,581           |
| Amortization  | 57,692           | 139,373         |
| Stock-based compensation  | 2,612,448        | 509,468         |
| Impairment of intangible assets   | 9,196            | 1,996,583       |
| (Increase) decrease in assets:  |                  |                 |
| Accounts receivable   | 657,657          | 593,855         |
| Prepaid expense and other   | (98,624 )        | 30,871          |
| Increase (decrease) in liabilities:   |                  |                 |
| Accounts payable  | (292,889 )       | 66,078          |
| Accrued liabilities   | (549,210 )       | 800,921         |
| Deferred income   | 532,640          | (22,461 )       |
| Deferred compensation   | —                | (109,368 )      |
| Net cash used in operating activities   | (\$ 7,002,386 )  | (\$ 1,252,777 ) |
| Cash flows from investing activities:   |                  |                 |
| Purchases of equipment and capitalized patents                                | (\$ 1,089,876 )  | (\$ 114,307 )   |
| Purchase of available-for-sale securities                                     | (10,948,973)     | —               |
| Net cash used in investing activities   | (\$ 12,038,849 ) | (\$ 114,307 )   |
| Cash flows from financing activities:   |                  |                 |
| Sale of Common Stock and Warrants   | \$ 19,911,215    | \$ 14,548,569   |
| Exercise of Warrants and Options  | 20,514,180       | —               |
| Net cash provided by financing activities                                     | \$ 40,425,395    | \$ 14,548,569   |
| Increase in cash and cash equivalents   | \$ 21,384,160    | \$ 13,181,485   |
| Cash and cash equivalents, beginning of period                                | 12,068,747       | 587,556         |
| Cash and cash equivalents, end of period                                      | \$ 33,452,907    | \$ 13,769,041   |

See accompanying notes to financial statements.



**ACCELERATE DIAGNOSTICS, INC.**

**NOTES TO THE UNAUDITED FINANCIAL STATEMENTS**

**NOTE 1. ORGANIZATION AND NATURE OF BUSINESS; BASIS OF PRESENTATION**

Accelerate Diagnostics, Inc. (“Accelerate” or the “Company”) is a Delaware corporation focused on developing and commercializing innovative instrumentation for the rapid identification and antibiotic susceptibility testing of infectious pathogens. The Company’s BACce<sup>TM</sup> platform utilizes a proprietary culture-free process with both genomic and phenotypic detection technologies that decrease time to result while maintaining high sensitivity and specificity.

The financial statements included herein have been prepared by Accelerate without audit, pursuant to the rules and regulations of the United States Securities and Exchange Commission (the “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 audited financial statements dated July 31, 2012, which were included in our Annual Report on Form 10-K as filed with the SEC on October 26, 2012, and our audited financial statements dated December 31, 2012, which were included in our Transition Report on Form 10-K as filed with the SEC on March 20, 2013.

Management believes that the accompanying unaudited financial statements are prepared in conformity with U.S. generally accepted accounting principles (“GAAP”) 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 and nine month periods ended September 30, 2013 may not be indicative of the results of operations for the fiscal year ended December 31, 2013.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Use of Estimates**

The preparation of financial statements in conformity with GAAP 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.

It is management’s opinion that all adjustments necessary for a fair statement of the results for the interim periods have been made, and all such adjustments are of a normal recurring nature. These financial statements should be read with Accelerate’s Transition Report on form 10-K for the transition period ended December 31, 2012, and our most recent

Annual Report on Form 10-K for the fiscal year ended July 31, 2012.

#### Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash equivalents, short-term investments and accounts receivable, including receivables from major customers.

The Company periodically maintains cash balances at a commercial bank in excess of the Federal Deposit Insurance Corporation insurance limit of \$250,000. At September 30, 2013 and December 31, 2012, the Company's uninsured cash balance was approximately \$33,335,402 and \$12,004,575, respectively.

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. At September 30, 2013 100% of the outstanding receivable balance was with Denver Health and the Department of Defense related to the Defense Medical Research and Development Program. See Note 6 for more information.

#### Estimated Fair Value

The carrying amounts of cash and cash equivalents, investments and other long-term liabilities approximates fair value at that respective period's balance sheet date.

The carrying value of all other financial instruments potentially subject to valuation risk, principally consisting of accounts receivable and accounts payable, also approximates fair value.

The following methods and assumptions were used to estimate the fair value of financial instruments:

**Cash and Cash Equivalents** – Generally, cash and cash equivalents consist of cash on deposit with banks, money market instruments, investments in U.S. Treasury securities, and overnight repurchase agreements. The carrying amount approximates fair value.

**Investments** – investments held are classified as available for sale securities and are included at amounts approximating the fair value of the underlying instruments.

#### Cash and Cash Equivalents

All highly liquid investments with an original maturity of three months or less at time of purchase are considered to be cash equivalents. Cash and cash equivalents include overnight repurchase agreement accounts. As part of our cash management process, excess operating cash is invested in overnight repurchase agreements with our bank. Repurchase agreements are not deposits and are not insured by the U.S. Government, the FDIC or any other government agency and involve investment risk including possible loss of principal. We believe however, that the market risk arising from holding these financial instruments is minimal.

#### Investments

The Company invests excess funds in various short-term and long-term investments. Investments consist of debt securities in U.S. government-sponsored entities, corporate debt securities and commercial paper. Management classifies its investments as available-for-sale investments and records these investments in the Condensed Consolidated Balance Sheets at fair value. Unrealized gains or losses for available-for-sale securities are included in accumulated other comprehensive income or loss, a component of stockholders' equity. These available-for-sale investments are primarily held in the custody of a major financial institution. The Company classifies its investments as current based on the nature of the investments and their availability for use in current operations.

#### Property and Equipment

Property and equipment are recorded at cost. Maintenance and repairs are charged to expense as incurred and expenditures for major improvements are capitalized. Gains and losses from retirement or replacement are included in costs and expenses. Depreciation of property and equipment is computed using the straight-line method over the estimated useful life of the assets, ranging from three to seven years. See Note 4 below.

#### Intellectual Property

Intellectual property is amortized over the period the asset is expected to contribute directly or indirectly to the Company's future cash flows. The Company evaluates the remaining useful life of each intellectual property that is being amortized each reporting period to determine whether events and circumstances warrant a revision to the remaining period of amortization. Included in intellectual property are patents and technology. Intellectual properties are currently being amortized over their estimated useful lives of generally 20 years. See Note 6 below.

### Long-lived Assets

Long-lived assets and certain identifiable intangibles to be held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company continuously evaluates the recoverability of its long-lived assets based on estimated future cash flows from and the estimated fair value of such long-lived assets, and provides for impairment if such undiscounted cash flows or the estimated fair value are insufficient to recover the carrying amount of the long-lived asset. See Note 6 below.

### Revenue Recognition

We recognize revenue in accordance with ASC 605, "Revenue Recognition," when persuasive evidence of an arrangement exists, the price is fixed or determinable, collection is reasonably assured and delivery of products has occurred or services have been rendered. OptiChem revenue is recognized upon the receipt of royalty payments from our licenses.

Deferred revenue represents amounts received but not yet earned under existing agreements.

### Income Taxes

Deferred tax assets and liabilities are recorded for the estimated future tax effects of temporary differences between the tax basis of assets and liabilities and amounts reported in the accompanying balance sheets. The change in deferred tax assets and liabilities for the period represents the deferred tax provision or benefit for the period. Effects of changes in enacted tax laws in deferred tax assets and liabilities are reflected as an adjustment to the tax provision or benefit in the period of enactment.

The Company follows the provisions of *ASC 740, Income Taxes*, to account for any uncertainty in income taxes with respect to the accounting for all tax positions taken (or expected to be taken) on any income tax return. This guidance applies to all open tax periods in all tax jurisdictions in which the Company is required to file an income tax return. Under GAAP, in order to recognize an uncertain tax benefit the taxpayer must be more likely than not of sustaining the position, and the measurement of the benefit is calculated as the largest amount that is more than 50% likely to be realized upon resolution of the benefit. The Company determined that no uncertain tax positions have been taken or are expected to be taken that could have a material effect on the Company's income tax liabilities. Interest and penalties, if any, would be recorded to general and administrative expenses.

### Earnings Per Share



The Company follows *ASC 260, Earnings Per Share*, which requires companies to present basic earnings per share and diluted earnings per share. Basic earnings (loss) per share includes no dilution and is computed by dividing income (loss) available to common shareholders by the weighted average number of common shares outstanding for the period.

The Company's net loss for the periods presented cause the inclusion of potential Common Stock instruments outstanding to be antidilutive. For the period ended September 30, 2013 and the fiscal year ended December 31, 2012, there were Common Stock options and warrants exercisable for 5,734,351 (571,160 warrants and 5,163,191 options) and 18,431,930 (14,071,430 warrants and 4,360,500 options) shares of Common Stock, respectively, which were not included in diluted loss per share as the effect was antidilutive.

Weighted average shares outstanding for the three and nine month periods ended September 30, 2012 have been revised for the effects of the Rights Offering (See Note 8).

### Equity Based Compensation

The Company awards stock options and other equity-based instruments to its employees, directors and consultants. Compensation cost related to equity based awards is based on the fair value of the instrument on the grant date, and is recognized over the requisite service period. The Company estimates the fair value of stock option awards, including modifications of stock option awards, using the Black-Scholes option pricing model. This model derives the fair value of stock options based on certain assumptions related to expected stock price volatility, expected option life, risk-free interest rate and dividend yield. The Company's expected volatility is based on the historical volatility of the Company's stock price over the most recent period commensurate with the expected term of the stock option award. The estimated expected option life is based on the calculation published by the SEC in SAB110 for use when there is not a sufficient history of employee exercise patterns. The Company has not paid dividends in the past and does not have any plans to pay any dividends in the future. See Note 8 for further information.

### Comprehensive Income (loss)

The Company follows *ASC 220, Reporting Comprehensive Income*, which establishes standards for reporting and displaying comprehensive income (loss) and its components (revenues, expenses, gains and losses) in a full set of general-purpose financial statements. The Company holds investments classified as available-for-sale securities and records the change in fair market value as a component of comprehensive income (loss).

### NOTE 3. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

There have been no new accounting pronouncements issued but not yet adopted that are expected to materially affect the Company's financial condition or results of operations.

### NOTE 4. PROPERTY AND EQUIPMENT

|                                     | 9/30/2013   | 12/31/2012 |
|-------------------------------------|-------------|------------|
| Computer equipment                  | \$521,762   | \$89,109   |
| Laboratory and scientific equipment | 744,790     | 323,151    |
| Furniture and fixtures              | 36,988      | 36,988     |
| Leasehold improvements              | 267,838     | 39,741     |
| Total property and equipment        | 1,571,378   | 488,989    |
| Accumulated depreciation            | (532,339 )  | (341,178)  |
| Net property and equipment          | \$1,039,039 | \$147,811  |

Depreciation expense for the for the three month periods ended September 30, 2013 and 2012 was \$84,208 and \$551, respectively, and for the nine-month periods ended September 30, 2013 and 2012 was \$191,161 and \$1,581, respectively.

## NOTE 5. INTELLECTUAL PROPERTY

Intellectual property consisted of the following at the dates indicated:

|                           | <u>9/30/2013</u> | <u>12/31/2012</u> |
|---------------------------|------------------|-------------------|
| OptiChem Technologies     | \$192,954        | \$192,954         |
| Patents                   | 210,125          | 211,833           |
|                           | 403,079          | 404,787           |
| Accumulated amortization  | (143,200 )       | (85,507 )         |
| Net intellectual property | \$259,879        | \$319,280         |

Intellectual properties are recorded at cost and are being amortized on a straight-line basis over their estimated useful lives of 20 years or the patent application life specific to each capitalized patent. Amortization expense for the three-month periods ended September 30, 2013 and 2012 was \$19,211 and \$10,615, respectively, and for the nine-month periods ended September 30, 2013 and 2012 was \$57,692 and \$139,373, respectively. The Company routinely evaluates the recoverability of its long-lived assets based upon estimated future cash flows from and 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. Such a determination was made during the fiscal year ended July 31, 2012, whereby management determined that certain capitalized intellectual property amounts carried on our balance sheet are no longer recoverable or abandoned its plan to pursue marketability and accordingly reduced the amortized book values by \$1,996,583 and recognized the loss in its reported loss from operations.

## NOTE 6. LICENSE AGREEMENTS AND GRANTS

The Company signed a licensing agreement for microarraying slides using OptiChem coatings with Schott Jenaer Glas GmbH ("SCHOTT") on November 4, 2004. Since this time, SCHOTT and the Company have extended this license. On August 15, 2011, Schott Technical Glass Solutions GmbH renewed and expanded its licenses for OptiChem microarray slide products, designated as Schott Nexterion Slide H and Slide HS. The terms remain substantially the same as in previous agreements, with the expansion to include microarray slide products intended for use in medical diagnostic devices. Previous agreements excluded medical applications. This expansion makes SCHOTT the second company that intends to use OptiChem coatings on medical devices.

The new agreement extends the non-exclusive license through November 24, 2014. SCHOTT paid the Company \$150,000 comprised of a one-time license fee (\$50,000) and non-refundable prepaid royalties (\$100,000). Royalties consist of 5% of SCHOTT's net product sales. For medical applications, SCHOTT agrees to refer individual customers directly to the Company for licensing if annual purchases by a customer exceed 20,000 units.

On October 5, 2007, the Company entered into an exclusive seven-year license with NanoString Technologies, Inc. (“NanoString”). The license grants NanoString the right to apply OptiChem coatings to NanoString’s proprietary molecular detection products.

On July 9, 2010 the Company entered into a non-exclusive license to Nanosphere, Inc. The license grants to Nanosphere the right to apply OptiChem coatings to Nanosphere’s proprietary analytical products. The products may also include FDA-regulated diagnostics devices. Pursuant to the license agreement, Nanosphere paid the Company a non-refundable first-year fee of \$150,000 plus a \$15,000 technology transfer fee. On each anniversary of the agreement date, the license calls for Nanosphere to pay to the Company the amounts of \$350,000 in 2011; \$600,000 in 2012, and \$750,000 in 2013 in order to complete the payments for rights under the remaining patent life. The final installment of this arrangement for \$750,000 was received in full on July 8, 2013. All of the amounts due from Nanosphere were recognized as OptiChem revenue during the fiscal year ended July 31, 2010.

In May 2012, the Company and Denver Health were notified that the Defense Medical Research and Development Program (“DMRDP”) recommended \$2 million of funding for a proposed 35-month project of which the Company estimates it will receive direct monies for internal research and development of \$750,000. The joint proposal became the sole recipient under the Military Infectious Diseases Applied Research Award program for rapid detection of serious antibiotic-resistant infections. The project will apply the Company’s BACcel rapid diagnostic system to wound infections and other serious infections secondary to trauma. As of September 30, 2013 the Company has invoiced \$116,162 under this grant recorded as an offset to research and development expenses.

On August 22, 2012, the Company entered into a Grant Agreement (the “Grant Agreement”) with the Arizona Commerce Authority, an agency of the State of Arizona (the “Authority”), pursuant to which the Authority will provide certain state and county sponsored incentives for the Company to relocate its corporate headquarters to, and expand its business within, the State of Arizona (the “Project”). Pursuant to the Grant Agreement, the Authority agreed to provide a total grant in the amount of \$1,000,000 (the “Grant”) for the use by the Company in the advancement of the Project. The Grant is payable out of an escrow account in four installments, upon the achievement of the following milestones:

Milestone 1 – Relocation of Company’s operations and corporate headquarters to Arizona and creation of 15 Qualified Jobs (as defined below).

Milestone 2 – Creation of 30 Qualified Jobs (including Qualified Jobs under Milestone 1).

Milestone 3 – Creation of 40 Qualified Jobs (including Qualified Jobs under Milestones 1 and 2).

Milestone 4 – Creation of 65 Qualified Jobs (including Qualified Jobs under Milestones 1, 2 and 3) and capital investment of at least \$4,520,000.

For purposes of the Grant Agreement, a “Qualified Job” is a job that is permanent, full-time, new to Arizona, and for which the Company pays average (across all Qualified Jobs identified by the Company in its discretion) annual wages of at least \$63,000 and offers health insurance benefits and pays at least 65% of the premiums associated with such benefits. The amount of each installment payment will be determined in accordance with a formula specified in the Grant Agreement. The Grant Agreement also contains other customary provisions, including representations, warranties and covenants of both parties. As of September 30, 2013 the Company has collected \$500,000 of the \$1,000,000 in milestones. The full amount is recorded in deferred revenue until the economic development provisions of the grant have been satisfied in full, as there are ‘claw-back’ provisions which would require repayment of certain amounts received if employment levels are not sustained during the term of the arrangement.

#### NOTE 7. EMPLOYEE STOCK BASED COMPENSATION

On September 30, 2013, there were Common Stock options outstanding at exercise prices ranging from \$0.73 to \$9.83 per share with expiration dates between April 19, 2014 and September 4, 2023. At September 30, 2013 and December 31, 2012, stock options and warrants exercisable into 5,734,351 and 18,431,930 shares of Common Stock, respectively, were not included in the computation of diluted earnings per share because their effect was antidilutive.

For the periods ending ended September 30, 2013 and 2012, the Company accounted for the compensation cost related to awards of stock options and other equity-based instruments to its employees, directors and consultants based on the fair value of the instrument on the grant date, and recognized this cost over the requisite service period. During the quarter ended September 30, 2013, the Company issued options to purchase a total of 379,500 common shares at an exercise price of \$9.83 per share.

The fair value of options granted under the stock option agreements and stock-based compensation plans discussed above is 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 ended September 30, 2013: no dividend yield; risk free interest rate of 2.193%; expected life of 6.46 years; and expected volatility of 96%. The weighted average remaining contractual life of options outstanding at September 30, 2013 was 8.57 years.

As of September 30, 2013, unrecognized share-based compensation cost related to unvested stock options was \$6,521,441. For the three-month periods ended September 30, 2013 and 2012, the Company recognized \$1,007,721 and \$434,383, respectively and for the nine-month periods ended September 30, 2013 and 2012, the Company recognized \$2,612,448 and \$509,468, respectively, in stock-based compensation costs related to the issuance of stock options to employees.

#### NOTE 8. RIGHTS OFFERING

On July 12, 2013, the Company publicly announced the final terms of a rights offering. Rights offering materials were subsequently distributed to the Company's stockholders on July 18, 2013, at which time the rights offering period commenced. Pursuant to the terms of the rights offering, the Company distributed, at no charge to the holders of its Common Stock as of 5:00 p.m., New York City time, on July 8, 2013, which was established as the record date for the rights offering, 0.064038 non-transferable subscription rights for each share of Common Stock owned on the record date. Each whole subscription right allowed the holder to subscribe to purchase one share of Common Stock at a subscription price of \$8.04 per share. In addition, any holder of subscription rights exercising his, her or its basic subscription privilege in full was eligible to subscribe to purchase additional shares of Common Stock at the same subscription price per share, subject to the conditions and limitations described further in the prospectus.

In connection with the rights offering, the Company received a standby commitment from Abeja Ventures, LLC ("Abeja") to purchase, at \$8.04 per share, any and all shares of Common Stock that were not subscribed for by stockholders in connection with the rights offering.

The rights offering period expired at 5:00 p.m., New York City time, on August 7, 2013, and the transactions contemplated by the rights offering and the Standby Purchase Agreement described above (including the Company's issuance of an aggregate of 2,487,562 shares of its Common Stock to the rights offering participants and standby purchaser) were completed on August 8, 2013. The Company received gross proceeds of \$20,000,000 before costs associated with the transactions, which totaled \$88,785.

Because the exercise price of the rights offering of \$8.04 was less than the fair value of the Company's shares of common stock at the inception of the offering, there is a bonus element that is treated akin to a stock dividend. The weighted average shares outstanding for the three and six month periods ended September 30, 2012 have been revised for those effects. There was no effect on basic and diluted loss per share.

#### NOTE 9. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of financial instruments such as cash equivalents, restricted cash, accounts receivable, prepaid expenses, other current assets, accounts payable, accrued expenses, and other current liabilities approximate the related fair values due to the short-term maturities of these instruments. The Company may invest its excess cash into financial instruments that are readily convertible into cash, such as marketable securities, money market funds and certificates of deposit with original maturities of three months or less at the date of purchase. The Company considers all highly liquid investments with maturities of three months or less from the date of purchase to be cash equivalents. The Company has established guidelines to maintain safety and liquidity for our financial instruments, and the cost of securities sold is based on the specific identification method.

*ASC Topic 820, Fair Value Measurements and Disclosures* has redefined fair value and required the Company to establish a framework for measuring fair value and expand disclosures about fair value measurements. The framework



requires the valuation of assets and liabilities subject to fair value measurements using a three tiered approach and fair value measurement be classified and disclosed in one of the following three categories:

- Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
  
- Level 2: Quoted prices for similar assets and liabilities in active markets, quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;
  
- Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e. supported by little or no market activity).

The following tables represent the financial instruments measured at fair value on a recurring basis on the financial statements of the Company subject to *ASC Topic 820, Fair Value Measurements and Disclosures* , and the valuation approach applied to each class of financial instruments at September 30, 2013 and December 31, 2012:

|                                       | September 30, 2013  |  |  |              |
|---------------------------------------|---|--|--|--------------|
|                                       | <b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b> | <b>Significant Other Observable Inputs (Level 2)</b> | <b>Significant Unobservable Inputs (Level 3)</b> | <b>Total</b> |
| Assets:                               |   |  |  |              |
| Money market funds (cash equivalents) | \$29,068,963  | \$—  | \$—  | \$29,068,963 |
| Corporate notes and bonds             | —   | 10,459,612   | —  | 10,459,612   |
| Asset-backed securities               | —   | 500,268  | —  | 500,268      |
| Total assets measured at fair value   | \$5,737,376   | \$10,959,880   | \$—  | \$40,028,843 |

|   | December 31, 2012   |  |  |              |
|---|---|--|--|--------------|
|   | <b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b> | <b>Significant Other Observable Inputs (Level 2)</b> | <b>Significant Unobservable Inputs (Level 3)</b> | <b>Total</b> |
| Assets:                                 |   |  |  |              |
| Repurchase Agreement (cash equivalents) | \$12,004,575  | —  | —  | \$12,004,575 |
| Total assets measured at fair value     | \$12,004,575  | —  | —  | \$12,004,575 |

Level 2 available-for-sale securities are priced using quoted market prices for similar instruments or nonbinding market prices that are corroborated by observable market data. The Company uses inputs such as actual trade data, benchmark yields, broker/dealer quotes, and other similar data, which are obtained from quoted market prices, independent pricing vendors, or other sources, to determine the ultimate fair value of these assets and liabilities. The Company uses such pricing data as the primary input to make its assessments and determinations as to the ultimate valuation of its investment portfolio and has not made, during the periods presented, any material adjustments to such inputs. There were no significant transfers between levels during the three month period ended September 30, 2013.

#### NOTE 10. INVESTMENTS

The following tables summarize the Company's available-for-sale investments at September 30, 2013:

|  | <b>Amortized Cost</b> | <b>Gross Unrealized Gains</b> | <b>Gross Unrealized Losses</b> | <b>Fair Value</b> |
|--|-----------------------|-------------------------------|--------------------------------|-------------------|
|--|-----------------------|-------------------------------|--------------------------------|-------------------|

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|                           |              |          |   |              |
|---------------------------|--------------|----------|---|--------------|
| Asset-backed securities   | \$500,086    | \$182    | — | \$500,268    |
| Corporate notes and bonds | 10,448,887   | 10,725   | — | 10,459,612   |
| Total                     | \$10,948,973 | \$10,907 | — | \$10,959,880 |

The following table summarizes the maturities of the Company's available-for-sale securities at September 30, 2013:

|                         | <b>Amortized Cost</b> | <b>Fair Value</b> |
|-------------------------|-----------------------|-------------------|
| Due in less than 1 year | \$3,649,931           | \$3,649,869       |
| Due in 1 to 2 years     | 7,299,042             | 7,310,011         |
| Total                   | \$10,948,973          | \$10,959,880      |

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 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, the Company will be successful in the development of the BACcel™ system, the Company will obtain sufficient capital to complete the development of the BACcel™ 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 but not limited to the risks in the section entitled "Risk Factors" are in its Form 10-K for the transition period ended December 31, 2012, could affect the Company's actual results and cause actual results to differ materially from those discussed in forward-looking statements.

Overview

Accelerate Diagnostics, Inc. is focused on developing and commercializing innovative instrumentation for the rapid identification and antibiotic susceptibility testing of infectious pathogens. The Company's BACcel™ platform utilizes a proprietary culture-free process with both genomic and phenotypic detection technologies that decrease time to result while maintaining high sensitivity and specificity.

On June 26, 2012, we closed upon the sale to Abeja Ventures, LLC ("Abeja") at a purchase price of \$1.03 per share for an aggregate purchase price of \$14,420,000 of 14,000,000 shares of the Company's Common Stock, a warrant to purchase 7,000,000 shares of the Company's Common Stock at an exercise price of \$1.03 per share and another warrant to purchase 7,000,000 shares of the Company's Common Stock at an exercise price of \$2.00 per share

(collectively the “Investment”).

14

On March 6, 2013, Abeja exercised in full its warrant to purchase 7,000,000 shares of the Company's Common Stock at an exercise price of \$1.03 per share. On the same date, Abeja also exercised the 92% of its warrant to purchase an additional 7,000,000 shares of the Company's Common Stock at an exercise price of \$2.00 per share (Abeja exercised such warrant for 6,428,840 shares, leaving 571,160 shares unexercised). The Company received aggregate funds of \$20,067,680 in connection with such exercises. Shares issued by the Company in connection with the warrant exercises were issued directly to the members of Abeja on a pro rata basis in accordance with their membership interests and written exercise instructions provided to the Company by Abeja. Immediately after giving effect to the warrant exercises, Abeja also distributed in kind to its members (on a pro rata basis in accordance with their membership interests) the remaining shares of Common Stock held by that entity.

On July 12, 2013, the Company publicly announced the final terms of a rights offering, pursuant to which the Company distributed, at no charge to the holders of its Common Stock as of 5:00 p.m., New York City time, on July 8, 2013, which was established as the record date for the rights offering, 0.064038 non-transferable subscription rights for each share of Common Stock owned on the record date, as more fully described in the prospectus relating to the rights offering. Each whole subscription right allowed the holder thereof to subscribe to purchase one share of Common Stock at a subscription price of \$8.04 per share. In addition, any holder of subscription rights exercising his, her or its basic subscription privilege in full was eligible to subscribe to purchase additional shares of Common Stock at the same subscription price per share, subject to the conditions and limitations described further in the prospectus.

In connection with the rights offering, the Company received a standby commitment from Abeja Ventures, LLC ("Abeja") to purchase, at \$8.04 per share, any and all shares of Common Stock that were not subscribed for by stockholders in connection with the rights offering.

The rights offering period expired at 5:00 p.m., New York City time, on August 7, 2013, and the transactions contemplated by the rights offering and the Standby Purchase Agreement described above (including the Company's issuance of an aggregate of 2,487,562 shares of its Common Stock to the rights offering participants and standby purchaser) were completed on August 8, 2013. The Company received gross proceeds of \$20,000,000 before expenses associated with the transactions.

Since 2004, we have focused our efforts on the development of an innovative rapid diagnostic platform, the BACcel™ system, intended for rapid diagnosis in life-threatening bacterial infections. Our goal is to reduce the failure rate of initial therapy by shortening the lab turnaround time to less than eight hours, rather than the 2-3 days now required. Rapid testing would provide guidance in time to influence initial therapy.

The BACcel™ system applies our proprietary technology to eliminate time-consuming bacterial culturing, thus eliminating the major source of delay with current testing methods. Our system includes a fixed instrument and proprietary single-use (disposable) test cassettes. Each cassette tests a single patient specimen and is then discarded.

BACcel™ uses long-accepted bacteriological testing principles, but applies our proprietary technology to adapt them to analyze live bacteria extracted directly from a patient specimen. The instrumentation uses automated digital microscopy to measure the responses of extracted live bacterial cells to various test conditions. Our system analyzes thousands of these individual cells to arrive at organism identification and antibiotic resistance characteristics.

Based on internal lab data, we believe that the BACcel™ system will identify the organisms present in a patient's specimen and count the number of organisms of each type in less than one hour after receiving a specimen. We believe that the BACcel™ system will then additionally report antibiotic resistance for each type of organism within a total of 4-6 hours after receiving a specimen. The clinical purpose of reporting antibiotic resistance is to narrow the drug choices available for therapy and rule out antibiotic classes that are most likely to fail. Quantitative identification in less than one hour enables first-dose therapy guidance that can improve the efficacy of antimicrobial treatment. In

addition, de-escalation before the second dose helps to prolong the effectiveness of broad-spectrum antibiotics when lower-cost and older narrow-spectrum agents can provide at least equivalent activity (drug “stewardship”).

15

**Changes in Results of Operations: Three months ended September 30, 2013 compared to three months ended September 30, 2012**

During the three months ended September 30, 2013, total revenues were \$12,797 as compared to \$5,115 during the three-month period ended September 30, 2012, an increase of \$7,682 or 150.2%. The increase was due to fluctuations in partner sales volumes on which royalties were due the Company.

Research and development expenses for the three months ended September 30, 2013 were \$2,654,005 as compared to \$200,094 during the three months ended September 30, 2012, an increase of \$2,453,911 or 1,226.4%. The increase is primarily the result of increasing employee headcount, whose salaries, benefits, and stock-based compensation charge comprised \$1,440,742 of the increase. The remainder of the increase was related to the purchase of laboratory and instrument engineering supplies to support accelerated research and development efforts.

During the three months ended September 30, 2013, sales, general and administrative expenses were \$1,052,042 as compared to \$1,632,984 during the three-month period ended September 30, 2012, a decrease of \$580,942 or 35.6%. The decrease was primarily the result of severance payments paid in the prior year to a former executive of the Company.

During the three months ended September 30, 2013, amortization was \$19,211 as compared to \$10,615 during the three-month period ended September 30, 2012, an increase of \$8,596 or 81.0%.

Depreciation for the three months ended September 30, 2013 was \$84,208 as compared to \$551 during the three months ended September 30, 2012, an increase of \$83,657 or 15,182.8%. The increased depreciation was the result of purchases of equipment to up-fit the new Tucson facility laboratories.

As a result of the above factors, loss from operations for the three months ended September 30, 2013 was \$3,796,669 as compared to the loss of \$1,839,129 during the three months ended September 30, 2012, an increase in loss from operations of \$1,957,540 or 106.4%.

Other non-operating income/(loss) during the three months ended September 30, 2013 was income of \$55 as compared to a loss of \$1,992,215 during the three months ended September 30, 2012 an increase of income \$1,992,270 or 100%. The change resulted from an intangible impairment charge of \$1,996,583 taken in the prior year.



Management determined these capitalized intellectual property amounts carried on our balance sheet were no longer recoverable and abandoned its plan to pursue marketability.

As a result of these factors, net loss for the three months ended September 30, 2013 was \$3,796,614 as compared to a net loss of \$3,836,344 during the three months ended September 30, 2012, a decrease in net loss of \$39,730 or 1.0%.

Unrealized gain for the three month period ended September 30, 2013 was \$10,907 as compared to \$0 during the three months ended September 30, 2012. The resulting comprehensive losses were \$3,785,707 and \$3,836,344 for the three month periods ended September 30, 2013 and September 30, 2012, respectively.

**Changes in Results of Operations: Nine months ended September 30, 2013 compared to nine months ended September 30, 2012**

During the nine months ended September 30, 2013, total revenues were \$35,848 as compared to \$37,033 during the nine month period ended September 30, 2012, a decrease of \$1,185 or 3.2%. The decrease was due to fluctuations in partner sales volumes on which royalties were due the Company.

Research and development expenses for the nine months ended September 30, 2013 were \$6,996,462 as compared to \$402,849 during the nine months ended September 30, 2012, an increase of \$6,593,613 or 1,636.7%. The increase is primarily the result of increasing employee headcount, whose salaries, benefits, and stock-based compensation charges comprised \$3,488,794 of the increase. The remainder of the increase was related to the purchase of laboratory and instrument engineering supplies to support accelerated research and development efforts.

During the nine months ended September 30, 2013, sales, general and administrative expenses were \$2,915,549 as compared to \$2,795,187 during the nine-month period ended September 30, 2012, an increase of \$120,362 or 4.3%.

During the nine months ended September 30, 2013, amortization was \$57,692 as compared to \$139,373 during the nine-month period ended September 30, 2012, a decrease of \$81,681 resulting from the impairment of certain intangible assets during the prior twelve months including \$1,996,583 written off during the period ended July 31, 2012 and an additional \$333,487 written off during the period ended October 31, 2012. Management determined these capitalized intellectual property amounts carried on our balance sheet were no longer recoverable and abandoned its plan to pursue marketability.

Depreciation for the nine months ended September 30, 2013 was \$191,161 as compared to \$1,581 during the nine months ended September 30, 2012, an increase of \$189,580 or 11,991.1%. The increased depreciation was the result of purchases of equipment to up-fit the new Tucson facility laboratories.

As a result of the above factors, loss from operations for the nine months ended September 30, 2013 was \$10,125,016 as compared to a loss of \$3,301,957 during the nine months ended September 30, 2012, an increase in loss from operations of \$6,823,059 or 206.6%.

Other non-operating income/(loss) during the nine months ended September 30, 2013 was income of \$2,559 as compared to \$1,957,721 loss during the nine months ended September 30, 2012 an increase to \$1,960,280 or 100.1%. The change resulted from an intangible impairment charge of \$1,996,583 taken in the prior year. Management determined these capitalized intellectual property amounts carried on our balance sheet were no longer recoverable and abandoned its plan to pursue marketability.

As a result of these factors, net loss for the nine months ended September 30, 2013 was \$10,122,457 as compared to a net loss of \$5,259,678 during the nine months ended September 30, 2012, an increase in net loss of \$4,862,779 or 92.5%.

Unrealized gain for the nine month period ended September 30, 2013 was \$10,907 as compared to \$0 during the nine months ended September 30, 2012. The resulting comprehensive losses were \$10,111,550 and \$5,259,678 for the nine month periods ended September 30, 2013 and September 30, 2012, respectively.

## **Capital Resources and Liquidity**

During the nine months ended September 30, 2013, we did not generate positive cash flows from operating activities.

Our primary sources of liquidity have been from sales of shares of our Common Stock and revenues from operations. As of September 30, 2013, the Company had \$44,412,787 in cash and cash equivalents and available for sales securities, an increase of \$32,344,040 from \$12,068,747 at December 31, 2012. The primary reason for the change in these assets was two equity transactions; first, the exercise of warrants previously issued to Abeja in June 2012, and second, a \$20,000,000 rights offering transaction completed in August 2013.

On March 6, 2013, Abeja exercised in full its warrant to purchase 7,000,000 shares of the Company's Common Stock at an exercise price of \$1.03 per share. On the same date, Abeja also exercised 92% of its warrant to purchase an additional 7,000,000 shares of the Company's Common Stock at an exercise price of \$2.00 per share (Abeja exercised such warrant for 6,428,840 shares, leaving 571,160 shares unexercised). The Company received aggregate funds of \$20,067,680 in connection with such exercises. Shares issued by the Company in connection with the warrant exercises were issued directly to the members of Abeja on a pro rata basis in accordance with their membership interests and written exercise instructions provided to the Company by Abeja. Immediately after giving effect to the warrant exercises, Abeja also distributed in kind to its members (on a pro rata basis in accordance with their membership interests) the remaining shares of Common Stock held by that entity.

On July 12, 2013, the Company publicly announced the final terms of the rights offering, pursuant to which the Company distributed, at no charge to the holders of its Common Stock as of 5:00 p.m., New York City time, on July 8, 2013, which was established as the record date for the rights offering, 0.064038 non-transferable subscription rights for each share of Common Stock owned on the record date, as more fully described in the prospectus relating to the rights offering. Each whole subscription right allowed the holder thereof to subscribe to purchase one share of Common Stock at a subscription price of \$8.04 per share. In addition, any holder of subscription rights exercising his, her or its basic subscription privilege in full was eligible to subscribe to purchase additional shares of Common Stock at the same subscription price per share, subject to the conditions and limitations described further in the prospectus.

In connection with the rights offering, the Company received a standby commitment from Abeja to purchase, at \$8.04 per share, any and all shares of Common Stock that were not subscribed for by stockholders in connection with the rights offering.

The rights offering period expired at 5:00 p.m., New York City time, on August 7, 2013, and the transactions contemplated by the rights offering and the Standby Purchase Agreement described above (including the Company's issuance of an aggregate of 2,487,562 shares of its Common Stock to the rights offering participants and standby purchaser) were completed on August 8, 2013. The Company received gross proceeds of \$20,000,000 before costs associated with the transactions, which totaled \$88,785.

The Company has now closed its Denver location and fully relocated to Tucson, Arizona, where it is subject to a Lease Agreement with Pima County of Arizona. The future minimum lease payments under the Lease Agreement are \$35,115, \$140,461, \$140,461, and \$35,115 for 2013, 2014, 2015, and 2016, respectively. The Company has a contractual obligation to a director and a former officer of the Company for severance in the amount of \$24,000 during the fiscal year ending December 31, 2013.

As of September 30, 2013, management believes that current cash balances will be more than sufficient to fund our capital and liquidity needs for the next fiscal year.

The following summarizes the Company's capital resources at September 30, 2013 compared with December 31, 2012:

|   | <u>September 30,</u><br><u>2013</u> | <u>December</u><br><u>31,</u><br><u>2012</u> |
|---|-------------------------------------|--|
| Cash and cash equivalents                 | \$ 33,452,907                       | \$ 12,068,747                                |
| Investments                               | \$ 10,959,880                       | —  |
| Accounts receivable (short term)          | \$ 106,242                          | \$ 763,899                                   |
| Current assets                            | \$ 44,634,032                       | \$ 12,849,025                                |
| Total assets                              | \$ 45,932,950                       | \$ 13,316,116                                |
| Current liabilities                       | \$ 938,609                          | \$ 1,248,068                                 |
| Working Capital                           | \$ 43,695,423                       | \$ 11,600,957                                |
| Net cash used in operating activities     | (\$ 7,002,386 )                     | (\$ 2,136,153 )                              |
| Net cash used in investing activities     | (\$ 12,038,849 )                    | (\$ 158,348 )                                |
| Net cash provided by financing activities | \$ 40,425,395                       | \$ 100,000                                   |

Our primary use of capital has been for the continued development of the BACcel™ system. We believe our capital requirements will continue to be met with our existing cash balance, revenues provided by licensors and those provided under grants, exercises of warrants and stock options and/or, additional issuance of equity or debt securities. Further, if capital requirements vary materially from those currently planned, we may require additional capital sooner than expected. 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 and cash equivalents.

Our exposure to market risk is limited to our cash and cash equivalents, all of which have original maturities of less than three months, and short-term investments, which have an average maturity of less than one year. The goals of our investment policy are preservation of capital, fulfillment of liquidity needs and fiduciary control of cash and investments. We also seek to maximize income from our investments without assuming significant risk. To achieve our goals, we may in the future maintain a portfolio of cash equivalents and investments in a variety of securities that management believes to be of high credit quality. We currently do not hedge interest rate exposure.

Item 4. Controls and Procedures.

An evaluation was conducted under the supervision and with the participation of the Company's Management, including 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 defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on that evaluation, the CEO and the CFO concluded that as of September 30, 2013, 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. The CEO and the CFO also confirmed that there was no change in the Company's internal control over financial reporting during the nine-month period ended September 30, 2013.

**PART II—OTHER INFORMATION**

Item 1. Legal Proceedings.

Not Applicable.

Item 1A. Risk Factors.

There have been no material changes to the risk factors that were disclosed in the Company's Transition Report on Form 10-K for the transition period ended December 31, 2012.

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

On June 4, 2013, the Company entered into a Standby Purchase Agreement with Abeja Ventures, LLC (the "Standby Purchaser"), pursuant to which the Standby Purchaser agreed to purchase, at the prevailing subscription price (\$8.04 per share), any and all shares of the Company's Common Stock not subscribed for by the Company's stockholders in the rights offering described elsewhere in this Quarterly Report on Form 10-Q. The Standby Purchaser is owned by, among other individuals and entities, Lawrence Mehren, John Patience, Jack Schuler and Matthew W. Strobeck, each of whom is a director of the Company. No fees or other consideration were paid by the Company to the Standby Purchaser in exchange for its commitment to purchase any and all unsubscribed shares of Common Stock following the rights offering.

On August 8, 2013, in connection with the closing of the rights offering, the Company issued a total 413,090 shares of Common Stock to entities controlled by Mr. Schuler as assignees of the Standby Purchaser's rights under the agreement described above. Such entities paid the Company an aggregate cash purchase price of \$3,321,243.60 for the shares of Common Stock acquired pursuant to the Standby Purchase Agreement, which were issued in a private placement transaction separate from the rights offering pursuant to Section 4(2) of the Securities Act of 1933, as amended, and Rule 506 of Regulation D promulgated by the Securities and Exchange Commission thereunder. The Company intends to use the net proceeds from the transactions contemplated by the Standby Purchase Agreement for general corporate purposes, including to fund ongoing research and development and productive commercialization initiatives.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

- 3.1 Certificate of Amendment to Certificate of Incorporation of Registrant (incorporated by reference to Exhibit A to the Registrant's Definitive Information Statement on Schedule 14C filed on July 12, 2013)
- 4.1 Form of Non-Transferable Subscription Rights Certificate (incorporated by reference to Exhibit 4.1 to the Registrant's Form S-3 Registration Statement (No. 333-189065), Amendment No. 2, filed on July 10, 2013)
- \*31.1 Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- \*31.2 Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- \*32 Certificate of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101\*\*XBRL Instance Document
- 101\*\*XBRL Taxonomy Extension Schema Document
- 101\*\*XBRL Taxonomy Calculation Linkbase Document
- 101\*\*XBRL Taxonomy Extension Definition Linkbase Document
- 101\*\*XBRL Taxonomy Label Linkbase Document
- 101\*\*XBRL Taxonomy Presentation Linkbase Document

\* Furnished

\*\* Pursuant to applicable securities laws and regulations, we are deemed to have complied with the reporting obligation relating to the submission of interactive data files in such exhibits and are not subject to liability under any anti-fraud provisions of the federal securities laws as long as we have made a good faith attempt to comply with the



submission requirements and promptly amend the interactive data files after becoming aware that the interactive data files fail to comply with the submission requirements. Users of this data are advised that, pursuant to Rule 406T, these interactive data files are deemed not filed and otherwise are not subject to liability.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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.

ACCELERATE DIAGNOSTICS, INC.

November 8, 2013 By: /s/ Lawrence Mehren

(Date Signed) Lawrence Mehren, President and Chief Executive Officer

/s/ Steve Reichling

Steve Reichling, Chief Financial Officer and Chief Accounting Officer