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ACCEL8 TECHNOLOGY CORP  
Form 10QSB  
June 13, 2007

U.S. Securities and Exchange Commission  
Washington, D.C. 20549

FORM 10-QSB

QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended April 30, 2007

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE  
EXCHANGE ACT

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-11485

ACCEL8 TECHNOLOGY CORPORATION

-----  
(Exact name of small business issuer as specified in its charter)

COLORADO

84-1072256

-----  
(State or other jurisdiction of  
incorporation or organization)

-----  
(IRS Employer Identification No.)

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

-----  
(Address of principal executive office)

(303) 863-8088

-----  
(Issuer's telephone number)

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

Check whether the issuer (1) filed all reports required to be filed by  
Section 13 or 15(d) of the Exchange Act during the past 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

Number of shares outstanding of the issuer's Common Stock:

Class	Outstanding at June 5, 2007
-----	-----
Common Stock, no par value	9,971,210

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements  
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Accelr8 Technology Corporation  
Condensed Balance Sheets

ASSETS

April 30

July 31,

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	2007	2006
	-----	-----
	(Unaudited)	
Current assets:		
Cash and cash equivalents	\$ 1,801,249	\$ 3,004,3
Accounts receivable	17,005	10,8
Inventory	29,130	25,8
Prepaid expenses and other current assets	35,380	43,1
	-----	-----
Total current assets	1,882,764	3,084,1
Property and equipment, net	125,201	180,3
Investments, net	1,030,326	871,4
Intellectual property, net (Note 3)	3,532,149	3,712,2
Total assets	\$ 6,570,440	\$ 7,848,2
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 69,035	\$ 71,5
Accrued compensation and other liabilities	53,606	31,3
Deferred revenue (Note 4)	65,588	59,5
	-----	-----
Total current liabilities	188,229	162,4
Long-term liabilities:		
Deferred compensation	1,086,576	946,4
	-----	-----
Total liabilities	1,274,805	1,108,9
Commitments and Contingencies		
Shareholders' equity		
Common stock, no par value; 14,000,000 and 12,000,000 shares authorized, respectively; 9,971,210 shares issued and outstanding	12,878,020	12,878,0
Contributed capital	598,690	570,1
Accumulated (deficit)	(7,907,475)	(6,435,2
Shares held for employee benefit (1,129,110 shares at cost)	(273,600)	(273,6
	-----	-----
Total shareholders' equity	\$ 5,295,635	\$ 6,739,3
	-----	-----
Total liabilities and shareholders' equity	\$ 6,570,440	\$ 7,848,2
	=====	=====

See accompanying notes to unaudited condensed financial statements.

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	3 Months Ended April 30		9 Months Ended April 30	
	2007	2006	2007	2006
<b>Revenues:</b>				
OptiChem Revenues	\$ 22,687	\$ 19,800	\$ 77,805	\$ 104,600
Technical Consulting	--	--	22,000	30,000
Option Fees	--	--	14,250	--
License Fees	--	--	50,000	27,000
<b>Total Revenues</b>	<b>22,687</b>	<b>19,800</b>	<b>164,055</b>	<b>161,600</b>
<b>Costs and expenses:</b>				
Research and development	247,524	490,004	813,864	1,632,000
General and administrative	211,007	253,467	730,179	699,800
Amortization (Note 3)	60,046	59,171	180,137	177,500
Marketing and sales	2,190	36,340	5,788	74,200
Depreciation	18,382	20,136	55,146	59,100
Cost of Sales -- OptiChem	4,035	4,818	14,761	33,000
<b>Total costs and expenses</b>	<b>543,184</b>	<b>863,936</b>	<b>1,799,875</b>	<b>2,675,900</b>
<b>Loss from operations</b>	<b>(520,497)</b>	<b>(844,136)</b>	<b>(1,635,820)</b>	<b>(2,514,200)</b>
<b>Other income:</b>				
Interest and dividend income	26,130	43,528	89,750	137,200
Unrealized gain (loss) on investments	15,788	11,412	71,802	21,100
Other income	2,042	331	2,042	8,300
<b>Total other income</b>	<b>43,960</b>	<b>55,271</b>	<b>163,594</b>	<b>166,600</b>
<b>Net Loss</b>	<b>\$ (476,537)</b>	<b>\$ (788,865)</b>	<b>\$ (1,472,226)</b>	<b>\$ (2,347,400)</b>
<b>Net loss per share:</b>				
Basic and diluted net loss per share	\$ (0.05)	\$ (0.08)	\$ (0.15)	\$ (0.25)
<b>Weighted average shares outstanding</b>	<b>9,971,210</b>	<b>9,971,210</b>	<b>9,971,210</b>	<b>9,971,210</b>

See accompanying notes to unaudited condensed financial statements.

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Accelr8 Technology Corporation  
Condensed Statements of Cash Flows  
For the Nine months Ended April 30, 2007 and 2006  
(Unaudited)

	2007	2006
<b>Cash flows from operating activities:</b>		
Net (loss)	(1,472,226)	(2,347,470)
Adjustments to reconcile net (loss) to net cash (used in) operating activities:		

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Depreciation	55,146	59,159
Amortization	180,137	177,512
Fair value of stock options granted for services	28,540	17,365
Unrealized holding (gain) loss on investments	(71,802)	(21,190)
Realized (gain) on sale of investments, interest and dividend reinvested	(12,109)	(18,547)
(Increase) decrease in assets:		
Accounts receivable	(6,153)	39,647
Inventory	(3,243)	2,210
Prepaid expense and other	7,721	(5,021)
Increase (decrease) in liabilities:		
Accounts payable	(2,535)	(122,814)
Accrued liabilities	22,217	(109,160)
Deferred revenue	6,059	7,000
Deferred compensation	140,161	95,987
	-----	-----
Net cash (used in) operating activities	(1,128,087)	(2,225,322)
	-----	-----
Cash flows from investing activities:		
Purchases of equipment		(28,794)
Purchase of investments	(75,000)	(75,000)
	-----	-----
Net cash (used in) investing activities	(75,000)	(103,794)
	-----	-----
Cash flows from financing activities:		
Receipt of Note Payment		266,667
Issuance of Common Stock		15,000
	-----	-----
Net cash (used in) financing activities	--	281,667
	-----	-----
Net (decrease) increase in cash and cash equivalents	(1,203,087)	(2,047,449)
Beginning of period balance	3,004,336	5,564,259
	-----	-----
Ending of period balance	1,801,249	3,516,810
	=====	=====

See accompanying notes to unaudited condensed financial statements.

Accelr8 Technology Corporation  
Notes to Financial Statements  
April 30, 2007

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

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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, 2006, 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 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 nine months ended April 30, 2007 may not be indicative of the results of operations for the year ending July 31, 2007.

### Note 2. Summary of Significant Accounting Policies

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#### 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.

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Accelr8 Technology Corporation  
Notes to Financial Statements  
April 30, 2007

#### Estimated Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, investments and other long-term liabilities approximates fair value at April 30, 2007 and 2006. 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.

### Note 3. Intellectual Property

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Intellectual property consisted of the following:

April 30, 2007	July 31, 2006
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OptiChem Technologies	4,454,538	\$ 4,454,538
Patents	293,991	293,991
Trademarks	49,019	49,019
	-----	-----
Total intellectual property	4,797,548	4,797,548
Accumulated amortization	(1,265,399)	(1,085,262)
	-----	-----
Net intellectual property	\$ 3,532,149	\$ 3,712,286
	=====	=====

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 technologies. Amortization expense was \$60,046 and \$180,137 respectively, for the three and nine months ended April 30, 2007.

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 4. License and Supply Agreements

On November 24, 2004, the Company entered into a worldwide exclusive manufacturing and marketing license agreement (the OLicense Agreement) with SCHOTT Jenaer Glas GmbH (SCHOTTO) for slide H.

Pursuant to the License Agreement, SCHOTT paid the Company a non-refundable fee of \$100,000, on December 20, 2004, of which \$50,000 was credited against future royalties. During the 2-year term of the License Agreement, SCHOTT agreed to pay

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Accelr8 Technology Corporation  
Notes to Financial Statements  
April 30, 2007

the Company a royalty payment equal to 6% of net sales of products licensed under the License Agreement. For the nine-month period ending April 30, 2007, \$13,744 of Slide H royalties were realized from the initial License Agreement with SCHOTT. As of April 30, 2007, deferred revenue remaining from the original Schott royalty payment (Slide H) was \$15,588. An optional 1-year "non-exclusive" license extension to market and manufacture Slide H was exercised by SCHOTT on September 27, 2006 for the period November 24, 2006 through November 23, 2007.

The Company also granted an option to SCHOTT for a non-exclusive right to manufacture and sell, up to 12,500 OptiChem coated (Streptavidin) glass slides (Slide HS), from January 1, 2006 to December 31, 2006. SCHOTT exercised this right and paid the Company \$15,000 on January 27, 2005 for training on manufacturing of Slide HS.

Pursuant to this contract, \$9,659 of royalties were billed January 11, 2007 and

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received February 27, 2007, for the non exclusive sales and manufacturing agreement for 2006 between SCHOTT and the Company for slide HS.

On December 29, 2006, the Company and SCHOTT entered into a non-exclusive license agreement for Slide HS for the time period of January 1, 2007 through December 31, 2008. Under this agreement SCHOTT agreed to pay the Company a non-refundable payment of \$100,000; \$50,000 for license fee and \$50,000 for prepayment of royalties. During the 2-year term of the License Agreement, SCHOTT agreed to pay the Company a royalty payment equal to 8% of the net sales of products licensed under the License Agreement. The payment of \$100,000 was received February 15, 2007. Also, SCHOTT agreed to provide 7,500 glass substrates to the Company at no charge. The slides are valued at \$14,250 and that amount has been recorded as option fees. As of April 30, 2007 the accounts receivable reflect \$11,400 for 6,000 glass substrates yet to be received from SCHOTT.

### Feasibility Testing Agreement

Effective October 5, 2005, the Company and Promega Corporation ("Promega") entered into a Feasibility Testing Agreement (the "Agreement"). Pursuant to the Agreement, the Company focused on the development of a customized coating for a glass slide for a product owned by Promega. The Agreement required that the feasibility testing be divided into two phases. On October 21, 2005, Promega paid the Company \$49,000 in return for the Company's performance under the Agreement. During fiscal year ended July 31, 2006, Phase I was completed and the Company recognized \$27,000 in technology consulting fees. On September 12, 2006, Promega and the Company determined that Phase II was successfully completed and the Company recognized technology consulting fees of \$22,000 for the quarter ending October 31, 2006. The Company has no further obligation under the Agreement. The Company granted an extended license exercise period to Promega to purchase a fully paid license for OptiChem through April 30, 2007. Promega did not exercise this option and it has expired.

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Accelr8 Technology Corporation  
Notes to Financial Statements  
April 30, 2007

### Note 5. Employee Stock Based Compensation

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Common Stock Options At April 30, 2007, there were 1,002,500 stock options outstanding at prices ranging from \$1.45 to \$3.20 with expiration dates between May 6, 2007 and March 16, 2015. For the nine months ended April 30, 2007 and 2006, stock options exercisable into 1,002,500 and 1,009,500 shares of common stock, respectively, were not included in the computation of diluted earnings per share because their effect was antidilutive.

Until January 31, 2006, the Company accounted for stock based compensation to employees and directors using the intrinsic value method in accordance with Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. The Company accounted for stock based compensation to non-employees in accordance with SFAS No. 123, "Accounting for Stock Based Compensation", as amended by SFAS No. 148, "Accounting for Stock-Based Compensation--Transition and Disclosure--an amendment to FASB No. 123."

The following table illustrates the effect on net loss if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based



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compensation.

	Nine Months Ended April 30, 2006 -----
Net loss - as reported	\$ (2,347,470)
Deduct: Total stock-based compensation expense determined under fair value based method for all awards	(13,479) -----
Pro forma net loss	\$ (2,360,949) =====
Earnings per share:	
Basic and diluted - as reported	\$ (.24) =====
Basic and diluted - pro forma	\$ (.24) =====

Beginning February 1, 2006, 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. The proforma disclosures previously permitted under SFAS 123 are no longer an alternative to financial statement recognition. Under the modified prospective application method, we will 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 required effective date will be recognized as compensation expense as the requisite service is rendered after the required effective date.

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Notes to Financial Statements  
April 30, 2007

The fair value of options granted under the stock option agreements and stock-based compensation plans discussed above are estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for grants: no dividend yield; risk free interest rate of 5.0%; expected life of 3-4 years; and expected volatility of 51%. For the quarter ended April 30, 2007, there were no new option grants. The weighted average remaining contractual life of options outstanding at April 30, 2007 was 4.21 years.

Beginning with the Company's quarterly period that began on February 1, 2006, the Company adopted the provisions of SFAS No. 123R and is required to expense the fair value of employee stock options and similar awards in the financial statements. For the three month period ended April 30, 2006 the Company recognized \$14,815 in stock based compensation costs related to the issuance of stock options to employees. For the three-month and nine month periods ended April 30, 2007, the Company recognized \$6,977 and \$28,539, respectively, in stock based compensation costs related to the issuance of stock options to employees. As of April 30, 2007, the total unrecognized share-based compensation cost related to unvested stock options was approximately \$21,000.

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

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of Operations

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### Forward Looking Information

This Quarterly Report on Form 10-QSB 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 BACcelr8r, the Company will have sufficient capital to complete the development of the BACcelr8r, the Company will be able to protect its intellectual property, the

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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 SEC including its 10-KSB for the year ended July 31, 2006, could affect the Company's actual results and cause actual results to differ materially from those discussed in forward-looking statements.

### Overview

Our vision is to develop and commercialize an innovative, integrated system for rapid identification of bacteria and the determination of their antibiotic resistance in critically ill patients. Our business strategy is to penetrate a large market segment, develop profitable sales growth, and demonstrate the value of our technology in the broad market for biomedical products with the intent of licensing our proprietary technology to market leaders.

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We are developing the BACcelr8r(TM), a rapid pathogen analyzer, by integrating our proprietary technologies into an automated system. Proprietary technologies include OptiChem(R) surface coatings and assay processing methods. We have received patents or we have patent applications pending for the major technology components and systems.

The BACcelr8r project began with a number of innovative analytical biological concepts that had no direct precedent, even though based on familiar microbiological principles. However, these accepted principles had only been applied to cultures that contain hundreds of millions of bacteria descended from single organisms hand-selected as colonies grown from a patient specimen.

The BACcelr8r is based on a simple transformation of standard 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.

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Our first laboratory BACcelr8r research model, Version 0.1, is used in our own internal research to investigate and characterize the biological principles that we believe confer advantages upon our analytical methods. We also developed functional specifications and product requirements for the first clinical version of the BACcelr8r. During development, we identified a product version that we believe will shorten the path to market. We call this system the "BACcel(TM)-1.0."

We plan the BACcel-1.0 to provide the same rapid (2-hour) bacterial quantitation and identification functions as the clinical BACcelr8r. However, we plan to augment the first reported identification with additional strain identification according to major antibiotic resistance categories. The purpose of this version is to narrow the drug choices for empiric therapy.

For example, the first report might state that some quantity of "Staph" is present. The second report might then state that all of the Staph fall into a major antibiotic resistance group known as "MRSA" (methicillin resistant Staph aureus sometimes referred to as "superbugs" in news reports). However the BACcel-1.0 would not report specific antibiotic resistance and susceptibility as would happen with the clinical BACcelr8r. Instead it would report the numbers of organisms that fall within major groups that are typically the most difficult to treat, and thus narrow the initial empiric therapy options to help improve the chances of initial success. The Company believes that with this information, the physician can rule out drugs that are likely to fail. The purpose is to indicate which drugs not to use for initial therapy.

We plan to include such major category identification for the most difficult major organism groups. Examples of such resistance groups include MRSA, major beta-lactamase producers in Enterobacteriaceae, and multi-drug resistant Pseudomonas and Acinetobacter. We have re-started engineering to design and build our first research versions to place in outside laboratories. They will be used to expand our validation studies.

In addition to the BACcelr8r project, we have developed and licensed to third parties OptiChem(TM) surface coatings for use in microarraying components. We have granted Schott Jenaer Glas GmbH ("SCHOTT"), which is a global leader in high-quality glass manufacturing, a non-exclusive global license to manufacture and market OptiChem microarraying products. (Slide H and HS) The current license

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includes the use of OptiChem on glass slides for gene and protein microarraying for Slide H. SCHOTT has exercised its right to a third year of non-exclusive production of Slide H commencing November 24, 2006. In addition to Slide H, SCHOTT has entered into a second license agreement for the non-exclusive manufacturing of Slide HS, commencing January 1, 2007 and expiring December 31, 2008.

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Previously we have continued to refine the specifications and functional requirements of the BACcel-1.0 platform. We defined and began testing the specific analysis required in and BACcel-1.0 system. We presented the results of the first completed sets of tests, conducted for MRSA identification, at a major scientific meeting American Society of Microbiologists in Toronto Canada in May of 2007.

During the quarter ended April 30, 2007 we devoted substantially all resources to standardizing and validating our basic analytical methods. Each combination of one antibiotic and one bacterial species requires extensive repetition in order to accumulate data sets for statistical analysis. We began this process and presented initial data at professional meetings. We presented initial results of our rapid test to identify "MRSA," a highly resistant type of "Staph" bacteria. We submitted additional abstracts, for meetings to be held later this year, on the results of other successful tests. One of the tests identifies Acinetobacter, a highly resistant type of bacteria that has caused serious outbreaks in military and civilian hospitals. We created a new approach for high-performance antibody development, and the method yielded an exceptionally good antibody for our Acinetobacter identification assay. Commercial antibodies are not available for Acinetobacter and certain other important bacteria. In other cases, commercial antibodies have performed poorly. Therefore we believe that our new antibody development method may offer a significant competitive advantage.

Bacteria that belong to the broad group that includes Acinetobacter are even more difficult to identify and treat than MRSA, but have received less attention in the news media. Data collection will continue with expansion of current data sets and addition of further "bug/drug" combinations. We intend to continue to make technical presentations and submit publications to professional journals.

With guidance from outside expert medical advisors, we also designed the next generation of single-use cassettes in preparation for BACcel-1.0 product development. During the quarter ended April 30, 2007 we also initiated a number of contacts within the industry and with government agencies in order to advance specific opportunities in product development.

### Plan of Operations

During the next twelve months, we plan to commercialize this sixteen channel version of the cassette, and to modify the instrumentation to operate the new cassette. The Company may sell certain equipment that has been used in quality control for the manufacture of coated slides. Since Schott has added manufacturing capacity for additional versions of OptiChem, we foresee no longer building custom slides after July 31, 2007. During the next twelve months we believe that we will remain staffed at the current level of thirteen employees.

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### Application of Critical Accounting Policies

#### Revenue Recognition

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We recognize revenue as follows:

Consulting revenue is recognized at the completion of the contract.

OptiChem revenue is recognized upon shipping of the product to the customer.

Deferred revenue represents amounts billed but not yet earned under consulting agreements.

### Deferred Taxes

We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities. We regularly review our deferred tax assets for recoverability and establish a valuation allowance based on historical taxable income, projected future taxable income, and the expected timing of the reversals of existing temporary differences. As of July 31, 2006 and July 31, 2005, we have established a valuation allowance equal to our net deferred tax asset, as we have not been able to determine that we will generate sufficient future taxable income to allow us to realize the deferred tax asset.

### Intangible Assets

We amortize our intangible assets over the period the asset is expected to contribute directly or indirectly to our future cash flows. We evaluate the remaining useful life of each intangible asset that is being amortized each reporting period to determine whether events and circumstances warrant a revision to the remaining period of amortization.

We review our intangible assets for impairment each reporting period as discussed below under "Impairment of long-lived and intangible assets." An impairment loss will be recognized if the carrying amount of an intangible asset is not recoverable and its carrying amount exceeds its fair value.

### Impairment of Long-Lived and Intangible Assets

We assess the impairment of identifiable intangibles and long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important which could trigger an impairment review include the following:

significant underperformance relative to expected historical or projected future operating results;

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significant changes in the manner of our use of the acquired assets or the strategy for our overall business;

significant negative industry or economic trends;

significant decline in our stock price for a sustained period; and

our market capitalization relative to net book value.

When we determine that the carrying value of intangibles and long-lived assets may not be recoverable based upon the existence of one or more of the above indicators of impairment, we measure any impairment based on a projected

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discounted cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our current business model. Our judgments regarding the existence of impairment indicators are also based on legal factors, market conditions and expected future operational performance of related product lines of the identifiable intangible. Future events could cause us to conclude that impairment indicators exist and that our identifiable assets are impaired. Management believes that the amounts carried on our balance sheet are recoverable, and that our intangible assets are not impaired at this time. Management's belief is based upon an independent valuation of our intangibles that was obtained from a third party valuation firm and management's assessment of the fair value of our intangibles. Our intangibles constitute a significant portion of our assets, and as a result, any resulting impairment loss could have a material adverse impact on our financial condition and results of operations in the future. We also evaluate the remaining estimated useful lives of each asset each reporting period and determine whether events or circumstances require revised useful lives.

### Research and Development

Research and development expenses are expensed as incurred. Research and development expenses include salaries and related expenses associated with the development of our technology and include compensation paid to engineering personnel and fees to consultants.

### Changes in Results of Operations

Three months ended April 30, 2007 compared to three months ended April 30, 2006.

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During the three months ended April 30, 2007, OptiChem revenues were \$22,687 as compared to \$19,800 during the three month period ended April 30, 2006, an increase of \$2,887 or 14.6%. The increase was due to a \$6,092 royalty credit from SCHOTT from Slide H sales.

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Research and development expenses for the three months ended April 30, 2007 were \$247,524 as compared to \$490,004 during the three months ended April 30, 2006, a decrease of \$242,480 or 49.5%. This decrease was primarily due to decreased consulting/engineering fees and direct supply costs related to the development of the BACcelr8r.

During the three months ended April 30, 2007, general and administration expenses were \$211,007 as compared to \$253,467 during the three month period ended April 30, 2006, a decrease of \$42,460 or 16.8%. The decrease was primarily due to decreases in corporate insurance, deferred compensation expense, employee benefits and legal fees.

The increase in amortization was negligible for the three months ended April 30, 2007 as compared to the three month period ended April 30, 2006.

Marketing and sales expenses for the three months ended April 30, 2007 were \$2,190 as compared to \$36,340 during the three months ended April 30, 2006, a decrease of \$34,150 or 94.0%. The decrease was the result of the Company expending \$30,563 for a marketing report during the three month period ending April 30, 2006 which was not present during the three month period ending April 30, 2007.

During the three months ended April 30, 2007, depreciation was \$18,382 as compared to \$20,136 during the three month period ended April 30, 2006, a

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decrease of \$1,754 or 8.7%. This decrease resulted from the ongoing aging of assets and related depreciation schedules.

Costs of goods sold during the three months ended April 30, 2007 were \$4,035 as compared to \$4,818 during the three months ended April 30, 2006, a decrease of \$783 or 16.3%. The decrease in costs of goods sold was the result of a decrease of custom slide sales.

As a result of the above factors, loss from operations for the three months ended April 30, 2007 was \$520,497 as compared to a loss of \$844,136 during the three months ended April 30, 2006, a decreased loss of \$323,639 or 38.3%.

Interest and dividend income during the three months ended April 30, 2007 was \$26,130 as compared to \$43,528 during the three months ended April 30, 2006, a decrease of \$17,398 or 40.0%. Interest income decreased as a result of declining amounts of cash held by the Company.

An unrealized holding gain on investments held in the deferred compensation trust for the three months ended April 30, 2007 was \$15,788 as compared to an unrealized holding gain of \$11,412 for the three months ended April 30, 2006, an increase of \$4,376 or 38.4%. The change was the result of an increase in the price of marketable securities held in the deferred compensation trust.

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As a result of these factors, net loss for the three months ended April 30, 2007 was \$476,537 as compared to \$788,865 during the three months ended April 30, 2006, a decreased loss of \$312,328 or 39.6%.

Nine months ended April 30, 2007 compared to nine months ended April 30, 2006.  
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During the nine months ended April 30, 2007, OptiChem revenues were \$77,805 as compared to \$104,678 during the nine month period ended April 30, 2006, a decrease of \$26,873 or 25.7%. The decrease was due to fewer sales of custom coated slides to Accelr8 corporate accounts.

Technical consulting fees during the nine-month period ended April 30, 2007 were \$22,000 as compared to \$30,000 during the nine-month period ended April 30, 2006, a decrease of \$8,000 or 26.7%. Technical consulting fees of \$22,000 were the result of Promega's contract being recognized as complete October 31, 2006 as compared to Technical consulting fees of \$30,000 paid by SCHOTT for training for the nine months ending April 30, 2006.

Option fees during the nine months ended April 30, 2007 were \$14,250 as compared to \$0 during the six months ended April 30, 2006. The option fee for the nine months ended April 30, 2007 was the value of slides provided by SCHOTT for an option to exercise the Slide HS agreement.

License fees during the nine months ended April 30, 2007 were \$50,000 paid by SCHOTT for Slide HS as compared to \$27,000 during the nine months ended April 30, 2006, an increase of 23,000 or 85.2%. The license fees during the nine months ended April 30, 2007 of \$50,000 were the result of a License Agreement entered into with SCHOTT to produce and sell the Company's technology on Streptavidin coated OptiChem Slides (Slide HS). The \$27,000 recognized at the end of April 30, 2006 was from the first installment of the Promega contract.

Research and development expenses for the nine months ended April 30, 2007 were \$813,864 as compared to \$1,632,079 during the nine months ended April 30, 2006, a decrease of \$818,215 or 50.1%. This decrease was primarily due to decreased consulting/engineering fees and direct supply costs related to the development

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of the BACcelr8r.

During the nine months ended April 30, 2007, general and administration expenses were \$730,179 as compared to \$699,893 during the nine month period ended April 30, 2006, an increase of \$30,286 or 4.3%. The increase was primarily due to increases in deferred compensation (marketable securities held in trust) of \$44,174 and salaries of \$39,112. There were also decreases in corporate insurance of \$6,898, employee benefits of \$25,365 and legal fees of \$18,119.

The increase in amortization was negligible for the nine months ended April 30, 2007, as compared to the nine month period ended April 30, 2006.

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Marketing and sales expenses for the nine months ended April 30, 2007 were \$5,788 as compared to \$74,250 during the nine months ended April 30, 2006, a decrease of \$68,462 or 92.2%. The company purchased a marketing report and contracted for website design during the nine month period ending April 30, 2006, and had additional miscellaneous marketing expenses which were not reoccurring.

Depreciation for the nine months ended April 30, 2007 was \$55,146 as compared to \$59,159 the nine months ended April 30, 2006, a decrease of \$4,013 or 6.8%. The decreased depreciation was the result of some assets becoming fully depreciated during the year ended July 31, 2006, coupled with no purchases of equipment during the first nine months of the current year.

Cost of goods sold during the nine months ended April 30, 2007 were \$14,761 as compared to \$33,017 during the nine months ended April 30, 2006, a decrease of \$18,256 or 55.3%. The decrease in costs of goods sold was primarily the result of the corresponding decrease in custom slide sales as discussed above.

As a result of the above factors, loss from operations for the nine months ended April 30, 2007 was \$1,635,820 as compared to a loss of \$2,514,232 during the nine months ended April 30, 2006, a decrease of \$878,412 or 34.9%.

Interest and dividend income during the nine months ended April 30, 2007 was \$89,750 as compared to \$137,241 during the nine months ended April 30, 2006, a decrease of \$47,491 or 34.6%. Interest income decreased because of the declining amounts of cash held by the Company.

An unrealized holding gain on investments held in the deferred compensation trust for the nine months ended April 30, 2007 was \$71,802 as compared to an unrealized holding gain of \$21,190 for the nine months ended April 30, 2006, an increase of \$50,613 or 238.9%. The change was the result of an increase in the price of marketable securities held in the deferred compensation trust.

As a result of these factors, net loss for the nine months ended April 30, 2007 was \$1,472,226 as compared to \$2,347,470 during the nine months ended April 30, 2006, a decrease of \$875,244 or 37.3%.

### Capital Resources and Liquidity

At April 30, 2007, as compared to July 31, 2006, cash and cash equivalents, decreased by \$1,203,087 from \$3,004,336 to \$1,801,249 or approximately 40.0% and the Company's working capital decreased \$1,227,152 or 42% from \$2,921,687 to \$1,694,535. During the same period, shareholders' equity decreased from \$6,739,320 to \$5,295,635.

The net cash used in operating activities was \$1,128,087 during the nine months ended April 30, 2007 compared to cash used in operating activities of \$2,225,322



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during the nine months ended April 30, 2006. The decrease of cash used in operating activities were due to a significant decrease in outside engineering and consultant expense related to cassette development, offset by an increase in unrealized holding gain of \$50,612 in the deferred compensation trust.

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The Company has historically funded its operations generally through cash flow generated from operations. Management believes that current cash balances will be sufficient to fund our capital and liquidity needs for at least the next twelve months. If the company continues to expend its capital resources at the current rate in the research and development of the BACcelr8r, it may have to seek capital resources from other sources to meet its obligations in the future.

### Item 3. Controls and Procedures

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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 and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of April 30, 2007. 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 accumulated, recorded, processed, summarized, reported and communicated to the Mr. Geimer, to allow timely decisions regarding required disclosure. Mr. Geimer also confirmed that there was no change in the Company's internal control over financial reporting during the quarter ended April 30, 2007.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

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Not Applicable.

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

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Not applicable.

### Item 3. Defaults upon Senior Securities

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Not applicable.

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

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Not applicable.

### Item 5. Other Information

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None

### Item 6. Exhibits

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Exhibits:

1. Exhibit 31.1 Certification of Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
2. Exhibit 31.2 Certification of Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
3. 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: June 13, 2007

ACCEL8 TECHNOLOGY CORPORATION

/s/ Thomas V. Geimer

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

/s/ Jan Blue

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Jan Blue, CPA, Principal Accounting Officer

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