

ACCEL8 TECHNOLOGY CORP  
Form 10QSB  
March 16, 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: **January 31, 2007**

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

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

Commission file number 0-11485

**ACCEL8 TECHNOLOGY CORPORATION**

(Name of small business issuer in its charter)

**Colorado**  
(State or other jurisdiction of  
incorporation or organization)

**84-1072256**  
(I.R.S. Employer  
Identification No.)

**7000 North Broadway, Building 3-307, Denver, CO 80221**  
(Address of principal executive offices)

**Issuer's telephone number: (303) 863-8088**

(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:

<u>Class</u>	<u>Outstanding at March 15, 2007</u>
Common Stock, no par value	9,971,210

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**PART I. FINANCIAL INFORMATION**

## Item 1. Financial Statements

Accelr8 Technology Corporation  
Condensed Balance Sheets

**ASSETS**

	<b>January 31 2007</b>	<b>July 31, 2006</b>
	<b>(Unaudited)</b>	
<b>Current assets:</b>		
Cash and cash equivalents	\$ 2,101,824	\$ 3,004,336
Accounts receivable	121,056	10,852
Inventory	29,311	25,887
Prepaid expenses and other current assets	27,045	43,100
<b>Total current assets</b>	<b>2,279,236</b>	<b>3,084,175</b>
<b>Property and equipment, net</b>	<b>143,708</b>	<b>180,347</b>
<b>Investments, net</b>	<b>1,009,549</b>	<b>871,415</b>
<b>Intellectual property, net</b> (Note 3)	<b>3,592,195</b>	<b>3,712,286</b>
<b>Total assets</b>	<b>\$ 7,024,688</b>	<b>\$ 7,848,223</b>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

<b>Current liabilities:</b>		
Accounts payable	\$ 93,649	\$ 71,570
Accrued compensation and other liabilities	47,118	31,389
Deferred revenue (Note 4)	71,680	59,529
<b>Total current liabilities</b>	<b>212,447</b>	<b>162,488</b>
<b>Long-term liabilities:</b>		
Deferred compensation	1,047,049	946,415
<b>Total liabilities</b>	<b>1,259,496</b>	<b>1,108,903</b>

**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	12,878,020
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	<b>January 31 2007</b>	<b>July 31, 2006</b>
Contributed capital	591,712	570,150
Accumulated deficit	(7,430,940)	(6,435,250)
Shares held for employee benefit (1,129,110 shares at cost)	(273,600)	(273,600)
<b>Total shareholders equity</b>	<b>5,765,192</b>	<b>6,739,320</b>
<b>Total liabilities and shareholders equity</b>	<b>\$ 7,024,688</b>	<b>\$ 7,848,223</b>

See accompanying notes to unaudited condensed financial statements.

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Accel8 Technology Corporation  
Condensed Statements of Operations  
For the three and six months ended January 31, 2007 and 2006  
(Unaudited)

	3 Months Ended January 31		6 Months Ended January 31	
	2007	2006	2007	2006
<b>Revenues:</b>				
OptiChem revenues	\$ 20,899	\$ 40,490	\$ 55,118	\$ 84,878
Technical consulting revenues		15,000	22,000	30,000
Option fees	14,250		14,250	
License fees	50,000		50,000	27,000
<b>Total revenues</b>	85,149	55,490	141,368	141,878
<b>Costs and expenses:</b>				
Research and development	246,969	568,139	566,340	1,141,050
General and administrative	255,491	234,176	519,172	446,427
Amortization	60,045	59,170	120,091	118,341
Marketing and sales	158	9,432	3,598	37,911
Depreciation	18,382	19,992	36,764	39,023
Cost of sales	2,147	14,307	10,726	28,199
<b>Total costs and expenses</b>	583,192	905,216	1,256,691	1,810,951
<b>Loss from operations</b>	498,043	(849,726)	(1,115,323)	(1,669,073)
<b>Other income:</b>				
Interest and dividend income	28,857	46,341	63,620	93,713
Unrealized gain on investments	12,827	17,840	56,014	9,777
Other income				8,000
<b>Total other income</b>	41,684	64,181	119,634	111,490
<b>Net Loss</b>	\$ (456,359)	\$ (785,545)	\$ (995,689)	\$ (1,557,583)
<b>Net loss per share:</b>				
<b>Basic and diluted net loss per share</b>	\$ (.05)	\$ (.08)	\$ (.10)	\$ (.15)
<b>Weighted average shares outstanding</b>	9,971,210	9,971,210	9,971,210	9,971,210

See accompanying notes to unaudited condensed financial statements.

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Accel8 Technology Corporation  
Condensed Statements Of Cash Flows  
For the Six months Ended January 31, 2007 and 2006  
(Unaudited)

	2007	2006
<b>Cash flows from operating activities:</b>		
Net loss	\$ (995,689)	\$ (1,557,583)
Adjustments to reconcile net (loss) to net cash (used in) operating activities:		
Depreciation	36,764	39,023
Amortization	120,091	118,341
Fair value of stock options granted for services	21,561	2,550
Unrealized holding (gain) loss on investments	(56,014)	(9,777)
Reinvested earnings - interest and dividends	(7,120)	(11,260)
(Increase) decrease in assets:		
Accounts receivable	(110,204)	36,202
Inventory	(3,424)	1,629
Prepaid expense and other	16,055	1,655
Increase (decrease) in liabilities:		
Accounts payable	22,080	17,111
Accrued liabilities	15,729	(238,274)
Deferred revenue	12,151	7,000
Deferred compensation	100,634	35,061
Net cash (used in) operating activities	(827,386)	(1,558,332)
<b>Cash flows from investing activities:</b>		
Receipt of note payment	-0-	266,667
Issuance of Common Stock	-0-	15,000
Purchases of equipment	(126)	(28,794)
Contribution to deferred compensation trust	(75,000)	(75,000)
Net cash (used in) investing activities	(75,126)	177,873
<b>Decrease in cash and cash equivalents</b>	<b>(902,512)</b>	<b>(1,380,449)</b>
<b>Beginning balance</b>	<b>3,004,336</b>	<b>5,564,259</b>
<b>Ending balance</b>	<b>\$ 2,101,824</b>	<b>\$ 4,183,810</b>

See accompanying notes to unaudited condensed financial statements.

**Accelr8 Technology Corporation**

**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, 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 six months ended January 31, 2007 may not be indicative of the results of operations for the year ended July 31, 2007.

**Note 2. Summary of Significant Accounting Policies**

Use of estimates

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

Concentration of credit risk

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

The Company grants credit to domestic and international clients in various industries. Exposure to losses on accounts receivable is principally dependent on each client's financial position. The Company performs ongoing credit evaluations of its clients' financial condition.



**Accelr8 Technology Corporation**

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, 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.

Inventory is maintained by specific identification. Amounts of any particular inventory item are small and are used depending on particular characteristics.

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

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

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

Technical consulting revenue is recognized at the completion of the contract.

OptiChem revenue is recognized when the Company ships the product.

Allowances on accounts receivable and notes receivable are recorded when circumstances indicate collection is doubtful for particular accounts receivable. Receivables are written off if reasonable collection efforts prove unsuccessful. The Company provides for sales returns and allowances on a specific account basis.

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

## Accelr8 Technology Corporation

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 109, Accounting for Income Taxes, which requires an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed annually for differences between the financial statement basis and the income tax basis of assets and liabilities that will result in taxable or deductible amounts in the future. Such deferred income tax computations are based on enacted tax laws and rates applicable to the years in which the differences are expected to affect taxable income. A valuation allowance is established when necessary to reduce deferred income tax assets to the amounts expected to be realized.

**Note 3. Intellectual Property**

	<u>January 31, 2007</u>	<u>July 31, 2006</u>
Intellectual property consisted of the following:		
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	(1,205,353)	(1,085,262)
Net intellectual property	\$ 3,592,195	\$ 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 \$120,091 and \$118,341 respectively, for the six months ended January 31, 2007 and 2006.

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 License Agreement) with SCHOTT Jenaer Glas GmbH (SCHOTT) for Slide H.

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**Accelr8 Technology Corporation**

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 the Company a royalty payment equal to 6% of net sales of products licensed under the License Agreement. For the six month period, ending January 31, 2007, \$7,653 of Slide H royalties was realized from the initial License Agreement and the previous Supply Agreements with SCHOTT. As of January 31, 2007, deferred revenue remaining from the original Schott royalty deposit was \$21,680. 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 the manufacture of Slide HS.

Separate from the previously mentioned contracts, \$9,656 of royalties were billed January 11, 2007 and 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 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 January 31, 2007 the accounts receivable for \$11,400 is for the 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 has granted a license exercise period extension to Promega to purchase a fully paid license for OptiChem through April 30, 2007.

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**Accelr8 Technology Corporation**
**Note 5. Employee Stock Based Compensation**

*Common Stock Options* At January 31, 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 six months ended January 31, 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.

For the six months ended 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 compensation.

	<b>Three and Six Months Ended</b>	
	<b>January 31, 2006</b>	
	<b>3 months</b>	<b>6 months</b>
Net loss as reported	\$ (785,545)	\$ (1,557,583)
Deduct: Total stock-based compensation expense determined under fair value based method for all awards	(13,479)	(13,479)
Pro forma net loss	\$ (799,024)	\$ (1,571,062)
Earnings per share:		
Basic and diluted as reported	\$ (.08)	\$ (.15)
Basic and diluted pro forma	\$ (.08)	\$ (.15)

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.

**Accelr8 Technology Corporation**

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 quarter ended January 31, 2007: no dividend yield; risk free interest rate of 5.0%; expected life of 3-4 years; and expected volatility of 51%. The weighted average remaining contractual life of options outstanding at January 31, 2007 was 4.46 years.

As of January 31, 2007, the total unrecognized share-based compensation cost related to unvested stock options was approximately \$30,000. For the three-month and six-month period ended January 31, 2007 the Company recognized \$14,101 and \$21,562 in stock based compensation costs related to the issuance of stock options to employees. This cost was calculated in accordance with SFAS No. 123R and is reflected in the Company's operating expenses.

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

**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 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.

**Accelr8 Technology Corporation**

The following discussion should be read in conjunction with the Company's unaudited condensed financial statements and related notes, included elsewhere, herein. The Company's future operating results may be affected by various trends and factors which are beyond the Company's control. These include, among other factors, general public perception of issues and solutions, and other uncertain business conditions that may affect the Company's business. The Company cautions the reader that a number of important factors discussed herein, and in other reports, filed with the Securities and Exchange Commission including the risks in the section entitled "Risk Factors" in 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.

We are developing the BACcelr8<sup>®</sup>, a rapid pathogen analyzer, by integrating our proprietary technologies into an automated system. Proprietary technologies include OptiChem<sup>®</sup> surface coatings and assay processing methods. We have received patents or we have patent applications pending for the major technology components and systems.

The BACcelr8<sup>®</sup> 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 BACcelr8<sup>®</sup> 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.

Accel8 Technology Corporation

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 -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 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 two-year exclusive global license with an additional one-year option to manufacture and market OptiChem microarraying products. The current license 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.

### **Accelr8 Technology Corporation**

During the past quarter we have continued to refine the specifications and functional requirements of the BACcel-1.0 platform. We defined and began testing the specific analyses required in the BACcel-1.0 system. We intend to report the results of the first completed sets of tests, conducted for MRSA identification, at the American Society of Microbiology meeting in May 2007. We have relied on the expertise of outside medical and clinical microbiology experts to guide our development strategy and product requirements. In addition, we have identified specific opportunities for product application in military medicine and initiated appropriate contacts.

#### **Application of Critical 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.

##### **Revenue Recognition**

We generate 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;



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 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 January 31, 2007 compared to three months ended January 31, 2006.**

During the three months ended January 31, 2007, OptiChem revenues were \$20,899 as compared to \$40,490 during the three month period ended January 31, 2006, a decrease of \$19,591 or 48.4%, due to fewer sales of custom coated slides.

Technical Consulting fees during the three-month period ended January 31, 2007 were \$0 as compared to \$15,000 during the three-month period ended January 31, 2006. Technical consulting fees during the quarter ended January 31, 2006, were the result of the completion of training provided to SCHOTT for the manufacture of Slide HS that was not present during the quarter ended January 31, 2007.

There were option fees of \$14,250 during the three months ended January 31, 2007 that were not present during the three months ended January 31, 2006. This was a result of 7,500 slides being provided by SCHOTT under Slide HS licensing terms.

The license fees of \$50,000 during the three months ended January 31, 2007 were the result of a License Agreement entered into with SCHOTT for Slide HS to produce and sell the Company's technology, on Streptavidin coated OptChem slides that was not present during the three months ended January 31, 2006.

Research and development expenses for the three months ended January 31, 2007 were \$246,969 as compared to \$568,139 during the three months ended January 31, 2006, decrease of \$321,170 or 56.54%. This decrease was primarily due to decreased consulting/engineering fees and direct supply costs related to the development of the prototype BACcelr8r, which was substantially completed in September 2006.

During the three months ended January 31, 2007, general and administration expenses were \$255,491 as compared to \$234,176 during the three month period ended January 31, 2006, an increase of \$21,315 or 9.1%. The increase was primarily due to an increase in salaries of \$26,203 and an increase of deferred compensation of \$16,098. There has been a decrease in legal fees of \$12,325 and consulting fees of \$4,100.

The increase in amortization was negligible for the three months ended January 31, 2007 as compared to the three month period ended January 31, 2006.

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Marketing and sales expenses for the three months ended January 31, 2007 were \$158 as compared to \$9,432 during the three months ended January 31, 2006, a decrease of \$9,274 or 98.3%. The decrease was primarily due to prior salary expense allocation to marketing related duties that are no longer being performed by that employee, and are now being included in general and administrative expenses.

Depreciation for the three months ended January 31, 2007 was \$18,382 as compared to \$19,992 during the three months ended January 31, 2006, a decrease of \$1,610 or 8.1%. This decrease resulted from the increased age of assets and related depreciation schedules.

Costs of good sold during the three months ended January 31, 2007 were \$2,147 as compared to \$14,307 during the three months ended January 31, 2006, a decrease of \$12,160 or 85.0%. The decrease in costs of good sold was primarily the result of a significant reduction in the sales of custom coated slides.

As a result of the above factors, loss from operations for the three months ended January 31, 2007 was \$498,043 as compared to a loss of \$849,726 during the three months ended January 31, 2006, a decreased loss of \$351,683 or 41.4%.

Interest and dividend income during the three months ended January 31, 2007 was \$28,857 as compared to \$46,341 during the three months ended January 31, 2006, a decrease of \$17,484 or 37.7%. 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 three months ended January 31, 2007 was \$12,827 as compared to \$17,840 for the three months ended January 31, 2006, a decrease of \$5,013 or 28.1%. 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 three months ended January 31, 2007 was \$456,359 as compared to \$785,545 during the three months ended January 31, 2006, a decrease of losses of \$329,186 or 41.9%.

**Changes in Results of Operations: six months ended January 31, 2007 compared to six months ended January 31, 2006.**

During the six months ended January 31, 2007, OptiChem revenues were \$55,118 as compared to \$84,878 during the six month period ended January 31, 2006, a decrease of \$29,760 or 35.1%. The decrease was due to fewer sales of custom coated slides to OptiChem private accounts.

Consulting fees during the six-month period ended January 31, 2007 were \$22,000 as compared to \$30,000 during the six-month period ended January 31, 2006, a decrease of \$8,000 or 26.7%. Technical consulting fees during the six months ended January 31, 2006 was ?????? deferred revenue recognized in the first quarter ending October 31, 2006.

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Option fees during the six months ended January 31, 2007 were \$14,250 as compared to \$0 during the six months ended January 31, 2006. The option fee for the six months ended January 31, 2007 was the value of slides provided by SCHOTT for an option to exercise the Slide HS agreement.

License fees during the six months ended January 31, 2007 were \$50,000 as compared to \$27,000 during the six months ended January 31, 2006, an increase of \$23,000 or 85.2%. The license fees during the six months ended January 31, 2007 were the result of a License Agreement entered into with SCHOTT to produce and sell the Company's technology on Streptavidin coated OptChem Slide HS and final recognition of Promega development agreement.

Research and development expenses for the six months ended January 31, 2007 were \$566,340 as compared to \$1,141,050 during the six months ended January 31, 2006, a decrease of \$574,710 or 50.4%. This decrease was primarily due to decreased consulting/engineering fees and direct supply costs related to the development of the prototype BACcelr8r.

During the six months ended January 31, 2007, general and administration expenses were \$519,172 as compared to \$446,427 during the six month period ended January 31, 2006, an increase of \$72,745 or 16.3%. The increase was primarily due to increases in salaries of \$29,283 and deferred compensation of \$65,573. There were also decreases in legal fees of \$14,158 and employee benefits of \$12,346.

The increase in amortization was negligible for the six months ended January 31, 2007 as compared to the six month period ended January 31, 2006.

Marketing and sales expenses for the six months ended January 31, 2007 were \$3,598 as compared to \$37,911 during the six months ended January 31, 2006, a decrease of \$34,313 or 90.5%. The decrease was primarily due to prior salary expense allocation to marketing related duties.

Depreciation for the six months ended January 31, 2007 was \$36,764 as compared to \$39,023 during the six months ended January 31, 2006, a decrease of \$2,259 or 5.8%. The decreased depreciation was the result of some assets becoming fully depreciated during the year ended July 31, 2006, coupled with the no purchases of equipment during the first six months of the current year.

Cost of goods sold during the six months ended January 31, 2007 were \$10,726 as compared to \$28,199 during the six months ended January 31, 2006, a decrease of \$17,471 or 61.7%. The decrease in cost of goods sold was primarily the result of the corresponding decrease in sales as noted above.

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As a result of the above factors, loss from operations for the six months ended January 31, 2007 was \$1,115,323 as compared to a loss of \$1,669,073 during the six months ended January 31, 2006, a decrease of losses of \$553,750 or 33.2%.

Interest and dividend income during the six months ended January 31, 2007 was \$ 63,620 as compared to \$93,713 during the six months ended January 31, 2006 a decrease of \$30,093 or 32.1%. Interest income decreased as a result of decreased interest rates on 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, 2007 was \$ 56,014 as compared to \$9,777 for the six months ended January 31, 2006, a difference of \$46,237 or 472.9%. 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, 2007 was \$995,689 as compared to \$1,557,583 during the six months ended January 31, 2006, a decreased loss of \$561,894 or 36.1%.

**Capital Resources and Liquidity**

At January 31, 2007, as compared to July 31, 2006, cash and cash equivalents, decreased by \$902,512 from \$3,004,336 to \$2,101,824, or approximately 30.4% and the Company's working capital decreased \$849,380 or 29.1% from \$2,921,687 to \$2,072,307. During the same period, shareholders' equity decreased from \$6,739,320 to \$5,770,708.

The net cash used in operating activities was \$827,386 during the six months ended January 31, 2007 compared to cash used in operating activities of \$1,558,322 during the six months ended January 31, 2006. The principal elements that gave rise to the decrease of cash used in operating activities were a decrease in the net loss of \$567,988, an increase in accounts receivable of \$110,204, an increase in liabilities of \$150,594, that consists of: Accounts payable \$22,080; Accrued Liabilities \$15,729; Deferred revenue of \$12,151; and Deferred compensation of \$100,634.

The Company has historically funded its operations generally through cash flow generated from operations and equity financing. Management believes that current cash balances plus cash flow from operations 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 its current rate in the research and development of the BACcelr8r, it may have to seek capital resources from other sources to meet its obligations.

**Item 3. Controls and Procedures**

An evaluation was conducted under the supervision and with the participation of the Company's management, including Thomas V. Geimer, the Company's Chief Executive Officer ( CEO ) and Chief Financial Officer ( CFO ), of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of January 31, 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 recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. Such officers also confirm that there was no change in the Company's internal control over financial reporting during the quarter ended January 31, 2007.

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**PART II. OTHER INFORMATION**

Item 1. Legal Proceedings

Not Applicable.

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

Not Applicable.

Item 5. Other Information

None

Item 6. Exhibits

Exhibits:

1. Exhibit 10.1 License Agreement dated December 21, 2006.
2. Exhibit 31.1 Certification of Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
3. Exhibit 31.2 Certification of Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
4. 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.

**SIGNATURES**

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

Dated: March 16, 2007

**ACCEL8 TECHNOLOGY CORPORATION**

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

/s/ Jan M. Blue  
Jan M. Blue, CPA,  
Principal Accounting Officer