ACCELR8 TECHNOLOGY CORP
Form 10-Q
March 17, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended January 31, 2010

or

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

For the transition period from ___to ___

Commission File Number: 0-11485

ACCELR8 TECHNOLOGY CORPORATION
(Exact name of registrant as specified in its charter)

| COLORADO | 84-1072256 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

7000 N Broadway, Bldg. 3-307, Denver, CO 80221
(Address of principal executive offices) (Zip Code)

(303) 863-8088
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

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

| | | | |
|---|---|---|---|
| Large accelerated filer | [ ] | Accelerated filer | [ ] |
| Non-accelerated filer | [ ] | Smaller reporting company | [X] |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes [ ] No [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 10,226,210 (not including 52,532 shares to be issued pursuant to the exercise of stock options in August 2009, which as of December 14, 2009 have not been issued).

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Accelr8 Technology Corporation
Condensed Balance Sheets
ASSETS

| | January 31, 2010 | July 31, 2009 |
|---|---|---|
| | (Unaudited) | |
| Current assets: | | |
| Cash and cash equivalents | $ 108,861 | $ 862,076 |
| Accounts receivable | 15,376 | 0 |
| Inventory | 36,045 | 53,445 |
| Prepaid expenses and other current assets | 50,235 | 27,698 |
| Total current assets | 210,517 | 943,219 |
| Property and equipment, net | 9,722 | 14,655 |
| Investments, net | 1,199,447 | 1,103,837 |
| Intellectual property, net (Note 3) | 3,069,717 | 3,169,724 |
| Total assets | $ 4,489,403 | $ 5,231,435 |

LIABILITIES AND SHAREHOLDERS' EQUITY

| | | |
|---|---|---|
| Current liabilities: | | |
| Accounts payable | 65,400 | 39,457 |
| Accrued compensation and other liabilities | 25,950 | 25,883 |
| Deferred revenue | 42,598 | 92,765 |
| Total current liabilities | 133,948 | 158,105 |
| Long-term liabilities: | | |
| Deferred compensation | 1,236,947 | 1,178,836 |
| Total liabilities | 1,370,895 | 1,336,941 |
| Commitments and Contingencies | | |
| Shareholders' equity | | |
| Common Stock, no par value; 14,000,000 shares authorized; 10,226,210 shares issued and outstanding (Not including 52,532 shares to be issued. See Note 7.) | 13,803,820 | 13,803,820 |
| Contributed capital | 1,137,424 | 1,118,306 |
| Accumulated (deficit) | (11,549,136) | (10,754,032) |
| Shares held for employee benefit (1,129,110 shares at cost) | (273,600) | (273,600) |
| Total shareholders' equity | 3,118,508 | 3,894,494 |
| Total liabilities and shareholders' equity | $ 4,489,403 | $ 5,231,435 |

See Accompanying Notes to Financial Statements



Accelr8 Technology Corporation
Condensed Statements of Operations
For the Three and Six Months ended January 31, 2010 and 2009
(Unaudited)

| | 3 Months Ended January 31 | | 6 Months Ended January | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Revenues: | | | | |
| OptiChem(R) revenues | $ 49,995 | $ 14,493 | 65,544 | $ 15, |
| Technical development fees | 0 | 300,000 | 0 | 600, |
| License fees | 0 | 50,000 | 0 | 50, |
| Total Revenues | 49,995 | 364,493 | 65,544 | 665, |
| Costs and expenses: | | | | |
| Research and development | 131,554 | 194,603 | 292,453 | 354, |
| General and administrative | 245,541 | 213,714 | 458,224 | 464, |
| Amortization | 62,649 | 61,753 | 125,373 | 123, |
| Marketing and sales | 0 | 5,663 | 0 | 6, |
| Depreciation | 2,617 | 5,686 | 5,233 | 11, |
| Cost of sales | 0 | 0 | 0 | |
| Total costs and expenses | 442,361 | 481,419 | 881,283 | 960, |
| Loss from operations | (392,366) | (116,926) | (815,739) | (294, |
| Other income: | | | | |
| Interest and dividend income | 1,255 | 5,154 | 2,617 | 14, |
| Unrealized gain (loss) on investments | 7,989 | (42,558) | 18,018 | (97, |
| Total other income | 9,244 | (37,404) | 20,635 | (83, |
| Net loss | $ (383,122) | $ (154,330) | (795,104) | $ (378, |
| Net loss per share: | | | | |
| Basic and diluted net loss per share | $ (.04) | $ (.02) | $ (.08) | $ ( |
| Weighted average shares outstanding | 10,226,210 | 10,226,210 | 10,226,210 | 10,226, |

See Accompanying Notes to Financial Statements



Condensed Statements of Cash Flows

For the Six Months Ended January 31, 2010 and 2009
(Unaudited)

| | 2010 | 2009 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net loss | $ (795,104) | $ (378,429) |
| Adjustments to reconcile net (loss) to net cash (used in) operating activities: | | |
| Depreciation | 5,233 | 11,372 |
| Amortization | 125,373 | 123,296 |
| Fair value of stock options granted for services | 19,118 | 126,308 |
| Unrealized holding (gain) loss on investments | (18,018) | 97,588 |
| Reinvested earnings - interest and dividends | (2,592) | (10,701) |
| (Increase) decrease in assets: | | |
| Accounts receivable | (15,376) | (43,666) |
| Inventory | 17,400 | 18,363 |
| Prepaid expense and other | (22,537) | 14,776 |
| Increase (decrease) in liabilities: | | |
| Accounts payable | 25,943 | (35,513) |
| Accrued liabilities | 67 | (7,434) |
| Deferred revenue | (50,167) | (15,145) |
| Deferred compensation | 58,111 | (49,388) |
| Net cash (used in) operating activities | (652,549) | (148,573) |
| Cash flows from investing activities: | | |
| Purchases of equipment and patents | (25,666) | (22,670) |
| Contribution to deferred compensation trust | (75,000) | (75,000) |
| Net cash used in investing activities | (100,666) | (97,670) |
| Decrease in cash and cash equivalents | (753,215) | (246,243) |
| Beginning balance | 862,076 | 1,233,100 |
| Ending balance | $ 108,861 | $ 986,857 |

See Accompanying Notes to Financial Statements



Note 1. Basis of Presentation

The financial statements included herein have been prepared by Accelr8 Technology Corporation (the "Company") without audit, pursuant to the rules and regulations of the United States Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted as allowed by such rules and regulations. The Company believes that the disclosures are adequate to make the information presented not misleading. These financial statements should be read in conjunction with our annual audited financial statements dated July 31, 2009, included in our annual report on Form 10-K as filed with the SEC on November 13, 2009.

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 six months ended January 31, 2010 may not be indicative of the results of operations for the year ended July 31, 2010.

Note 2. Going Concern

The Financial statements have been prepared on the basis of a going concern which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the accompanying financial statements, we have incurred significant operating losses. As of January 31, 2010, we have limited financial resources and have not been able to generate positive cash flow from operations. At January 31, 2010, as compared to July 31, 2009, cash and cash equivalents decreased by $753,215 from $862,076 to $108,861, or approximately 87.3% and the Company's working capital decreased $708,545 or 90.2% from $785,114 to $76,569. These factors raise substantial doubt about our ability to continue as a going concern. Management plans to fund its future operation by joint venturing and obtaining additional financing. However, there is no assurance that we will be able to obtain any joint venture partners or obtain additional financing from investors or private lenders.

Note 3. Summary of Significant Accounting Policies

Use of Estimates

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



Concentration of Credit Risk

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

Estimated Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, investments and other long-term liabilities approximates fair value at January 31, 2010 and July 31, 2009. 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.

Income Taxes

The Company has no unrecognized tax benefits. Should the Company determine that any penalty and interest be accrued as a result of current or future tax positions taken on its returns, such penalties and interest will be accrued in

its financial statements as other non-interest expense and as interest expense during the period in which such determination is made.

The Company files federal and state income tax returns. These returns are subject to examination by taxing authorities for all tax years after 2005.

Note 4. Recently Issued Accounting Pronouncements

The Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") (Topic 105, "Generally Accepted Accounting Principles"), became the single source for authoritative nongovernmental U.S. generally accepted accounting principles on July 1, 2009. The Company has adopted FASB ASC for periods ending after September 15, 2009.

Note 5. Intellectual Property

Intellectual property consisted of the following:

| | January 31, 2010 | July 31, 2009 |
|---|---|---|
| OptiChem(R) Technologies | $ 4,454,538 | $ 4,454,538 |
| Patents | 507,367 | 482,000 |
| Trademarks | 49,019 | 49,019 |
| Total intellectual property | 5,010,924 | 4,985,557 |
| Accumulated amortization | (1,941,207) | (1,815,833) |
| Net intellectual property | $ 3,069,717 | $ 3,169,724 |



Intellectual properties are recorded at cost and are being amortized on a straight-line basis over their estimated useful lives of 20 years, which approximates the patent and patent application life of the OptiChem(R) technologies. Amortization expense was $125,373 and $123,296, respectively, for the six months ended January 31, 2010 and 2009.

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 6. Research and Option Agreement and License and Supply Agreements

On May 22, 2008, the Company and Becton, Dickinson and Company ("BD") entered into a Research and Option Agreement (the "Agreement").

The Agreement provided for the establishment of a research program from the date of the Agreement until September 30, 2009 whereby BD funded certain research work by the Company relating to the Company's BACcel(TM) rapid diagnostics platform (the BACcel(TM) Platform"). The research program included mutually agreed upon milestones to support BD's product development planning. Under the terms of the Agreement, in connection with the research program, the Company

received certain periodic payments from BD between the date of the Agreement and July 1, 2009.

The Agreement also granted BD an option to acquire for an upfront payment and product-delivered royalties an exclusive license (the "Exclusive License") from the Company for certain know-how and patent rights relating the BACcel(TM) Platform. Upon termination of the option and the technical development project subsequent to successful milestone completion, Accelr8 received a non-exclusive license from BD for certain intellectual property.

On September 24, 2009, BD declined to exercise its licensing option and will no longer participate in the technical development of the BACcel(TM) system. The Company is currently in discussions with alternative commercialization prospects and is seeking a new strategic partner to assist in developing, manufacture and taking the BACcel(TM) system to market.

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



The Company entered into an exclusive seven-year license with NanoString Technologies Inc. on October 5, 2007. The license grants to NanoString the right to apply OptiChem(R) coatings to NanoString's proprietary molecular detection products. Pursuant to the license agreement, NanoString paid the Company a non-refundable fee of $100,000 of which $50,000 was credited against future royalties. Under the royalty-bearing license, NanoString is to pay the Company a royalty at the rate of eight percent (8%) of net sales for sales up to $500,000 of NanoString licensed products. The royalty rate on the second $500,000 of net sales is six percent (6%), and the royalty thereafter is four percent (4%). Royalties in the aggregate amount of $ 4,729 and $652 respectively were earned during the three months ended January 31, 2010 and 2009. Royalties earned during the six months ended January 31, 2010 and 2009 were $4,729 and $792 respectively.

Note 7. Employee Stock Based Compensation

On January 31, 2010, there were Common Stock options outstanding at prices ranging from $1.45 to $4.50 with expiration dates between November 3, 2009 and October 28, 2018. For the three months ended January 31, 2010 and 2009, stock options exercisable into 1,087,500 and 1,040,000 shares of Common Stock, respectively, were not included in the computation of diluted earnings per share because their effect was antidilutive.

On August 26, 2009, 100,000 options to purchase shares of the Company's common stock at a price of $1.50 per share were exercised by an officer and director of the Company on a cashless basis. Upon exercise, 47,468 of these shares were surrendered in a cashless exchange. The share price on the date of exercise was $3.16 per share. As of the date of this Quarterly Report, the balance of the shares to be issued, 52,532, have not yet been issued.

For the six month periods ended January 31, 2010 and 2009, the Company accounted for stock based compensation to employees and directors under the modified prospective application method. Using this method we apply the standard to new awards, and to awards modified, repurchased, or cancelled. Additionally, compensation costs for the unvested portion of awards are recognized as

compensation expense as the requisite service is rendered.

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 January 31, 2010 and 2009: no dividend yield; risk free interest rate of 2.37% to 5%; expected life of 3-10 years; and expected volatility of 44% to 66%. The weighted average remaining contractual life of options outstanding at January 31, 2010 and 2009 was 4.13 and 4.50 years, respectively.



As of January 31, 2010, the total unrecognized share-based compensation cost related to unvested stock options was approximately $1,407. For the three month period ended January 31, 2010 and 2009 the Company recognized $9,941 and $30,832, respectively in stock based compensation costs related to the issuance of stock options to employees. The six months ended January 31, 2010 and 2009, the Company recognized $19,118 and $126,308, respectively in stock based compensation costs.

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(TM) system, the Company will obtain sufficient capital to complete the development of the BACcel(TM) system, the Company will find a new strategic partner to assist in developing, manufacture and taking the BACcel(TM) system to market, 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 10-K for the year ended July 31, 2009, 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 diagnostic system for use with critically ill patients for rapid identification of bacteria and specific strains based on the presence of major antibiotic resistance mechanisms. Our business strategy is to demonstrate the value of our technology in the broad market for biomedical products with the intent of licensing our proprietary technology to established market leaders.

We are developing the BACcel(TM) system, a rapid bacterial diagnostic platform, by integrating our proprietary technologies into an automated system. Proprietary technologies include OptiChem(R) surface coatings, and various innovative assay processing methods. We have received patents or we have patent applications pending for the major technology components, methods, and systems. The BACcel(TM) system development project began with a number of innovative analytical biological concepts that had no direct precedent, but which adapted well-accepted microbiological testing principles for automated analysis. Until now, these testing principles have only been applied to cultures that contain hundreds of millions of bacteria descended from single organisms, hand-selected as cultured colonies grown from a patient specimen.

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



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

We intend the BACcel(TM) system to report bacterial quantitation and identification within 2 hours of patient specimen processing. We plan to augment the first reported identification with additional identification of major antibiotic resistance mechanisms. We believe that resistance mechanism identification will require no more than 4 additional hours of testing, with some results becoming available more quickly than others.

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

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

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

Without specific guidance, the physician now has no choice but to use these reserved drugs to assure initial infection control but accelerating their loss of effectiveness over time.

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



Management believes, based on outside opinions and direct market research, that the Company is the only organization in the world to be developing a rapid diagnostic solution, and one that includes these organisms and strain types.

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

In parallel to the BACcel(TM) system development, we have developed and independently licensed OptiChem(R) surface coatings to other companies for use in microarraying and other molecular detection products. We have granted Schott Jenaer Glas GmbH, a global leader in high-quality glass manufacturing, a

non-exclusive license to manufacture and market microarraying slides using OptiChem(R) coatings. We have also licensed NanoString Technologies Inc. the use OptiChem(R) in their innovative molecular bar-coding systems for high-sensitivity gene expression analysis.

During the three months ended January 31, 2010, research collaborators at the Denver Health Medical Center and Barnes-Jewish Hospital, St. Louis continued studies using prototypes of the BACcel(TM) system. During the quarter ended January 31, 2010 our pilot clinical study with ICU patients at the Denver Health Medical Center increased its case entry rate. We had enough cases monitored for a long enough time to begin seeing positive specimens. We also found positive specimens on the first day for patients who entered the ICU with a pneumonia infection already started. Results will remain coded until we have enough patients completing the observation period.

Subject to the receipt of capital, during the next twelve months, we intend to continue technical validation of the BACcel(TM) system methods, continue field studies including pilot clinical studies at Denver Health and Barnes-Jewish Hospital, continue to publish the results of internal and collaborative studies, and seek a strategic partner or licensee for BACcel(TM) product commercialization. Additionally, in order to ensure future viability, the Company is cutting costs in all areas and has reduced substantially it's labor, benefit and payroll costs through natural attrition.

Recently Issued Accounting Pronouncements

The Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") (Topic 105, "Generally Accepted Accounting Principles"), became the single source for authoritative nongovernmental U.S. generally accepted accounting principles on July 1, 2009. The Company has adopted FASB ASC for periods ending after September 15, 2009.



CHANGES IN RESULTS OF OPERATIONS: THREE MONTHS ENDED JANUARY 31, 2010 COMPARED TO THREE MONTHS ENDED JANUARY 31, 2009.

During the three months ended January 31, 2010, OptiChem(R) revenues were $49,995 as compared to $14,493 during the three month period ended January 31, 2009, an increase of $35,502 or 245%. The increase was due to the royalties earned from sales of slides H and HS sold by Schott. Of the $49,995 of OptiChem(R) revenues, $34,619 was applied toward deferred revenue from pre-paid royalties.

Technical development fees during the three-month period ended January 31, 2010 were $0 as compared to $300,000 during the three-month period ended January 31, 2009, a decrease of $300,000 or 100%. Technical development fees were no longer being received as a result of the termination of the Research and Option Agreement with BD entered into in May 2008.

License fees were $0 during the three months ended January 31, 2010 as compared to $50,000 during the three months ended January 31, 2009. License fees during the three months ended January 31, 2009 were the result of a license agreement entered into with Schott Jenaer Glas GmbH for Slide H to produce and sell the Company's technology on coated OptiChem(R) slides.

Research and development expenses for the three months ended January 31, 2010 were $131,554 as compared to $194,603 during the three months ended January 31, 2009, a decrease of $63,049 or 32.4%. This decrease was primarily due to decreased clinical trial expenditures.

During the three months ended January 31, 2010, general and administrative expenses were $245,541 as compared to $213,714 during the three months ended January 31, 2009, an increase of $31,827 or 14.9%. The increase was primarily due to fees related to the engagement of an investment banker, and shareholder expenses related to the annual meeting and mailing of annual reports. Additional deferred compensation charges which increased by $47,308 and accounting and audit fees which increased by $7492.

The increase in amortization was negligible for the three months ended January 31, 2010 as compared to the three month period ended January 31, 2009.

Marketing and sales expenses for the three months ended January 31, 2010 were $0 as compared to $5,663 during the three months ended January 31, 2009, a decrease of $5,663. No marketing related charges were incurred in the current quarter.

Depreciation for the three months ended January 31, 2010 was $2,617 as compared to $5,686 during the three months ended January 31, 2009, a decrease of $3,069 or 53.9%. The decreased depreciation was the result of some assets becoming fully depreciated during the three months ended January 31, 2010, coupled with no new purchases of on-site lab equipment during the quarter ended January 31, 2010.



As a result of the above factors, loss from operations for the three months ended January 31, 2010 was $392,366 as compared to a loss of $116,926 during the three months ended January 31, 2009, an increased loss of $275,440 or 235.6%.

Interest and dividend income during the three months ended January 31, 2010 was $1,255 as compared to $5,154 during the three months ended January 31, 2009, a decrease of $3,899 or 75.7%. Interest income decreased as a result of decreased interest rates and reduced amounts of cash held by the Company.

An unrealized holding gain on investments held in the deferred compensation trust for the three months ended January 31, 2010 was $7,989 as compared to an unrealized loss of $42,558 during the three months ended January 31, 2009, an increase of $50,547. The change was a result of market fluctuations in the price of marketable securities held in the deferred compensation trust.

As a result of these factors, net loss for the three months ended January 31, 2010 was $383,122 as compared to $154,330 during the three months ended January 31, 2009, an increased loss of $228,792 or 148.3%.

CHANGES IN RESULTS OF OPERATIONS: SIX MONTHS ENDED JANUARY 31, 2010 COMPARED TO SIX MONTHS ENDED JANUARY 31, 2009.

During the six months ended January 31, 2010, OptiChem(R) revenues were $65,544 as compared to $15,145 during the six month period ended January 31, 2009, an increase of $50,399 or 332.8%. The increase was due to the royalties earned from sales of slides H and HS sold by Schott. Of the $65,544 of OptiChem(R) revenues, $50,167 was applied toward deferred revenue from pre-paid royalties.

Technical development fees during the six-month period ended January 31, 2010 were $0 as compared to $600,000 during the six-month period ended January 31, 2009, a decrease of $600,000 or 100%. Technical development fees were no longer being received as a result of the termination of the Research and Option Agreement with BD entered into in May 2008.

License fees were $0 during the six months ended January 31, 2010 as compared to $50,000 during the six months ended January 31, 2009. License fees during the six months ended January 31, 2009 were the result of a license agreement entered

into with Schott Jenaer Glas GmbH for Slide H to produce and sell the Company's technology on coated OptiChem(R) slides.

Research and development expenses for the six months ended January 31, 2010 were $292,453 as compared to $354,380 during the six months ended January 31, 2009, a decrease of $61,927 or 17.5%. This decrease was primarily due to decreased consulting/engineering fees related to the development of the BACcel(TM) platform and reductions in clinical trial expenditures.



During the six months ended January 31, 2010, general and administrative expenses were $458,224 as compared to $464,177 during the six month period ended January 31, 2009, a decrease of $5,953 or 1.3%. The decrease was primarily due to decreases in corporate and shareholder expenses and employment related salaries and benefits.

Marketing and sales expenses for the six months ended January 31, 2010 were $0 as compared to $6,829 during the six months ended January 31, 2009, a decrease of $6,829 or 100.0%. No marketing and sales expense to industry trade shows costs were incurred during the period due to cost cutting measures.

Depreciation for the six months ended January 31, 2010 was $5,233 as compared to $11,372 during the six months ended January 31, 2009, a decrease of $6,139 or 54%. The decreased depreciation was the result of some assets becoming fully depreciated during the year ended July 31, 2009, coupled with no new purchases of on-site lab equipment during the six months ended January 31, 2010.

As a result of the above factors, loss from operations for the six months ended January 31, 2010 was $815,739 as compared to a loss of $294,909 during the six months ended January 31, 2009, an increase of losses of $520,830 or 176.6%.

Investment and dividend income during the six months ended January 31, 2010 was $2,617 as compared to $14,068 during the six months ended January 31, 2009 a decrease of $11,451 or 81.4%. Interest income decreased as a result of decreased interest rates and the amounts of cash held by the Company.

An unrealized holding gain on investments held in the deferred compensation trust for the six months ended January 31, 2010 was a gain of $18,018 as compared to a loss of $97,588 for the six months ended January 31, 2009, an increased gain of $115,606. The change was the result of market fluctuations in the price of marketable securities held in the deferred compensation trust.

As a result of these factors, net loss for the six months ended January 31, 2010 was $795,104 as compared to $378,429 during the six months ended January 31, 2009, an increased loss of $416,675 or 110.1%.

Capital Resources and Liquidity

During the six months ended January 31, 2010 and January 31, 2009, we did not generate positive cash flows from operating activities.



The Company has historically funded its operations generally through its existing cash balances, cash flow generated from operations and sales of equity securities. Our primary use of capital has been for the research and development of the BACcel(TM) system.

The continued operation of our business will require an additional capital

infusion and we plan to seek additional capital, likely through debt or equity financings, to continue operations. We can give no assurance that we will be able to raise such capital on such terms and conditions as we deem reasonable, if at all. We have limited financial resources until such time that we are able to generate such additional financing or additional cash flow from operations. Should we be unable to raise adequate capital or to meet the other above objectives, it is likely that we would have to substantially curtail our business activity or cease operating, and that our investors would incur substantial if not a complete loss on their investment.

The independent auditor's report accompanying the Company's July 31, 2009 consolidated financial statements contains an explanatory paragraph expressing substantial doubt about the Company's ability to continue as a going concern. The audited July 31, 2009 consolidated financial statements have been prepared "assuming that the Company will continue as a going concern," which contemplates that the Company will realize its assets and satisfy its liabilities and commitments in the ordinary course of business. Our accompanying financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should we be unable to continue as a going concern.

Notwithstanding our investments in research and development, there can be no assurance that the BACcel(TM) system or any of our other products will be successful, or even if they are successful, will provide sufficient revenues to continue our current operations. Our working capital requirements are expected to increase in line with the growth of our business. We have no lines of credit or other bank or off balance sheet financing arrangements. We believe that the plan of operations for the next twelve months will require additional capital of approximately $1,200,000. Management believes that current cash balances plus cash flow from operations will not be sufficient to fund our capital and liquidity needs for the next twelve months and we will be required to obtain additional capital through the issuance of debt or equity securities or other means to execute our plans. Additional issuances of equity or convertible debt securities will result in dilution to our current common stockholders.

At January 31, 2010, as compared to July 31, 2009, cash and cash equivalents decreased by $753,215 from $862,076 to $108,861, or approximately 87.3% and the Company's working capital decreased $708,545 or 90.2% from $785,114 to $76,569. During the same period, shareholders' equity decreased from $3,894,494 to $3,118,508.

The net cash used in operating activities was $652,549 during the six months ended January 31, 2010 compared to cash used in operating activities of $148,573 during the six months ended January 31, 2009. The principal element that gave rise to the decrease of cash used in operating activities was the net loss of $795,104 adjusted by items not currently requiring the use of cash such as depreciation and amortization totaling $130,596.



Management believes that current cash balances, cash flow, and obtaining additional capital through financing, joint ventures or additional equity capital from operations will be sufficient to fund our capital and liquidity needs until approximately July 2010.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

The Company's interest income is sensitive to fluctuations in the general level

of U.S. interest rates. As such, changes in U.S. interest rates affect the interest earned on the Company's cash, cash equivalents, and short-term investments.

Item 4. Controls and Procedures

An evaluation was conducted under the supervision and with the participation of the Company's Management, including Thomas V. Geimer, the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act"). Based on that evaluation, Mr. Geimer concluded that as of January 31, 2010, 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. Mr. Geimer also confirmed that there was no change in the Company's internal control over financial reporting during the quarter ended January 31, 2010.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Not Applicable.

Item 1A. Risk Factors

There have been no material changes to the Risk Factors discussed in our Annual Report on Form 10-K for the fiscal year ended July 31, 2009 filed with the Securities and Exchange Commission on November 13, 2009 and investors are encouraged to review those risk factors in detail before making any investment in the Company's securities.



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

Not Applicable.

Item 3. Defaults upon Senior Securities

Not applicable.

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

The Annual Meeting of the Company's Shareholders was held on December 16, 2009. The matters considered at the meeting were:

a) The election of Thomas V. Geimer, Charles E. Gerretson and John D. Kucera to the Company's Board of Directors;

b) To ratify the selection of Comiskey & Company, P.C. as the independent registered public accounting firm of the Company for the fiscal year ending July 31, 2010.

Each of the nominees was elected to the Board of Directors, and Comiskey &

Company, P.C. were ratified as the Company's independent registered public accounting firm.

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

| | For | Withhold |
|---|---|---|
| Election of Directors | | |
| Thomas V. Geimer | 7,013,948 | 195,413 |
| Charles E. Gerretson | 7,021,520 | 187,841 |
| John D. Kucera | 7,049,560 | 159,801 |

Ratification of Comiskey & Company, P.C. as the independent registered public accounting firm of the Company for the fiscal year ending July 31, 2010.

| For | Against | Withhold |
|---|---|---|
| 7,094,818 | 7,867 | 106,676 |

Item 5. Other Information

None.

Item 6. Exhibits

| Exhibit No. | Description |
|---|---|
| 31.1 | Certification of Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act 0f 2002. |



SIGNATURES

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

Dated: March 17, 2010 ACCELR8 TECHNOLOGY CORPORATION

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

/s/ Bruce H. McDonald
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Bruce H. McDonald, Principal
Accounting Officer