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ACCEL8 TECHNOLOGY CORP
Form 10QSB
June 13, 2003

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

FORM 10-QSB

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

For the quarterly period ended April 30, 2003

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

For the transition period from _____ to _____

Commission file number 0-11485

ACCEL8 TECHNOLOGY CORPORATION

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

COLORADO

84-1072256

(State or other jurisdiction of
incorporation or organization)

(IRS Employer Identification No.)

303 East Seventeenth Avenue, Suite 108, Denver, Colorado 80203

(Address of principal executive office)

(303) 863-8088

(Issuer's telephone number)

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

Check whether the issuer (1) filed all reports required to be filed by
Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such
shorter period that the registrant was required to file such reports), and (2)
has been subject to such filing requirements for the past 90 days.

Yes X No

--- ---

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

Class

Outstanding at April 30, 2003

Common Stock, no par value

9,511,210

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Accelr8 Technology Corporation

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Accelr8 Technology Corporation Balance Sheets

April 30,
2003

July 31,
2002

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	(Unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 8,690,771	\$ 8,631,192
Accounts receivable, net	95,364	24,767
Prepaid expenses and other current assets	85,757	61,665
Insurance recovery receivable (Note 8)	--	825,000
Income tax receivable and deferred tax asset	166,976	336,500
	-----	-----
Total current assets	9,038,868	9,879,124
	-----	-----
Property and equipment, net (Note 4)	80,789	76,620
	-----	-----
Investments	540,634	445,286
	-----	-----
Intellectual property, net (Note 5)	4,469,578	4,622,904
	-----	-----
Total assets	\$ 14,129,869	\$ 15,023,934
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 104,374	\$ 87,599
Accrued liabilities	30,132	29,489
Accrued settlement loss (Note 8)	--	450,000
Deferred maintenance revenue	131,722	164,879
Other deferred revenue	--	2,200
	-----	-----
Total current liabilities	266,228	734,167
	-----	-----
Long Term Liabilities:		
Deferred tax liabilities	47,451	24,833
Deferred compensation	596,884	520,286
	-----	-----
Total long term liabilities	644,335	545,119
	-----	-----
Total liabilities	910,563	1,279,286
	-----	-----
Commitments and Contingencies (Notes 3 and 8)		
Shareholders' Equity (Notes 3 and 6)		
Common stock, no par value; 11,000,000 shares authorized; 9,511,210 and 9,411,210 shares issued and outstanding, respectively	12,378,020	12,342,020
Stock to be issued (Note 8)	375,000	375,000
Contributed capital	367,299	329,809
Retained earnings	372,587	971,419
Shares held for employee benefit (1,129,110 shares at cost)	(273,600)	(273,600)

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	-----	-----
Total shareholders' equity	13,219,306	13,744,648
	-----	-----
Total Liabilities And Shareholders' Equity	\$ 14,129,869	\$ 15,023,934
	=====	=====

See accompanying notes to unaudited financial statements.

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Accelr8 Technology Corporation Statements of Operations (Unaudited)

	Three Months Ended April 30,		Nin Ended
	2003	2002	2003
	-----	-----	-----
Revenues:			
Consulting fees	\$ 5,000	\$ --	\$ 25,000
Product license and customer support fees	3,536	48,169	137,870
Resale of software and support purchased	252,417	74,393	475,940
OptiChem(TM) revenue	17,945	--	36,547
Provision for sales returns and allowances	(2,450)	(1,235)	(6,405)
	-----	-----	-----
Net Revenues	276,448	121,327	668,952
	-----	-----	-----
Costs and Expenses:			
Cost of services	13,169	24,143	34,840
Cost of software and support purchased for resale	44,137	11,736	82,901
General and administrative	225,515	85,543	607,440
Marketing and sales	79,939	50,025	223,907
Research and development	128,183	83,718	357,103
Amortization	60,075	--	179,955
Depreciation	7,695	5,325	19,995
	-----	-----	-----
Total Costs and Expenses	558,713	260,490	1,506,141
	-----	-----	-----
Loss from operations	(282,265)	(139,163)	(837,189)
	-----	-----	-----
Other income (expense)			
Interest income	22,070	36,737	83,537
Gain on asset disposals	--	700	--
Realized loss on investment	--	(1,304)	(2,593)
Unrealized gain (loss) on investment	45,997	(47,877)	18,457
Abandoned trademark	--	--	--
	-----	-----	-----
Total other income (expense)	68,067	(11,744)	99,401
	-----	-----	-----

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Loss before income taxes	(214,198)	(150,907)	(737,788)
Income tax benefit	42,740	--	138,956
	-----	-----	-----
Net Loss	\$ (171,458)	\$ (150,907)	\$ (598,832)
	=====	=====	=====
Net loss per share - basic and diluted	\$ (.02)	\$ (.02)	\$ (.06)
	=====	=====	=====
Weighted average shares outstanding - basic and diluted	9,421,322	8,642,137	9,414,507
	=====	=====	=====

See accompanying notes to unaudited financial statements.

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Accelr8 Technology Corporation
Statements of Cash Flows
(Unaudited)

	Nine Months Ended April 30	
	2003	2002
	-----	-----
CASH FLOW FROM OPERATING ACTIVITIES:		
Net loss	\$ (598,832)	\$ (541,022)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Amortization	179,955	6,345
Depreciation	19,995	15,975
Increase in fair value of stock options granted for consulting services	37,490	--
Gain from disposal of assets	--	(11,153)
Loss on abandoned trademarks	--	3,906
Unrealized (gain)/loss on investments	(18,457)	79,113
Realized loss on sale of investments, interest and dividends reinvested	(1,891)	(147)
Income taxes receivable and deferred income tax asset	192,142	--
Net change in assets and liabilities:		
Accounts receivable	(70,597)	36,215
Inventory	--	2,625
Prepaid expenses	(24,092)	(21,687)
Insurance recovery receivable	825,000	--
Accounts payable	16,775	(48,056)
Accrued liabilities	643	(199,153)
Accrued settlement loss (Note 8)	(450,000)	0
Deferred maintenance revenue	(33,157)	(28,664)
Other deferred revenue	(2,200)	(825)
Other long-term liabilities	76,598	(22,716)
	-----	-----
Net cash provided (used) by operating activities	149,372	(729,244)
	-----	-----

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CASH FLOW FROM INVESTING ACTIVITIES:		
Purchase of fixed assets, net	(24,164)	--
Proceeds on disposal of assets	--	12,336
Purchase of intellectual property	(26,629)	(62,509)
Purchase of investments	(75,000)	(75,000)
	-----	-----
Net cash used in investing activities	(125,793)	(125,173)
	-----	-----
CASH FLOW FROM FINANCING ACTIVITIES:		
Repurchase of common stock	--	(63,214)
Employee stock option exercised	36,000	1,800
	-----	-----
Net cash provided by (used in) financing activities	36,000	(61,414)
	-----	-----
Net increase (decrease) in cash and cash equivalents	59,579	(915,831)
Cash and cash equivalents, beginning of period	8,631,192	9,522,343
	-----	-----
Cash and cash equivalents, end of period	\$ 8,690,771	\$ 8,606,512
	=====	=====
Supplemental information:		
Cash received from income tax refunds	\$ 331,099	\$ --
	=====	=====

See accompanying notes to unaudited financial statements.

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Accelr8 Technology Corporation Notes to Financial Statements

For the nine months ended April 30, 2003 and 2002

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. We believe 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, 2002, 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 and nine month periods ended April 30, 2003 may not be indicative of the results

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of operations for the year ended July 31, 2003.

Note 2. Reclassification

Certain reclassifications have been made in the fiscal 2002 financial statements to conform to the classifications used in fiscal 2003. Such reclassifications have no effect on net income (loss) as previously reported.

Note 3. Shareholders' Equity

Repurchase of Common Stock

On July 30, 1998, our Board of Directors authorized the repurchase of up to 500,000 shares of our common stock. The decision to repurchase our common stock was based upon the Board of Directors' belief that our common stock was undervalued considering the potential earnings and prospects for future operations. Repurchases may be made periodically in the open market, block purchases or in privately negotiated transactions, depending on market conditions and other factors. We have no commitment or obligation to repurchase all or any portion of the common stock. Shares repurchased through April 30, 2003 total 266,200.

During the three month period and the nine month period ended April 30, 2003, we did not repurchase any shares of our common stock.

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Common Stock Options

At April 30, 2003, there were 740,000 stock options outstanding at prices ranging from \$1.45 to \$3.25 with expiration dates between July 31, 2003 and August 2, 2011. The remaining number of option shares available for issuance under our stock option plans is 257,500. For the nine months ended April 30, 2003 and 2002, stock options exercisable into 740,000 and 739,500 shares of common stock were not included in the computation of diluted earnings per share because their effect was antidilutive.

During the nine months ended April 30, 2003, 100,000 stock options were exercised by Harry Fleury, President of Accelr8 Technology Corporation, at a price of \$.36 for a total of \$36,000. These were the final stock options outstanding under the old Employee Stock Option Plan. This plan is now terminated as there are no additional shares of common stock reserved for issue in this plan. The Company still has an Incentive Stock Option Plan and a Non-Qualified Stock Option Plan which were discussed in the previous paragraph. During the nine months ended April 30, 2002, 5,000 stock options were exercised at a price of \$.36 for a total of \$1,800.

On May 7, 2002, we granted options to purchase 100,000 shares of our common stock to consultants for services to be provided at an exercise price of \$2.25 per share, expiring on May 7, 2006. The consultant options are subject to a vesting schedule of 50% after the first year of grant and 50% after the second year of grant. The incremental increase in the fair value of the options of \$37,490 during the nine months ended April 30, 2003 was recorded as a charge to operations.

Stock to be Issued

See Note 8 to unaudited financial statements for discussion.

Note 4. Property and Equipment

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Property and equipment are recorded at cost and consisted of the following.

	April 30 2003	July 31 2002
	-----	-----
Computer equipment	\$ 30,060	\$ 28,004
Laboratory and scientific equipment	108,945	86,837
Furniture and fixtures	11,114	11,114
	-----	-----
Total property and equipment	150,119	125,955
Accumulated depreciation	(69,330)	(49,335)
	-----	-----
Net property and equipment	\$ 80,789	\$ 76,620
	=====	=====

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Note 5. Intellectual Property

Intellectual property consisted of the following:

	April 30, 2003	July 31, 2002
	-----	-----
OpTest™ Technologies	\$ 4,616,312	\$ 4,614,872
Patents	146,856	128,434
Trademarks	45,166	38,399
	-----	-----
Total intellectual property	4,808,334	4,781,705
Accumulated amortization	(338,756)	(158,801)
	-----	-----
Net intellectual property	\$ 4,469,578	\$ 4,622,904
	=====	=====

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 patents and trademarks application life of the OpTest™ Technologies.

Effective August 1, 2001, we adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets". In accordance with SFAS No. 142, we completed an impairment test of our intangible assets and determined that no impairment existed as of August 1, 2001 or July 31, 2002. Intangible assets will be tested annually and whenever events and circumstances occur indicating that the assets may be impaired.

The Company believes that the market for DNA/RNA and protein microarrays is growing because of increased demand for gene analysis and molecular diagnostics as measured by industry wide growth in unit sales, i.e. Affymetrix. The Company will evaluate the possibility of impairment further at July 31, 2003.

Upon the adoption of SFAS No. 142, we evaluated the estimated useful lives of the existing intangible assets and determined that the existing useful lives were appropriate.

Future amortization expense for the intangible assets is estimated as

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follows:

Years Ending July 31,	

2003 (3 months)	\$ 60,091
2004	239,390
2005	239,390
2006	239,390
2007	239,390
Thereafter	3,451,927

Total future amortization	\$4,469,578
	=====

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Note 6. Employee Stock-Based Compensation

The Company has a stock-based employee compensation plan. The Company accounts for this plan under the recognition and measurement principles of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" and related Interpretations. See Note 9 for further discussion. There was no stock-based employee compensation expense reported in the nine months ended April 30, 2003 or 2002. The following table illustrates the effect on net loss if the Company had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation", to stock-based employee compensation.

	Nine Months Ended April 30,	
	2003	2002
	-----	-----
Net loss, as reported	\$ (598,832)	\$ (541,022)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	--	(55,800)
	-----	-----
Pro forma net loss	\$ (598,832)	\$ (596,822)
	=====	=====
Earnings per share:		
Basic and diluted - as reported	\$ (.06)	\$ (.07)
	=====	=====
Basic and diluted - pro forma	\$ (.06)	\$ (.07)
	=====	=====

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Note 7. Business Segment Information

The Company operates in two business segments: (i) software tools and related consulting services and (ii) biosciences, which includes DNA/RNA assays,

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protein-based assays and biosensors. Operating results and other financial data for the three and nine months ended April 30, 2003 and 2002 are presented for the principal business segments as follows:

Three Months Ended April 30, 2003 -----	Software Tools Support and Consulting -----	Biosciences Business -----	Total -----
Revenues	\$ 258,503	\$ 17,945	\$ 276,448
Costs and expenses	265,102	293,611	558,713
Interest income	22,070	--	22,070
Segment profit (loss)	46,108	(217,566)	(171,458)
Income tax (provision) benefit	(15,360)	58,100	42,740
Total assets	9,579,371	4,550,498	14,129,869
Intellectual property, net	--	4,469,578	4,469,578
Depreciation and amortization expense	2,055	65,715	67,770

Three Months Ended April 30, 2002 -----	Software Tools Support and Consulting -----	Biosciences Business -----	Total -----
Revenues	\$ 121,327	\$ --	\$ 121,327
Costs and expenses	138,110	122,380	260,490
Interest income	36,737	--	36,737
Segment loss	(28,527)	(122,380)	(150,907)
Total assets	9,240,415	4,806,548	14,046,963
Intellectual property, net	--	4,754,498	4,754,498
Depreciation and amortization expense	1,890	3,435	5,325

Nine Months Ended April 30, 2003 -----	Software Tools Support and Consulting -----	Biosciences Business -----	Total -----
Revenues	\$ 632,405	\$ 36,547	\$ 668,952
Costs and expenses	686,704	819,437	1,506,141
Interest income	83,537	--	83,537
Segment profit (loss)	35,966	(634,798)	(598,832)
Income tax (provision) benefit	(9,106)	148,062	138,956
Total assets	9,579,371	4,550,498	14,129,869
Intellectual property, net	--	4,469,578	4,469,578
Depreciation and amortization expense	5,655	194,295	199,950

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Nine Months Ended April 30, 2002 -----	Software Tools Support and Consulting -----	Biosciences Business -----	Total -----
Revenues	\$ 400,014	\$ --	\$ 400,014
Costs and expenses	652,372	368,096	1,020,468
Interest income	156,888	--	156,888
Segment loss	(168,996)	(372,026)	(541,022)
Total assets	9,240,415	4,806,548	14,046,963
Intellectual property, net	--	4,754,498	4,754,498

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Depreciation and amortization expense	5,670	16,650	22,320
---------------------------------------	-------	--------	--------

Note 8. Legal Proceedings

We are a party to one legal proceeding, the Company's lawsuit against Deloitte & Touche and the corresponding Deloitte & Touche counterclaim against the Company, the outcome of which management believes will not have a significant impact upon our financial position.

Concluded legal matters

On August 14, 2000, Derrick Hongerholt filed in the United States District Court for the District of Colorado a shareholder derivative action against Thomas V. Geimer, David C. Wilhelm, A. Alexander Arnold III, Harry J. Fleury, James Godkin and Accelr8 Technology Corporation as a nominal defendant. The defendants answered the Hongerholt derivative complaint, and denied all claims. In connection with this proceeding, the Company's Board of Directors appointed David G. Palmer, Esquire, as independent counsel to serve as a Special Litigation Committee to investigate the claims and circumstances relating to the derivative action filed by Derrick Hongerholt and to determine whether the derivative action should be terminated. On September 10, 2002, the Special Litigation Counsel determined, after investigation, that the derivative claims were without factual merit, and should be dismissed. On October 30, 2002, the parties agreed to a settlement of the derivative action, under which that action would be dismissed with prejudice upon an exchange of releases, with no payments made by or on behalf of any of the Defendants. A hearing on the approval of the settlement was held December 19, 2002 at which time the Court approved a settlement between the parties pursuant to which the complaint was dismissed without prejudice, with no payments made by or on behalf of the defendants.

On July 14, 2000, the Agricultural Excess and Surplus Insurance Company ("AESIC"), which was the carrier of the Company's director and officer liability policy, filed in the United States District Court for the District of Colorado an action for a declaratory judgment seeking to rescind Accelr8's directors and officers liability policy, captioned Agricultural Excess and Surplus Insurance Company v. Accelr8 Technology Corporation, Civil Action No. 00-B-1417. That policy had a \$1 million limit with a \$100,000 deductible. The Company and certain individuals made demand for coverage under that policy relating to third party claims involving the Company's accounting and public reporting from 1997 to 1999. AESIC alleged that it was fraudulently induced to enter into the contract of insurance through knowing material misrepresentations made by the Company in its Form 10-KSB filed with the SEC, concerning the capabilities of certain of the Company's products. The defendants answered the complaint, in which they denied the claim for rescission, and filed a counterclaim seeking damages for the insurer's refusal to provide the benefits of insurance. Subsequent to July 31, 2002, the parties settled this lawsuit and AESIC paid \$825,000 to the Company on November 5, 2002 in full satisfaction of all claims.

On May 4, 2000, Harley Meyer filed in the United States District Court for the District of Colorado a putative class action against Accelr8 Technology Corporation, Thomas V. Geimer and Harry J. Fleury. On June 2, 2000, Charles Germer filed in the United States District Court for the District of Colorado a putative class action against Accelr8 Technology Corporation, Thomas V. Geimer and Harry J. Fleury. On June 8, 2000, William Blais filed in the United States District Court for the District of Colorado a putative class action against Accelr8 Technology Corporation, Thomas V. Geimer and Harry J. Fleury. On June 20, 2000, Diana Wright filed in the United States District Court for the

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District of Colorado a putative class action against Accelr8 Technology Corporation, Thomas V. Geimer and Harry J. Fleury. These actions were consolidated under the caption In re Accelr8 Technology Corporation Securities Litigation, Civil Action No. 00-K-938. On October 16, 2000, a Consolidated Amended Class Action Complaint was filed which added James Godkin as a defendant. The Consolidated Amended Complaint alleged violations of Section 10(b) of the Exchange, and Rule 10b-5 thereunder, relating to the Company's accounting and public disclosure from October 1997 to November 1999. The Defendants answered the Amended Complaint, in which they denied liability and raised affirmative defenses. On January 23, 2001, the Court granted the Plaintiff's Motion for Class Certification.

The parties to the Consolidated Amended Class Action Complaint ("Class Action") reached an agreement in October 2002 in principle to settle the Class Action against all parties. Under the settlement, the Company agreed to contribute to a Settlement Fund \$450,000 and 375,000 shares of common stock in the Company. The Settlement Fund will be distributed in a manner over which the Company has no control. This agreement in principle was subject to Court approval.

On February 28, 2003, the Court issued a Preliminary Order Approving Settlement and Attached Documents, and scheduled a settlement fairness hearing for May 20, 2003. Under the terms of the agreement, on March 4, 2003 the Company deposited \$450,000 into an escrow account pending final approval of the settlement. To date, the Company has not received instructions for issuing the 375,000 shares of common stock to the Settlement Fund. A hearing on the approval of the settlement was held May 20, 2003, at which time the Court approved a settlement between the parties pursuant to which the complaint was dismissed with prejudice.

SFAS No. 5, "Accounting for Contingencies," requires loss contingencies to be accrued if it is probable an asset has been impaired or a liability incurred at the balance sheet date and the amount of loss can be reasonably estimated. Since the settlement terms discussed above satisfy the criteria for accrual of a loss contingency under SFAS No. 5, the \$450,000 cash settlement had been accrued as a current liability until March 4, 2003 at which time the amount was paid and the value of the 375,000 shares of stock to be issued has been recorded in the statement of shareholders' equity as of April 30, 2003 and July 31, 2002. The stock to be issued was valued using the market price of \$1.00 per share of the Company's common stock on the date the parties agreed to the terms of the settlement. Furthermore, the \$825,000 settlement receivable from AESIC was recorded as a current receivable in the Company's financial statements as of July 31, 2002, and payment was received on November 5, 2002.

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Pending legal matters

On November 20, 2002, the Company initiated an action against Deloitte & Touche, LLP, ("Deloitte"), the Company's former auditors, captioned Accelr8 Technology Corporation v. Deloitte & Touche, LLP., Case No. 02CV8102, District Court, City and County of Denver, State of Colorado. In that action, the Company seeks damages from Deloitte for breach of contract. On January 13, 2003, Deloitte answered the Complaint and filed a counterclaim against the Company, and third-party claims against Thomas V. Geimer and Harry J. Fleury. The counter-claim asserts claims for breach of contract, deceit based on fraud, and negligent misrepresentation and seeks unspecified damages. Third-party claims allege deceit based on fraud and negligent misrepresentation, and also seek unspecified damages. On February 18, 2003, the Company, as Counter-claim Defendant, and Messrs. Geimer and Fleury, as Third-party Defendants, moved to dismiss the counterclaims and third-party complaint. On May 29, 2003, the Court

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denied the motion to dismiss the counterclaims against the Company, and granted the motion to dismiss the third party claims against Messrs Geimer and Fleury. While the Company believes it has substantial defenses to the counterclaims, and intends to contest those claims vigorously, there can be no assurance that the resolution of the counterclaims will not have a material adverse effect on the Company.

Note 9. Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires the fair value of a liability for an asset retirement obligation to be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. We adopted this statement on August 1, 2002 and it had no material impact on our financial statements.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 requires that those long-lived assets be measured at the lower of carrying amount or fair value, less cost to sell, whether reported in continuing operations or in discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. We adopted this statement August 1, 2002 and it had no material impact on our financial statements.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure - an amendment of FASB Statement No. 123." SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures about the method of accounting for stock-based employee compensation and the effect of the method used on reported results in both annual and interim financial statements. We are required to follow the prescribed format and provide the additional disclosures required by SFAS No. 148 in our annual financial statements for the year ended July 31, 2003 and must also provide the disclosures in our quarterly reports containing condensed financial statements for interim periods beginning with the quarter ending April 30, 2003. We will continue to account for stock based compensation using the intrinsic value method. See Note 6 for disclosures.

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In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," which disclosures are effective for financial statements issued after December 15, 2002. This statement did not have any effect on our financial statements as of April 30, 2003.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities," which requires the consolidation of variable interest entities, as defined. FIN No. 46 is applicable to our financial statements to be issued after July 31, 2003. This statement did not have any effect on our financial statements as of April 30, 2003.

On April 30, 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." The Statement amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. This Statement is effective for contracts entered into or

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modified after June 30, 2003, for hedging relationships designated after June 30, 2003, and to certain preexisting contracts. The Company will adopt SFAS No. 149 on a prospective basis as its effective date is in the fiscal fourth quarter. The Company does not believe that the adoption of SFAS No. 149 will have a significant impact on its results of operations, financial position or cash flows.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments, with Characteristics of Both Liabilities and Equity", which provides guidance on how an entity classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 requires that an issuer classify a financial instrument that is within its scope, which may have previously been classified as equity, as a liability (or as an asset in some circumstances). This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company does not believe that the adoption of SFAS No. 150 will have a significant impact on its results of operations, financial position or cash flows.

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

Forward Looking Information

Information contained in the following discussion of results of operations and financial condition and in certain of the notes to the financial statements included in this document contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, which can be identified by the use of words such as "may," "will," "expect," "anticipate," "estimate," or "continue," or variations thereon or comparable terminology. 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 following discussion should be read in conjunction with the Company's

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unaudited 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 its 10-KSB for the year ended July 31, 2002, could affect the Company's actual results and cause actual results to differ materially from those discussed in forward-looking statements.

Overview

On January 18, 2001, Accelr8 Technology Corporation purchased the OpTest technology assets ("OpTest") from DDx, Inc. and commenced investment in development and optimization of OpTest's surface chemistry (OptiChem(TM)) and quantitative instruments (QuanDx(TM) and Oter(TM)). Our proprietary surface chemistry and its quantitative instruments support real-time assessment of medical diagnostics, food-borne pathogens, water-borne pathogens and bio-warfare assessments. Presently the Company sells advanced microarray slides and specialty microtiter plates coated with its proprietary OptiChem(TM) activated surface chemistry for use in academic research, drug discovery and molecular

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diagnostics. This surface coating has an extraordinary ability to shed sticky biomolecules that interfere with bio-analytical assays such as microarrays and immunoassays. This property substantially improves analytical performance by enabling higher sensitivity, greater reproducibility, and higher throughput by virtue of simplified application methods. We have received minimal revenues to date from these products and there is no assurance that we will be successful in marketing the new products. As a result, the Company will perform an impairment test at July 31, 2003 of its intangible assets and determine if any impairment is required pursuant to SFAS No. 142. See Note 5. However, during the nine months ended April 30, 2003, the Company's OptiChem(TM) products have been offered commercially in the microarray marketplace and have resulted in sales revenue of \$36,547.

The Company believes that the market for DNA/RNA and protein microarrays is growing because of increased demand for gene analysis and molecular diagnostics as measured by industry wide growth in unit sales, i.e. Affymetrix (NASDAQ:AFFX).

Applications

Microarraying is a major new technology platform emerging in these market segments. A microarray consists of a matrix of individual assay "spots" of active probe molecules, such as short strands of DNA or proteins. For example, a microarray of the entire human genome contains more than 30,000 spots printed onto a microscope slide. When an investigator incubates the array with a sample such as blood, specific target molecules bind to specific probe spots (but not to other spots). Each spot acts as a single chemical analysis. With thousands of spots in an array, a single experiment then performs thousands of individual analyses - one for each probe.

As DNA microarraying has become more widely used, controversies have also emerged. In particular, low reproducibility has delayed market penetration. Scientists are now beginning to apply microarraying methods to proteins, which are much more complex than DNA in terms of physical and chemical properties and ability to preserve biological function. This complexity brings with it comparably greater technical difficulty. Management believes protein analyses are well worth the effort because they will form the backbone of future clinical molecular diagnostics. OptiChem(TM) supports these new initiatives.

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High background noise, low sensitivity, and loss of low-abundance sample targets are significant factors that strongly affect reproducibility. High-performance surface chemistry is the basis for reliable, consistent microarray performance. Accelr8 solves the most fundamental problem by providing a stable, low-interference background and high signal strength. This breakthrough also brings with it higher sensitivity, target preservation, and efficient application.

Software Tools

The Company has been a provider of software tools and consulting services for the modernization of software applications running on the VMS operating systems developed by Digital Equipment Corporation ("DEC") and which are proprietary to Compaq Computer Corporation ("COMPAQ") as a result of its purchase of DEC. These assets were merged into Hewlett Packard Company ("HP") in 2002. Our consulting services and software conversion tools enable the Company's customers to analyze and implement conversions to UNIX, Linux and NT operating systems from VMS in a predictable and cost-effective manner. Our clients include

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a number of Fortune 1000 companies and government agencies.

Based upon the significant decline in sales of our software tools and related consulting services beginning in fiscal year 1999, we have taken steps to limit the costs associated with the conduct of this business. These steps included the reduction of the number of personnel whose efforts are directed towards this business, not renewing the contracts of several members of management whose primary activities related to this business and reducing the amount of space occupied by the Company. Management intends to operate this business at a level that is sufficient to service the needs of existing customers and to support future sales of software tools. We do not expect to continue our consulting activities, although if such opportunities arise, management believes that it may be able to subcontract for the performance of the necessary services from third parties or former employees. We are also investigating the possibility of selling these business operations to another party although no arrangements or understandings currently exist with respect to the sale of these assets. Management believes that the merger of HP and COMPAQ provides an opportunity for the Company to provide a practical strategy for the Digital VMS installed base of customers to adapt their computer software programs to the next generation of HP hardware solutions, as well as hardware solutions provided by Sun Microsystems and IBM.

Changes in Results of Operations: Nine months ended April 30, 2003 compared to Nine months ended April 30, 2002

Consulting fees for the nine months ended April 30, 2003 were \$25,000 as compared to none for the nine months ended April 30, 2002, and represented 3.7% of net revenues, largely due to a code analysis project for a single customer.

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Product license and customer support fees for the nine months ended April 30, 2003, were \$137,870 a decrease of \$23,742 or 14.7% as compared to the nine months ended April 30, 2002, and represented 20.6% of net revenues. This decrease was largely due to fewer license and support sales.

Revenues from the resale of purchased software including purchased maintenance for the nine months ended April 30, 2003 were \$475,940 an increase of \$233,858 or 96.6% as compared to the nine months ended April 30, 2002, and represented 71.2% of net revenues. This increase largely resulted from the sale of seven additional software tool sets, three of which represented new customers.

OptiChem(TM) revenues for the nine months ended April 30, 2003 were \$36,547 as compared to none for the nine months ended April 30, 2002 and represented 5.5% of net revenues. This product was not available for sale in the period ended April 30, 2002.

Provision for returns and allowances for the nine months ended April 30, 2003 was \$6,405 an increase of \$2,725 and represented 1.0% of net revenues.

Due to the above factors, net revenues for the nine months ended April 30, 2003, were \$668,952, which represented an increase of \$268,938 or 67.2% as compared to the nine months ended April 30, 2002.

During the nine months ended April 30, 2003, sales to our three largest customers were \$127,323, \$78,035, and \$67,200, representing 19.0%, 11.7% and 10.0% of our net revenues. In comparison, sales to our three largest customers were \$79,400, \$56,650 and \$55,744 representing 19.8%, 14.2% and 13.9% of net revenues for the nine months ended April 30, 2002. The loss of a major customer could have a significant impact on our financial performance in any given year.

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Cost of services for the nine months ended April 30, 2003 was \$34,840, a decrease of \$76,381 or 68.7% as compared to the nine months ended April 30, 2002. This decrease resulted largely from a reduction in software engineering salaries of \$69,866 and rent of \$9,285 pertaining to the software operations.

Cost of software purchased for resale including purchased maintenance for the nine months ended April 30, 2003 was \$82,901, an increase of \$45,959 or 124% as compared to the nine months ended April 30, 2002. The increase results from increased revenue from resale of purchased software including purchased maintenance and variations in the product mix of items purchased.

General and administrative expenses for the nine months ended April 30, 2003 were \$607,440 an increase of \$144,675 or 31.3% as compared to the nine months ended April 30, 2002. This increase was largely due to increased deferred compensation (\$99,314) resulting from change in market value of investments in the deferred compensation trust, professional fees (\$35,342) related to increased accounting fees and legal fees including cost of outside experts incurred in settlement of class action lawsuit (See Note 8 for summary of concluded legal matters).

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Marketing and sales expenses for the nine months ended April 30, 2003 were \$223,907, an increase of \$74,675 or 50.0% as compared to the nine months ended April 30, 2002. This increase was mainly due to increased consulting fees of \$50,586 and \$20,632 in marketing expenses, which include advertising, promotional material and attendance at trade shows offset by a decrease in telecommunications of \$9,131 resulting from a change in telephone system. These increased costs were largely incurred in developing a market for the OpTest(TM) technologies.

Research and development expenses for the nine months ended April 30, 2003 were \$357,103, an increase of \$119,115 or 50.1% as compared to the nine months ended April 30, 2002. This increase was largely due to an increase in salaried scientific personnel of \$50,079 consulting fees of \$25,761 and laboratory expense and supplies in the amount of \$38,222 for the continued development of the OpTest technologies.

Amortization for the nine months ended April 30, 2003 was \$179,955, an increase of \$173,610 as compared to the nine months ended April 30, 2002. During the second and third quarters of the year ended July 31, 2002, the gross asset base of intellectual properties increased significantly due to the purchase of the OpTest(TM) technologies (see discussion in the Company's Form 10-KSB for the year ended July 31, 2002). The increase in amortization expense results from the amortization of the OpTest(TM) technologies.

Depreciation for the nine months ended April 30, 2003 was \$19,995, an increase of \$4,020 or 25.2% compared to the nine months ended April 30, 2002.

As a result of these factors, loss from operations for the nine months ended April 30, 2003 was \$837,189, an increased loss of \$216,735 or 34.9%, as compared to loss from operations for the nine months ended April 30, 2002.

Interest income for the nine months ended April 30, 2003 was \$83,537, a decrease of \$73,351 or 46.8% as compared to the nine months ended April 30, 2002. This decrease was primarily due to decreased interest rates in government money market funds.

Realized loss on marketable securities held in the deferred compensation trust for the nine months ended April 30, 2003 was \$2,593, a decreased loss of

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\$2,973 as compared to the nine months ended April 30, 2002. This loss was the result of selling trust investments offset by interest earned of \$4,484. Unrealized gain on marketable securities held in the deferred compensation trust for the nine months ended April 30, 2003 was \$18,457, compared to unrealized loss of \$79,113 for the nine months ended April 30, 2002. This loss was the result of changing market value of securities held by the trust.

There was no gain on asset disposal for the nine months ended April 30, 2003 as compared to a gain of \$11,153 for the nine months ended April 30, 2002. This gain resulted mainly from the sale of fully depreciated computer equipment.

There was no loss from abandoned trademarks for the nine months ended April 30, 2003 as compared to a loss of \$3,930 for the nine months ended April 30, 2002.

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The Company recorded an income tax benefit of \$138,956 during the nine months ended April 30, 2003, resulting from the year to date tax operating loss to be carried back to prior years plus changes in deferred tax assets and liabilities. There was no benefit in the previous year as the carryback of net operating loss was limited to three years. The number of carryback years was extended to five years effective March 6, 2002 as a result of the Job Creation and Workers Assistance Act of 2002.

As a result of these factors, net loss for the nine months ended April 30, 2003 was \$598,832 an increased loss of \$57,810 or 10.7% as compared to the nine months ended April 30, 2002.

Changes in Results of Operations: Three months ended April 30, 2003 compared to three months ended April 30, 2002

Consulting fees for the three months ended April 30, 2003 were \$5,000 as compared to none for the three months ended April 30, 2002 and represented 1.8% of net revenues due to support provided for a single customer.

Product license and customer support fees for the three months ended April 30, 2003, were \$3,536, a decrease of \$44,633 or 92.7%, as compared to the three months ended April 30, 2002, and represented 1.3% of net revenue. This decrease was largely due to a lack of major sales during the current period.

Revenues from the resale of purchased software for the three months ended April 30, 2003 were \$252,417, an increase of \$178,024 or 239% as compared to the three months ended April 30, 2002, and represented 91.3% of net revenue. This increase largely resulted from the sale of five additional software tool sets, three of which represented new customers.

OptiChem(TM) revenues for the three months ended April 30, 2003, were \$17,945 as compared to none for the three months ended April 30, 2002 and represented 6.5% of net revenues. This product was not available for sale in fiscal 2002.

Provision for returns and allowances for the three months ended April 30, 2003 was \$2,450 an increase of \$1,215 and represented 0.9% of net revenues.

Due to the factors above, net revenues for the three months ended April 30, 2003 were \$276,448, an increase of \$155,121 or 128%, as compared to the three months ended April 30, 2002.

During the three months ended April 30, 2003, sales to our three largest customers were \$72,450, \$43,125 and \$36,900 representing 26.2%, 15.6% and 13.4%

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of our net revenues. In comparison, sales to our two largest customer were \$56,650 and \$24,100 representing 46.7% and 19.9% of net revenues for the three months ended April 30, 2002. The loss of a major customer could have a significant impact on our financial performance in any given year.

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Cost of services for the three months ended April 30, 2003 was \$13,169, a decrease of \$10,974 or 45.5% as compared to the three months ended April 30, 2002. This decrease resulted largely from a reduction in software engineering salaries of \$12,741.

Cost of software purchased for resale for the three months ended April 30, 2003, was \$44,137, an increase of \$32,401 or 276% as compared to the three months ended April 30, 2002. The increase in software purchased for resale results from increased revenue from resale of purchased software and variations in the product mix of items purchased.

General and administrative expenses for the three months ended April 30, 2003 were \$225,515, an increase of \$139,972 or 163% as compared to the three months ended April 30, 2002. The increase was largely due to increased deferred compensation (\$95,214) resulting from change in market value of investments in the deferred compensation trust, increased consulting fees (\$14,103) and salaries (\$17,749).

Marketing and sales expenses for the three months ended April 30, 2003 were \$79,939 an increase of \$29,914 or 59.8% as compared to the three months ended April 30, 2002. This increase was largely due to increased consulting fees of \$23,456. These increased costs were incurred in developing a market for the OpTest(TM) technologies.

Research and development expenses for the three months ended April 30, 2003 were \$128,183 an increase of \$44,465 or 53.1% as compared to the three months ended April 30, 2002. This increase was largely due to an increase in salaried scientific personnel of \$23,809, consulting fees of \$9,265 and laboratory expense and supplies of \$11,483 for the continued development of the OpTest technologies.

Amortization for the three months ended April 30, 2003 was \$60,075 as compared to none for the three months ended April 30, 2002. During the second and third quarters of the year ended July 31, 2002, the gross asset basis of intellectual properties increased significantly due to the purchase of the OpTest(TM) technologies (see discussion in the Company's Form 10-KSB for the year ended July 31, 2002). The increase in amortization expense results from the amortization of the OpTest(TM) technologies.

Depreciation for the three months ended April 30, 2003 was \$7,695, an increase of \$2,370 or 44.5% compared to the three months ended April 30, 2002.

As a result of these factors, loss from operations for the three months ended April 30, 2003 was \$282,265, an increased loss of \$143,102 or 103% as compared to loss from operations for the three months ended April 30, 2002.

Interest income for the three months ended April 30, 2003 was \$22,070, a decrease of \$14,667 or 39.9% as compared to the three months ended April 30, 2002. This decrease was primarily due to decreased interest rates in government money market funds.

Unrealized gain on marketable securities held in the deferred compensation trust for the three months ended April 30, 2003 was \$45,997, compared to unrealized loss of \$47,877 for the three months ended April 30, 2002. This

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decreased loss was the result of changing market value of securities held by the trust.

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The Company recorded an income tax benefit of \$42,740 during the three months ended April 30, 2003, resulting from the year to date tax operating loss to be carried back to prior years plus changes in deferred tax assets and liabilities. There was no benefit in the previous year as the carryback of net operating loss was limited to three years. The number of carryback years was extended to five years effective March 6, 2002 as a result of the Job Creation and Workers Assistance Act of 2002.

As a result of these factors net loss for the three months ended April 30, 2003 was \$171,458, an increased loss of \$20,551 or 13.6% as compared to the three months ended April 30, 2002.

Capital Resources and Liquidity

At April 30, 2003, as compared to July 31, 2002, the Company's current assets decreased 8.5% from \$9,879,124 to \$9,038,868; the Company's liquidity, as measured by cash and cash equivalents, increased by 0.7% from \$8,631,192 to \$8,690,771; and the Company's working capital decreased by 4.1% from \$9,144,957 to \$8,772,640. During the same period, shareholders' equity decreased 3.8% from \$13,744,648 to \$13,219,306 as a result of a net loss of \$598,832 offset by the exercise of 100,000 stock options at a price of \$.36 and totaling \$36,000 and the cost of consultant option expense on 100,000 options totaling \$37,490 during the nine months ended April 30, 2003.

The Company has historically funded its operations primarily through equity financing and cash flow generated from operations. The Company anticipates that current cash balances and working capital plus future positive cash flow from operations will be sufficient to fund its capital and liquidity needs in the foreseeable future.

Item 3. Controls and Procedures

Within the 90-day period prior to the date of this report, our Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in this quarterly report on Form 10-QSB. There have been no significant changes in our internal controls or in other factors which could significantly affect internal controls subsequent to the date that the Chief Executive Officer and Chief Financial Officer carried out the evaluation.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Please see Note 8 to the unaudited financial statements for information with respect to concluded and pending legal proceedings.

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Item 2. Changes in Securities

None.

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

Not Applicable.

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits:

1. Exhibit 99.01 Certification of Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
2. Exhibit 99.02 Certification of Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
3. Exhibit 99.03 Certification of Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

b) Reports on Form 8-K: None.

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SIGNATURES

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

Date: June 13, 2003

ACCEL8 TECHNOLOGY CORPORATION

/s/ Thomas V. Geimer

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

/s/ James Godkin

James Godkin, Principal Accounting
Officer