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ACCEL8 TECHNOLOGY CORP  
Form 10KSB  
October 29, 2007

FORM 10-KSB  
U.S. SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

For the fiscal year ended: July 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

84-1072256

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

-----  
(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

Securities registered pursuant to Section 12(b) of the Exchange Act:

Common Stock, no par value

-----  
(Title of class)

Securities registered pursuant to Section 12(g) of the Exchange Act: None.

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-B is not contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

The Registrant's revenues for the fiscal year ended July 31, 2007 were \$183,130.

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of October 25, 2007 was approximately \$26,948,061 based upon the last reported sale on that date. For purposes of this disclosure, Common Stock

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held by persons who hold more than 5% of the outstanding voting shares and Common Stock held by officers and directors of the Registrant have been excluded in that such persons may be deemed to be "affiliates" as that term is defined under the rules and regulations promulgated under the Securities Act of 1933, as amended. This determination is not necessarily conclusive.

The number of shares of the Registrant's Common Stock outstanding as of July 31, 2007 was 9,971,210.

Documents incorporated by reference                      None

Transitional Small Business Disclosure Format            Yes [ ] No [X]

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## FORWARD-LOOKING STATEMENTS.

This Annual Report on Form 10-KSB 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, as defined below, intends that such forward-looking statements be subject to the safe harbors created thereby. These forward-looking statements 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. 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, that the Company's forecasts 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 information will be realized. Although management 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 information 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. In addition, as disclosed elsewhere in this Annual Report, the business and operation of the Company are subject to substantial risks that increase the uncertainty inherent in such forward-looking statements. In light of the significant uncertainties inherent in the forward-looking information included herein, the inclusion of such information should not be regarded as a representation by the Company or any other person that the objectives or plans of the Company will be achieved.

## PART I

### Item 1. Description of Business

#### History And Development Of The Company

Accelr8 Technology Corporation ("Accelr8" or "the Company"), a Colorado corporation, was incorporated on May 26, 1982. The Company's office and laboratory are located at 7000 North Broadway, Building 3-307, Denver, Colorado 80221, and our telephone number is 303-863-8088.

On January 18, 2001, we acquired the OpTest portfolio of technologies ("OpTest") from DDx, Inc. ("DDx"). Since the acquisition of the OpTest assets, we have focused primarily upon furthering the research and development of the acquired technologies, and the development of revenue producing products related to that technology. The purchase of OpTest provided us with a proprietary surface chemistry formulation and quantitative bio-analytical measurement

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instruments. We have supplemented these assets to develop the BACcel(R) technology platform for applications related to rapid identification of bacteria and their antibiotic resistance.

Before our acquisition of OpTest, we provided software tools and consulting services for system modernization solutions for Digital Equipment Corporation (DEC), VMS legacy systems. On July 30, 2004, we completed the sale of the assets related to the software business.

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### Business Strategy

Our vision is to develop and commercialize an innovative, integrated system to rapidly identify bacteria and their mechanisms of antibiotic resistance in critically ill patients. Our broad strategy is to prove the validity of our technology and recruit a medical device or diagnostics industry leader as an alliance partner for commercialization.

We plan a phased introduction and secondary technology "spin-off" licenses in non-competing applications. The phased strategy reduces technical and regulatory risks while preserving the impact potential on medical opinion leaders and decision makers.

We envision our role as licensor and alliance partner as leading the technical development, validating the analytical methods, expanding the product line, and integrating additional capabilities into the platform.

### Products

#### BACcel(R) System Development

We are developing an innovative diagnostic product, the BACcel(R) system, intended for rapid diagnosis in life-threatening bacterial infections. Management believes that Accelr8 has the only development program in the world that addresses a major, overlooked gap in managing hospital acquired infections (HAI). The gap is the high failure rate of initial antibiotic therapy caused by laboratory delay in identifying adequate antibiotics. Widespread and complex antibiotic resistance now results in approximately 20% to 40% of cases receiving inadequate initial therapy. Medical experts believe that inadequate initial therapy substantially elevates the risk of severe morbidity and mortality in critically ill patients.

Our goal is to reduce the time required to guide initial therapy from 2-3 days typically required by current methods to less than 8 hours, intending thereby to reduce the failure rate of initial therapy. To summarize the current situation:

1. Each year in the US, 2 million patients contract a bacterial infection after being admitted to a hospital. Of these, approximately 90,000 die from the infection.
2. Hospital Intensive Care Units (ICUs) have the highest mortality rates from hospital acquired infection. Risk increases with length of stay, and the use of invasive devices such as mechanical ventilators and vascular catheters.
3. When an ICU patient begins to show symptoms of infection, the physician must begin treatment within 2-4 hours. Otherwise, a rapidly progressing infection can overwhelm a patient who is already critically ill.
4. Lab cultures typically take 2-3 days to identify the infectious organism and test its drug susceptibility. The physician cannot wait, but must proceed with an empiric cocktail of broad-spectrum antibiotics based on

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- clinical judgment.
5. Initial empiric therapy proves inadequate in approximately 20% to 40% of cases because of widespread and complex antibiotic resistance. However, switching from inadequate therapy to lab-directed therapy as soon as the next day fails to improve outcomes.
  6. Because of the lack of rapid diagnostic tests, HAI remains a major cause of severe complications and mortality in the ICU.

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Despite best efforts at prevention, HAI will remain a major challenge. Novel rapid diagnostics therefore have a unique opportunity to establish a permanent role in managing HAI.

The rate of new antibiotic development has declined markedly since the 1960s, but bacteria continually evolve and share new mechanisms of drug resistance. These trends mean that each passing year reduces the number of cases that can be treated successfully with any particular drug. Initial empiric therapy, lacking laboratory guidance, tends to become less successful over time. According to the Infectious Diseases Society of America and other medical organizations, the lack of new drugs has become a major threat to public health. In reviewing the trends, medical experts ask whether medicine is approaching "the end of the antibiotic era" and fighting an "unwinnable war."

New emphasis on hygiene and other preventive practices does have beneficial impact. However, bacteria have become so well adapted to the hospital that the best preventive efforts do not eradicate them. Even in hospitals that lead in best preventive practices, endemic hospital-adapted strains continue to cause high rates of attributable morbidity and mortality.

Management believes that the diagnostics industry and the biomedical research community have overlooked the gap caused by slow diagnostic methods. Accordingly, we conceived the BACcel(R) rapid diagnostic system to close this vital gap.

The system applies our proprietary technology to provide advantages in bacterial strain identification, particularly with regard to antibiotic resistance. Proprietary technologies include our OptiChem(R) surface coatings and assay processing methods. We have received patents or we have patent applications pending for the BACcel(R) system differentiating technology components and methods.

The BACcel(R) system achieves speed by eliminating bacterial cultures. It applies well-accepted bacteriological principles, but uses proprietary technology to adapt them to analyze live bacteria extracted directly from a patient specimen. Management believes that the BACcel(R) system will make it possible to individually analyze each of thousands of extracted bacterial cells and to produce results in a few hours rather than the 2-3 days typically required by current methods.

Based on internal lab data, we believe that the BACcel(R) system will identify the organisms present in a patient's specimen and count the number of organisms of each type in less than 2 hours after receiving a specimen. We believe that it will then additionally report major categories of antibiotic resistance mechanism present for each type of organism within a total of 4-6 hours after receiving a specimen. The clinical purpose of this version is to narrow the drug choices available for initial therapy by rapidly reporting presumptive identification and major resistance types.

The goal for the BACcel(R) system is to rule out drugs that are likely to fail and to monitor the effects of therapy. The 2-hour quantitative

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identification is quick enough to help guide initial therapy. The 4-6 hour resistance type identification is quick enough to guide a change in therapy while a change can still make a difference in outcomes. Quantitative identification in less than 2 hours also enables near-real-time assessment of the effects of therapy, and monitoring for emerging resistance or secondary infection.

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### Additional Products

In addition to BACcel(R) system development, we have developed and out-licensed OptiChem(R) surface coatings for use in microarraying components. In this business segment we provide development services to potential licensees and industrial customers. For these customers, we also produce limited quantities of new products for technical and market evaluations.

OptiChem(R) coatings have potential value in other applications as well. When appropriate, we fund limited technical projects with outside organizations or adapt our own development to assess feasibility. Examples include:

- o Analytical devices such as molecular sensors;
- o Tissue and cell culturing labware for live-cell analysis;
- o Medical devices to reduce bacterial biofilm formation;
- o Patient specimen containers to reduce loss of critical analytes;
- o Pharmaceutical packaging to extend shelf life and reduce the loss of costly biotech drugs; and
- o Coatings to prevent bio-fouling (microbial mat formation and corrosion) in a variety of industrial and commercial applications.

### Research And Development

The BACcel(R) system will include a fixed instrument and proprietary single-use (disposable) analytical cassette or cartridge. Each patient test (a single specimen) will require one single-use cassette.

We have used two laboratory prototype instruments in development for more than two years in our own studies. As the design for single-use cassettes evolved, we have successfully adapted and simplified the instrumentation. Similarly, the cassette design has evolved to a simplified form that minimizes technical risks for the first commercialized products.

For BACcel(R) system product development, our internal technical team leads the development by advancing the biological methods, establishing the performance requirements, and designing the system architecture. For product design, we have contracted with specialist engineering firms under the direction of a single prime contractor. These firms are well established in medical device development. In all cases these organizations pre-assign all new intellectual property to Accelr8 without future obligations by Accelr8. We retain full ownership without needing a license or payment of royalties.

We are developing custom antibodies for species identification and other assays using proprietary processes that we have developed. Commercial antibody sources do not exist for some of the species contained in our bacterial panels. In other cases commercial sources cannot provide antibodies that meet our performance criteria. We believe that custom antibodies derived from this development program will add significant asset value and competitive advantages. In this program we own the antibodies and any intellectual property that may emerge as a result of our development methods.

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We are also developing new OptiChem(R) coating methods for BACcel(R) system cassette production. In one formulation, we use OptiChem(R) to prevent bacteria from adhering to flow channel walls and being lost to analysis. In another formulation, we are adapting OptiChem(R) to immobilize bacteria in specific locations where the BACcel(R) system's automated microscope views them.

Using lab prototype instruments, our technical team has developed successful analytical methods. We periodically publish the research results at peer-reviewed scientific meetings.

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During the years ended July 31, 2007 and 2006, we spent approximately \$991,581 and \$2,155,988 respectively on research and development activities.

### Sales, Licensing, And Alliances

In 2004 we 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(R) microarraying products. The license includes the use of OptiChem(R) on glass slides for gene and protein microarraying. SCHOTT has exercised its right to a third year of non-exclusive production, which expires in November 2007. SCHOTT has indicated its intent to renew this license however, there can be no assurance that SCHOTT will renew the license. We also granted SCHOTT a two-year license on a different version of OptiChem(R), which expires in December 2008.

In addition, from time to time we may enter into other types of funded development agreements for custom OptiChem(R) coatings. Part of such relationships may include supply agreements for prototype and pilot manufacturing of the resulting products.

Management believes that microarray substrate and other OptiChem(R)-related sales will continue, and that there will be nominal royalties and licensing fees with SCHOTT in the next fiscal year; however, there can be no assurance that sales will occur or that revenues will be generated.

During the fiscal years ended July 31, 2007 and 2006, total revenues were \$183,130 and \$212,701, respectively of which \$108,280 and \$155,701, respectively were related to OptiChem(R) slide revenues. Of the total OptiChem(R) slide revenues during the fiscal years ended July 31, 2007 and 2006, \$83,464 (45.6%) and \$121,353 (57.1%) were from SCHOTT.

### Competition

To the best of management's knowledge, no other company now has a product or is developing a product intended for the same clinical application as the BACcel(R) system. Therefore we are not aware of any actual or impending competitor.

Publicity frequently appears in the press concerning new products for rapid bacterial identification using genes or other molecular markers ("molecular diagnostics"). Numerous acquisitions, licenses, and distribution arrangements have been announced over the last few years for such innovations. Nevertheless, management's assessment based on scientific data and discussions with industry experts is that known marker methods are not likely to obsolesce the BACcel(R) system's methods. Antibiotic resistance is highly complex, and even the simplest apparent mechanisms reveal complexity upon close analysis. Although a few gene markers have clinical value, most resistance mechanisms have no known reliable genetic correlates.

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The BACcel(R) system offers performance that we believe cannot be duplicated by known molecular diagnostics methods. For practical clinical application, a diagnostic method must be able to differentiate mixed organisms from whole patient specimens on the basis of genus and species, live and dead bacterial cells, heterogeneous character expression, and quantitative content. To the best of management's knowledge, the BACcel(R) system is the only platform that offers this analytical capability combined with same-shift turnaround.

We believe that future diagnostics will continue to require "phenotyping" methods to determine antibiotic resistance. Phenotyping characterizes bacterial strains by measuring the behavior of live cells upon challenge with different materials.

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We further believe that we will not need to displace installed general-purpose culturing systems in order to sell the BACcel(R) system. We have identified specific diseases for which there is an urgent clinical need for same-shift detection. These diseases also result in major hospital costs that we believe can only be reduced, in the absence of effective prevention, by a product that performs as we intend the BACcel(R) system to perform.

Even so, we assume that market leaders in diagnostic products may discover, invent, or acquire competing technology at some point in the future.

The leading companies with automated microbiological testing include Becton Dickinson (NYSE: BDX), bioMerieux (France), Dade Behring (being acquired by Siemens), and Trek Diagnostics (recently acquired by Magellan Biosciences, private). These products provide broad-based culturing and analysis of a wide variety of bacteria.

Many of our potential competitors have greater financial, manufacturing, marketing and sales resources than we do. In addition, some of our potential competitors may, individually or together with companies affiliated with them, have greater human and scientific resources than we do. Our potential competitors could develop technologies and methods for materials that render our technologies and methodologies less competitive.

### Operations

We own all of our laboratory equipment. We lease approximately 6,400 square feet of laboratory and administrative space. Within the laboratory facility we constructed a cleanroom for R&D and pilot production. We believe the facility has adequate capacity to implement the current product development plan.

We have identified second sources for all materials used in OptiChem(R) formulation.

BACcel(R) system instrumentation development requires certain components that are custom-fabricated to our specifications. Such components include injection-molded plastic components, die-cut laminates, and machined mechanical components. In all applicable cases, we own the production tooling and believe that we will be able to qualify secondary sources. We plan to maintain inventory levels sufficient to bridge second-source response times and include an adequate safety factor.

We have sold a manufacturing and marketing license to SCHOTT for the production of microarray slides. As we approach commercialization for the BACcel(R) system, we plan to engage experienced outsource vendors to produce finished goods thus avoiding costly investment for a manufacturing facility.



#### Intellectual Property

We rely upon a combination of patent, copyright, trademark and trade secret laws; employee and third party non-disclosure agreements, license agreements and other intellectual property protection methods to protect our proprietary rights. We are committed to aggressively develop a continuing stream of intellectual property and to defend our position in key technologies.

Accelr8's first patent on the OptiChem(R) technology, U.S. Patent No. 6,844,028 titled "Functional Surface Coating" was issued on January 18, 2005. The patent specification covers the core OptiChem(R) technology. On June 27, 2006, the United States Patent Office issued Patent No. 7,067,194 which awarded the Company a patent for devices that use OptiChem(R) coatings. Additional OptiChem(R) United States and international patent filings are in prosecution.

Accelr8 broadened the scope of its instrument patent claims by filing additional provisional patent applications during the 2006 fiscal year. Management believes that these filings address many of the core BACcel(R) system methods, and include additional instrumentation and specimen preparation inventions related to the BACcel (R) system.

There can be no assurance that third parties will not assert infringement or other claims against us with respect to any existing or future products. We cannot assure that licenses would be available if any of our technology was successfully challenged by a third party, or if it became desirable to use any third-party technology to enhance the Company's products. Litigation to protect our proprietary information or to determine the validity of any third-party claims could result in a significant expense to us and divert the efforts of our technical and management personnel, whether or not such litigation is determined in our favor.

While we have no knowledge that we are infringing upon the proprietary rights of any third party, there can be no assurance that such claims will not be asserted in the future with respect to existing or future products. Any such assertion by a third party could require us to pay royalties, to participate in costly litigation and defend licensees in any such suit pursuant to indemnification agreements, or to refrain from selling an alleged infringing product or service.

We have registered trademarks for: OptiChem(R), BACcel(R), Oter(R), BACcelr8r(TM), and Quantum Microbiology(TM).

#### Employees and Consultants

We have 10 full-time employees and contracts with four consultants. We have not entered into any collective bargaining agreements

#### Factors That May Affect Future Results

Dependence On Key Employees. Our success depends to a significant extent upon a number of key management and technical personnel, the loss of one or more of whom could have a material adverse effect on our results of operations. We carry key man life insurance in the amount of \$5 million on Thomas V. Geimer. The Board of Directors has adopted resolutions under which one-half of the proceeds of any such insurance will be dedicated to a beneficiary designated by

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the insured. There can be no assurance that the proceeds from such life insurance would be sufficient to compensate us for the loss of Mr. Geimer, and these policies do not provide any benefits to the Company if Mr. Geimer becomes disabled or is otherwise unable to render services to the Company. Further, the loss of David Howson as President of the Company may have a significant adverse effect upon the Company and its business. We believe that our continued success will depend in large part upon our ability to attract and retain highly skilled

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technical, managerial, sales and marketing personnel. There can be no assurance that we will be successful in attracting and retaining the personnel we require to develop and market new and enhanced products and to conduct our operations successfully.

**Need To Develop Market For Products.** We have received only nominal revenue from sales based on products using our OptiChem(R) technology. Our principal competitors and the areas in which they compete with us are described more fully in "Competition." While we have received nominal revenues from sales of our OptiChem(R) products, there is no assurance that we will be successful in marketing our OptiChem(R) products or the BACcel(R) system when its development is complete. Further, there is no assurance we will receive additional revenues in the future. Further, we have experienced losses from operations and negative cash flow that is likely to continue unless we are able to complete the development of the BACcel(R) system and sell it into the marketplace. If we continue to experience losses from operations and negative cash flow as we have in the past, it may have a material adverse effect upon the Company, its results of operations and the price of our Common Stock may be adversely affected.

**Our Success Depends Partly On Our Ability To Successfully Introduce New Products.** In a market primarily driven by the need for innovative products, our revenue growth will depend on overcoming various technological challenges to successfully introduce new products, including but not limited to the BACcel(R) system and BACcelr8r(R) into the marketplace in a timely manner. Our technology requires significant knowledge and experience in biochemistry. In addition, we must continue to develop new applications for our existing technologies. Market acceptance of these products will depend on many factors, including, but not limited to, demonstrating that our technologies are superior to other technologies and products that are currently available or may become available in the future.

If we are unable to overcome these technological challenges, or even if we experience difficulties or delays, we may be unable to attract additional customers for our products, which would seriously harm our business and future growth prospects.

**If We Are Unable To Effectively Protect Our Intellectual Property, We May Be Unable To Prevent Infringement.** Our success depends in part on our ability to obtain and maintain patent protection for the technology underlying our products, both in the United States and in other countries. We cannot assure you that any of the presently pending or future patent applications will result in issued patents, or that any patents issued to us or licensed by us will not be challenged, invalidated or held unenforceable. Further, we cannot guarantee that any patents issued to us will provide us with a significant competitive advantage.

If we fail to successfully enforce our proprietary technology or otherwise maintain the proprietary nature of our intellectual property with respect to our significant current and proposed products, our competitive position, our ability to complete the development of the BACcel(R) system and future sales of this product could suffer.

Notwithstanding our efforts to protect our intellectual property, our competitors may independently develop similar or alternative technologies or products that are equal to or superior to our technology and products without infringing on any of our intellectual property rights or design around our proprietary technologies. If customers prefer these alternative technologies to our technology, it may have a material adverse effect upon the Company, its results of operations and the price of our Common Stock may be adversely affected.

**Our Products Could Infringe On The Intellectual Property Rights Of Others.** Due to the significant number of U.S. and foreign patents issued to, and other intellectual property rights owned by entities operating in the industry in which we operate, we believe that there is a significant risk of litigation arising from infringement of these patents and other rights. Third parties may assert infringement or other intellectual property claims against us or our

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licensees. We may have to pay substantial damages, including treble damages, for past infringement if it is ultimately determined that our products infringe on a third party's proprietary rights. In addition, even if such claims are without merit, defending a lawsuit may result in substantial expense to us and divert the efforts of our technical and management personnel.

We may also be subject to significant damages or injunctions against development and sale of some of our products, which could have a material adverse effect on our future revenues. Furthermore, claims of intellectual property infringement may require us to enter into royalty or license agreements with third parties, and we may be unable to obtain royalty or license agreements on commercially acceptable terms, if at all.

**Third Parties May Seek To Challenge, Invalidate Or Circumvent Issued Patents Owned By Or Licensed To Us Or Claim That Our Products And Operations Infringe Their Patent Or Other Intellectual Property Rights.** In addition to our patents, we possess an array of unpatented proprietary technology and know-how and we license intellectual property rights to and from third parties. The measures that we employ to protect this technology and these rights may not be adequate. Moreover, in some cases, the licensor can terminate a license or convert it to a non-exclusive arrangement if we fail to meet specified performance targets.

We may incur significant expense in any legal proceedings to protect our proprietary rights or to defend infringement claims by third parties. In addition, claims of third parties against us could result in awards of substantial damages or court orders that could effectively prevent us from manufacturing, using, importing or selling our products in the United States or abroad.

**Competition.** The industry in which we compete is subject to rapid technological changes, and we do and may face competition for our products. We may also face competition from non-medical device companies, including pharmaceutical companies that may offer alternatives to our products. Many of our competitors have greater financial, manufacturing, marketing and sales resources than we do. In addition, some of our competitors may, individually or together with companies affiliated with them, have greater human and scientific resources than we do. Our competitors could develop technologies and methods for materials that render our technologies and methodologies less competitive. Accordingly, if new competitors introduce new products that are more effective than our current and proposed technologies, it may have a material adverse effect upon the Company, its results of operations and the price of our Common

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Stock may be adversely affected.

**Ability To Respond To Technological Change.** Our future success will depend significantly on our ability to enhance our current products and develop or acquire and market new products that keep pace with technological developments and evolving industry standards as well as respond to changes in customer needs. There can be no assurance that we will be successful in developing or acquiring product enhancements or new products to address changing technologies and customer requirements adequately, that we can introduce such products on a timely basis or that any such products or enhancements will be successful in the marketplace. Our delay or failure to develop or acquire technological improvements or to adapt our products to technological change would have a material adverse effect on our business, results of operations and financial condition.

**Control By Management.** At October 25, 2007, our officers and directors owned or controlled of record approximately 962,550 or 10.89% of the outstanding shares of our Common Stock (excluding shares held in the Rabbi Trust). If they exercise all of the options that they currently hold, they will own 1,647,550 or 17.29% of the then outstanding shares of our Common Stock (excluding shares held in the Rabbi Trust). Due to their stock ownership, the officers, directors and key employees may be in a position to elect the Board of Directors and to control the business and affairs of the Company, including certain significant corporate actions such as acquisitions, the sale or purchase of assets and the issuance and sale of the Company's securities.

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**Shares Eligible For Future Sale.** As of July 31, 2007, we had reserved 1,500,000 shares of Common Stock for issuance upon exercise of options which have been or may be granted pursuant to our stock option plans. As of July 31, 2007, 599,000 options had been granted pursuant to the Qualified Plan with 17,500 of these options exercised, 224,000 options that expired, leaving 342,500 available for grant and 310,000 options had been granted pursuant to the Non-Qualified Plan, 50,000 options were cancelled, 75,000 of these options exercised, 0 options that expired leaving 115,000 available for grant. As of July 31, 2007, 435,000 options had been granted pursuant to the Omnibus Plan with none of these options exercised, 80,000 of these options expired leaving 145,000 were available for grant. As of October 25, 2007, there were 537,295 outstanding shares of our Common Stock, not held by our officers, directors or in the Rabbi Trust that are restricted securities whose restrictions have lapsed and may be sold as unrestricted securities. Although the Securities Act and Rule 144 place certain prohibitions on the sale of restricted securities, restricted securities may be sold into the public market under certain conditions.

The 1,129,110 warrants exercised by Mr. Geimer were exercised at \$0.24 per share on October 14, 1997 and contributed to a Rabbi Trust. Under the terms of the Rabbi Trust, we will hold the shares in the trust, and carry them as treasury stock. The Rabbi Trust provides that upon Mr. Geimer's death, disability or termination of his employment, the shares will be released ratably over the subsequent ten (10) years, unless the Board of Directors determines otherwise. See Note 8 to the Financial Statements for further information. Sales of Common Stock underlying Plan Options may adversely affect the price of the Common Stock.

**The Loss Of Our Major Customers Could Significantly Reduce Our Revenue.** During the fiscal year ended July 31, 2007, total revenues from SCHOTT were \$83,464 or 45.6% of revenues. During the fiscal year ended July 31, 2006, total revenues from SCHOTT were \$121,353 or 57.1% of total revenues. There can be no assurance that revenue from SCHOTT or any customer will continue at their historical levels. Loss of SCHOTT or another one or more of our current clients

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could have a material adverse effect on our business, financial condition and results of operations. If we cannot broaden our customer base, we will continue to depend on a few clients for the majority of our revenue.

We Use Hazardous Materials In Some Of Our Research, Development And Manufacturing Processes. Our research activities sometimes involve the controlled use of various hazardous materials. Although we believe that our safety procedures for handling and disposing of such materials comply with the standards prescribed by state and federal regulations, the risk of accidental contamination or injury from these materials cannot be completely eliminated. We could be held liable for any damages that might result from any accident involving such materials. Any such liability could have a material adverse effect on our business, financial condition and results of operations.

Changes In Governmental Regulations May Reduce Demand For Our Products Or Increase Our Expenses. We compete in markets in which we or our customers must comply with federal, state, local and foreign regulations, such as environmental, health and safety and food and drug regulations. We develop, configure and market our products to meet customer needs created by these regulations. Any significant change in these regulations could reduce demand for our products.

We Have A Single Manufacturing and Research and Development Facility And We May Lose Revenue And Be Unable To Continue to Conduct our Research and Development and Product Development Activities If We Lose This Facility. We manufacture all of the products we sell and conduct all of our research and development and product development activities in our existing facility in Denver, Colorado. If our production facility becomes incapable of manufacturing products for any reason, we would have no other means of manufacturing products

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incorporating our coating technologies until we were able to restore the manufacturing capability at our facility or develop an alternative manufacturing facility. Further, we may be unable to meet production requirements, we may lose revenue and we may not be able to maintain our relationships with our customers. If for any reason our research and development and product development activities could not be conducted at this facility, we would have no other location or means of conducting our research and development and product development activities. Although we carry business interruption insurance to cover lost revenue and profits in an amount we consider adequate, this insurance does not cover all possible situations. In addition, our business interruption insurance would not compensate us for the loss of opportunity and potential adverse impact on relations with our existing licensees resulting from our inability to produce products for them or our failure to conduct our research and development and product development activities.

Our Results Of Operations Will Be Adversely Affected If We Fail To Realize The Full Value Of Intellectual Property. As of July 31, 2007, our total assets of \$6,138,087 included \$3,472,103 of Intellectual Property. These assets have historically been amortized on a straight-line basis over their estimated useful lives. Intangible assets to be held and used by the Company are reviewed for impairment whenever events or circumstances indicate that the carrying amount of the asset may not be recoverable. We continuously evaluate the recoverability of these items based on estimated future cash flows from and estimated fair value of such assets, and provide for impairment if such undiscounted cash flows are insufficient to recover the carrying amount of the asset. Future impairment testing may result in additional intangible asset write-offs, which could adversely affect our financial condition and results of operations.

Our business strategy approach may be adversely affected by potential

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healthcare reform. Our vision is to develop and commercialize an innovative, integrated system for rapid identification of bacterial and its antibiotic resistance in critically ill patients. Healthcare reform and the growth of managed care organizations have been considerable forces in the diagnostics industry. These forces continue to place constraints on the levels of overall pricing and thus could have a material adverse effect on our future profit margins of our products. Such continuing changes in the United States healthcare market could also force us to alter our approach to selling, marketing, distributing and servicing our customer base. In and outside the United States, changes to government reimbursement policies could reduce the funding that healthcare service providers have available for diagnostic product expenditures, which could have a material adverse impact on our future sales and /or profit margin.

We make significant investments in research and development, but there is no guarantee that any of these investments will ultimately result in a commercial product that will generate revenues. The BACcel(R) system will integrate many of our component systems and processes. For the year ended July 31, 2007, we spent \$991,581 and during the fiscal year ended July 31, 2006 we spent \$2,155,988 on research and development expenses. Notwithstanding these investments, we anticipate that we will have to spend additional funds in the research and development of the BACcel(R) System. There can be no assurance that the BACcel(R) system will be successful, or even if it is successful will be accepted in the marketplace. Further, we might also encounter substantial delays in getting products to market in a timely fashion.

Changes in our business strategy or plans may adversely affect our operating results and financial condition. If our business strategy or plans change, whether in response to changes in economic conditions or developments in the diagnostics industry, or otherwise, we may be required to expend significantly more resources than planned to develop the BACcelr(R) system or other new products. The expense of such change could adversely affect our operating results and financial condition.

Compliance costs with recently enacted changes in the securities laws and regulations pursuant to the Sarbanes-Oxley Act of 2002 will increase our costs. The Sarbanes-Oxley Act of 2002 that became law in July 2002 has required changes in some of our corporate governance, securities disclosure, accounting and compliance practices. In response to the requirements of that act, the

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Securities and Exchange Commission and the American Stock Exchange have promulgated rules on a variety of subjects. Compliance with these rules as well as the Sarbanes-Oxley Act of 2002 has increased our legal, financial and accounting costs, and we expect the cost of compliance with these new rules to continue to increase and to be permanent. Further, the new rules may increase the expenses associated with our director and officer liability insurance.

Our stock price has been volatile and may continue to be volatile; Dividend Policy. The trading price of our common stock has been, and is likely to continue to be, highly volatile, in large part attributable to developments and circumstances related to factors identified in "Forward-looking Statements" and "Risk Factors." The market value of your investment in our common stock may rise or fall sharply at any time because of this volatility, and also because of significant short positions taken by investors from time to time in our stock. During the fiscal year ended July 31, 2007, the closing sale price for our common stock ranged from \$2.76 to \$1.65 per share. The market prices for securities of medical technology companies historically have been highly volatile, and the market has experienced significant price and volume fluctuations that are unrelated to the operating performance of particular

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companies. We do not intend to pay any cash dividends on our Common Stock in the foreseeable future.

Colorado law and our Articles of Incorporation may protect our directors from certain types of lawsuits. Colorado law provides that our directors will not be liable to us or our stockholders for monetary damages for all but certain types of conduct as directors. Our Articles of Incorporation permit us to indemnify our directors and officers against all damages incurred in connection with our business to the fullest extent provided or allowed by law. The exculpation provisions may have the effect of preventing stockholders from recovering damages against our directors caused by their negligence, poor judgment or other circumstances. The indemnification provisions may require us to use our limited assets to defend our directors and officers against claims, including claims arising out of their negligence, poor judgment, or other circumstances.

We may require additional capital in the future and we cannot assure you that capital will be available on reasonable terms, if at all, or on terms that would not cause substantial dilution to your stock holdings. We have historically relied upon our cash assets to fund our operating losses and will continue to incur operating losses until we are able to complete the development of the BACcel(R) system and sell it into the marketplace. If capital requirements vary materially from those currently planned, we may require additional capital sooner than expected. There can be no assurance that such capital will be available in sufficient amounts or on terms acceptable to us, if at all. Further, any sale of a substantial number of additional shares will cause dilution to your investment and could also cause the market price of our Common Stock to decline.

We have the authority to issue up to 14,000,000, shares of Common Stock (of which, as of October 26, 2007, 9,971,210 shares were outstanding) and to issue options and warrants to purchase shares of our Common Stock. Issuances of additional shares of our stock in the future could dilute existing shareholders and may adversely affect the market price of our Common Stock.

### Glossary

**Antibody:** a specialized protein (immunoglobulin) produced by the immune response that binds to a particular molecular surface that has previously been presented to certain cells in the organism's blood. The end-product of the "humoral" component of the immune response. Key component of immunoassays detecting as the analyte-specific detection agent.

**Antigen:** the material used to stimulate immune antibody production in an organism.

**Assay, Qualitative:** a chemical test in which the result is expressed as the presence or absence of an analyte. Also referred to as "detection," as opposed to measuring the amount of material.

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**Assay, Quantitative:** a test in which the result is expressed as the quantity of analyte in a sample. Quantitative assays may be used to determine whether the amount of analyte is above or below a "cut-point" that distinguishes an acceptable level of the analyte, such as a food pathogen, from an unacceptable level.

**Culturing (Bacterial):** the analytical process of growing bacteria from a patient specimen (blood, sputum, etc.) to a quantity suitable for isolation and analysis.

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**DNA:** the nucleic acid biomolecules that carry an organism's genetic code. The famous "double helix" molecular model of Watson and Crick.

**Gene:** a sequence of DNA or RNA that produces a functional protein product when translated by the normal biosynthetic route.

**Genomics:** the study, including sequencing, of molecules that carry an organism's genetic code (nucleic acids, DNA and RNA).

**Genotype:** the DNA gene sequence makeup that distinguishes one type of organism from another. Genotype differences may or may not directly correlate with phenotypes (see definition below).

**Immunoassay:** any type of biochemical assay that uses antigen-antibody affinity as the assay basis of selection and detection.

**Isolation (Bacterial):** the technique of growing bacterial cultures on selective media in such a way that only particular species grow successfully, thereby isolating colonies of the species for further analysis.

**Microarray:** a regular geometric array (matrix or grid pattern) of individual reactive chemical probes affixed to a physical substrate such as a microscope slide. Used in assays to conduct thousands of analyses at one time on sample materials presented to the microarray. The high-density evolution of the microtiter plate.

**Microtiter Plate:** a multi-well plate (typically 96 wells) of standard dimensions in which individual reactions occur near-simultaneously with different reagents. Analyzed visually or by automated optical plate readers. Currently the most widely-used standard laboratory assay format.

**Nucleic Acid:** DNA (deoxyribo-nucleic acid) or RNA (ribo-nucleic acid). Polymeric chains of nucleotides whose particular sequence constitutes an organism's genetic code (DNA and genomic RNA) or that participate in the biosynthesis of new protein molecules (other types of RNA such as messenger RNA, transfer RNA, and ribosomal RNA).

**Pathogen:** an infectious organism (bacteria, viruses, molds and fungi, prions) that when invading a host causes a disease. Pathogens may be transmitted through food, water, air, and/or contact with infected individuals or their biological fluids.

**Phenotype:** for microorganisms, the functional responses or observable characteristics that differentiate one set of organisms from another within the same species. The basis for strain differentiation based on observable behavior or properties other than those expressed in the genotype.

**Protein:** biological polymeric macromolecules formed by long chains of amino acids (twenty in humans) and which provide the mechanism for cellular physiology and metabolism. All life functions are carried out through the mediation of proteins (typically enzymes).

**Sensitivity:** the smallest quantity of analyte that the assay can detect. Same as "Limit Of Detection." Statistically, the proportion of false negatives reported for a population sample.

**Strain (Bacterial):** variants or phenotypes of a bacterial species that exhibit significant characteristics that allow discrimination of one strain from another. In clinical application usually distinguished on the basis of disease severity, toxic products, antibiotic resistance, and other medically relevant properties.



**Superinfection:** a second infection that occurs after treatment has begun for a diagnosed infection.

**Surface Chemistry:** the chemistry of materials that provide a barrier or contact surface. In the context of biochemical assays, the chemistry of all exposed surface area that may come into contact with assay reagents.

**Ventilator Associated Pneumonia (VAP):** a version of hospital-acquired pneumonia whose symptoms first appear at least 48 hours after starting mechanical ventilation.

#### Item 2. Description of Property.

We lease approximately 6,400 square feet of office and laboratory space at 7000 North Broadway, Building 3-307, Denver, Colorado 80221. The monthly rent and utilities average \$5200 per month. The lease expires on September 30, 2009.

#### Item 3. Legal Proceedings

Not Applicable.

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

No matters were submitted by the Company to a vote of our security holders through the solicitation of proxies or otherwise, during the fourth quarter of the fiscal year covered by this Annual Report.

## PART II

#### Item 5. Market For Common Equity and Related Stockholder Matters

From November 21, 2000 to October 8, 2003, the Company's common stock traded on the NASDAQ Electronic Bulletin Board. On October 9, 2003, the Company's common stock began trading on the American Stock Exchange under the trading symbol AXK.

The table set forth below presents the range, of the high and the low sales price per share of Common Stock for the past two years on a quarterly basis.

| Quarter Ended<br>----- | High<br>---- | Low<br>--- |
|------------------------|--------------|------------|
| Fiscal 2007            |              |            |
| October 31, 2006       | \$2.76       | \$1.99     |
| January 31, 2007       | \$2.50       | \$1.75     |
| April 30, 2007         | \$2.20       | \$1.69     |
| July 31, 2007          | \$2.45       | \$1.65     |
| Fiscal 2006            |              |            |
| October 31, 2005       | \$3.33       | \$2.94     |
| January 31, 2006       | \$3.30       | \$2.70     |
| April 30, 2006         | \$3.25       | \$2.75     |
| July 31, 2006          | \$3.15       | \$2.01     |

The closing price for our Common Stock on October 25, 2007 was \$3.42. On October 25, 2007, the Company had approximately 280 shareholders of record, which does not include shareholders whose shares are held in street or nominee

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names. The Company believes that there are approximately 1,650 beneficial owners of its Common Stock.

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Holders of Common Stock are entitled to receive dividends as may be declared by the Board of Directors out of funds legally available therefore. To date, no dividends have been declared by the Board of Directors, nor does the Board of Directors anticipate declaring and paying cash dividends in the foreseeable future.

Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

On January 18, 2001, Accelr8 purchased the OpTest portfolio of technology assets and commenced investment in development and optimization of OpTest's surface chemistry (OptiChem(R)) and quantitative instrument (QuanDx). Our proprietary surface chemistry and its quantitative instruments support rapid assessment of medical diagnostics, food-borne pathogens, water-borne pathogens and bio-warfare assessments. The Company sells advanced microarray slides coated with its proprietary OptiChem(R) activated surface chemistry for use in academic research, drug discovery and molecular diagnostics. This surface coating has the 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.

On November 24, 2004 the Company entered into an exclusive two year manufacturing and marketing agreement (the "License Agreement") with SCHOTT Jenaer Glas (GMBH) of Jena Germany for OptiChem(R) coated amine-reactive slides (Slide H). Pursuant to the License Agreement, SCHOTT paid the Company a non-refundable fee of \$100,000, of which \$50,000 was credited against future royalties. An additional \$15,000 in deferred revenue was recorded for training supplied to SCHOTT. 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. An optional 1-year non-exclusive license extension to market and manufacture Slide H was exercised by SCHOTT on September 27, 2006. This license expires November 23, 2007.

On June 2, 2005 the Company signed a second Supply Agreement (Slide HS) with SCHOTT which expired on December 31, 2005. The Company also granted an option for SCHOTT to receive a non-exclusive right to manufacture and sell, up to 12,500 glass slides, from January 1, 2006 to December 31, 2006. SCHOTT exercised this right and paid the Company \$15,000 for training on manufacturing of Slide HS. Subsequently, SCHOTT paid \$9626.45 in royalties for Slide HS sold during 2006.

On December 21, 2006, the Company and SCHOTT entered into an agreement for the manufacturing and worldwide sales of Slide HS coatings on microarraying slides (the "Slide HS Agreement"). The Slide HS Agreement granted SCHOTT the right to manufacture and market Streptavidin coated microarray slides for 2 years through December 31, 2008. In connection with the Slide HS Agreement, SCHOTT paid the Company a \$50,000 license fee and \$50,000 prepaid royalty payment.

During the fiscal year ended July 31, 2007, SCHOTT paid the Company \$50,000 in royalties and license fees and deferred revenues of \$30,614 in prepaid royalties were recognized.

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For a complete description of the research and development we intend to perform during the fiscal year ending July 31, 2008, see "Item 1. Description of Business." We also intend to begin BACcel(R) system product design and development during the fiscal year ending July 31, 2008. In addition, we expect to conduct further custom OptiChem(R) coating development in projects funded by industrial customers.

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### Selected Financial Data

The following selected financial data should be read in conjunction with the financial statements and related notes thereto appearing elsewhere in this Form 10-KSB. The selected financial data as of July 31, 2007 and 2006 and for each of the two years in the period ended July 31, 2007 have been derived from our financial statements which have been audited by our independent auditors and included elsewhere in this Form 10-KSB. The selected financial data provided below is not necessarily indicative of our future results of operations or financial performance.

|                                      | Year Ended July 31                    |           |
|--------------------------------------|---------------------------------------|-----------|
| Statement of Operations Data:        | 2007                                  | 2006      |
|                                      | (In thousands, except per share data) |           |
| Total Revenue                        | 183                                   | 213       |
| Loss from operations                 | (2,114)                               | (3,204)   |
| Weighted average shares outstanding  | 9,967,034                             | 9,967,034 |
| Basic and diluted net loss per share | \$ (0.19)                             | \$ (0.30) |
| Balance Sheet Data:                  | 2007                                  | 2006      |
| Working capital                      | \$ 1,376                              | \$ 2,922  |
| Current assets                       | 1,532                                 | 3,084     |
| Current liabilities                  | 155                                   | 162       |
| Total assets                         | 6,138                                 | 7,848     |
| Total liabilities                    | 1,258                                 | 1,109     |
| Shareholders' equity                 | 4,880                                 | 6,739     |

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### Results of Operations

The following table sets forth, for the periods indicated, the percentage of net sales represented by certain items included in the Company's Statements

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of Operations:

| Fiscal year ended July 31,     | 2007                 | 2006                 |
|--------------------------------|----------------------|----------------------|
|                                | ----                 | ----                 |
| Total revenues from operations | 100%                 | 100%                 |
| Research and development       | (541)                | (1014)               |
| General and administrative     | (502)                | (390)                |
| Amortization                   | (131)                | (111)                |
| Cost of sales                  | (31)                 | (20)                 |
| Marketing and sales            | (9)                  | (35)                 |
| Depreciation                   | (40)                 | (37)                 |
| <br>Net loss                   | <br>(1051)%<br>===== | <br>(1425)%<br>===== |

Changes in Results of Operations: Year ended July 31, 2007 compared to year ended July 31, 2006

OptiChem(R) slide revenues for the year ended July 31, 2007 were \$108,280 as compared to \$155,701 for the year ended July 31, 2006, resulting in a decrease of \$47,421, or 30.5%. The decrease in OptiChem(R) revenues was primarily due to a decrease in sales of slide H to SCHOTT.

Consulting fees for the year ended July 31, 2007 were \$22,000 as compared to \$0 during the fiscal year ended July 31, 2006. The consulting fees were recognized from the completion of phase 2 of the Feasibility Testing Agreement with Promega.

License fees for the year ended July 31, 2007 were \$50,000 as compared to \$57,000 during the fiscal year ended July 31, 2006, a decrease of \$7,000 or 12.3%. The decrease in license fees was primarily the result of the focus of the Company on research and development of the BACcel(R) system as compared to the marketing and sales of OptiChem(R) slides.

Option fees for the year ended July 31, 2007 were \$2,850 as compared to \$0 during the fiscal year ended July 31, 2006. The option fees were the value of slides provided by SCHOTT for an option to exercise the Slide HS Agreement.

Cost of sales for the year ended July 31, 2007 were \$56,646 compared to \$41,604 during the year ended July 31, 2006, a decrease of \$15,042 or 36.2%. This increase was due to an increase in material costs for chemicals for OptiChem(R). The cost of sales as a percentage of OptiChem(R) revenues was 52.3% for the year ended July 31, 2007 as compared to 26.7% for the year ended July 31, 2006.

Research and development expenses for the year ended July 31, 2007, were \$991,581 as compared to \$2,155,988 during the year ended July 31, 2006, a decrease of \$1,164,407 or 54%. This major decrease was due to a decrease in BACcel(R) system consulting fees paid for outside engineers to \$32,028 during the year ended July 31, 2007 from \$1,062,166 during the year ended July 31, 2006, a decrease of \$1,030,138 or 96.99%. The laboratory expense and supplies were \$175,101 for the year ended July 31, 2007 as compared to \$217,527 for the year ended July 31, 2006, a decrease of \$42,426 or 19.5%. The decrease in the laboratory expense and supplies was primarily the result of decreased direct supply costs related to the development of the BACcel(R) system.

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General and administrative expenses for the year ended July 31, 2007 were \$920,175 as compared to \$828,745 during the year ended July 31, 2006, an increase of \$91,430 or 11.3%. The following summarizes the major components of

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the changes:

|                           | 2007      | 2006      | Increase<br>(Decrease) |
|---------------------------|-----------|-----------|------------------------|
|                           | ----      | ----      | -----                  |
| Audit and Accounting      | \$ 34,821 | \$ 37,170 | \$ (2,349)             |
| Consulting Fees           | 29,479    | 40,150    | (10,671)               |
| Corporate and Shareholder | 52,744    | 51,023    | 1,721                  |
| Corporate Insurance       | 42,105    | 43,161    | (1,056)                |
| Deferred Compensation     | 156,135   | 86,169    | 69,966                 |
| Employee Benefits         | 82,317    | 103,821   | (21,504)               |
| Payroll Taxes             | 67,956    | 70,334    | (2,378)                |
| Salaries                  | 362,879   | 319,227   | 43,652                 |
| Travel                    | 5,450     | 13,105    | (7,655)                |
| Legal                     | 47,606    | 30,078    | 17,528                 |
| Miscellaneous Other       | 38,683    | 34,507    | 4,176                  |
|                           | -----     | -----     | -----                  |
|                           | \$920,175 | \$828,745 | \$ 91,430              |

The decrease in consulting fees of \$10,671 was due to a decrease in fees paid to several consultants who performed software development services. The change in deferred compensation was due to a market gain on related investments. Payroll taxes decreased and employee benefits were reduced by \$23,882 during fiscal year ended July 31, 2007, because of a fewer full time employees. Salaries expense increased due to certain employee compensation increases. Legal fees increased by \$17,528 due to an increase in patent filings.

The increase in amortization for the year ended July, 31 2007 was negligible.

Depreciation for the year ended July 31, 2007 was \$73,528 as compared to \$79,295 during the year ended July 31, 2006 a decrease of \$5,767 or 7.3%. The decreased depreciation was primarily due to not replacing equipment.

Marketing and sales expenses were \$15,496 for the year ended July 31, 2007 as compared to \$74,909 during the year ended July 31, 2006, a decrease of \$59,413 or 79.3%. The decrease was primarily the result of not producing any marketing materials or product literature.

As a result of these factors, loss from operations for the year ended July 31, 2007 was \$2,114,479 as compared to a loss of \$3,204,523 for the year ended July 31, 2006, a decreased loss of \$1,090,044 or 34.02%.

Interest and dividend income for the year ended July 31, 2007 was \$111,567 as compared to \$181,243 for the year ended July 31, 2006, a decrease of \$69,676 or 38.4%. The decrease was due to a lower interest rate earned on our cash balances and lower balances as the company continued to support the research and development of the BACcel(R) system.

Unrealized gain on marketable securities held in the deferred compensation trust for the year ended July 31, 2007 was \$64,849 as compared to an unrealized loss of \$15,671 during the year ended July 31, 2006. The unrealized gain was a result of market fluctuations on the securities that are held in the deferred compensation trust.

Miscellaneous Other Expenses were \$13,820 for the year ended July 31, 2007 as compared to \$8,330 for the year ended July 31, 2006, an increase of \$5,490 or 61.5%. The increase in Miscellaneous Other Expenses was due to increased refunds for overcharges for workers compensation insurance premium and occupational tax.

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As a result of these factors, net loss for the year ended July 31, 2007 was \$1,924,243 as compared to \$3,030,621 during the year ended July 31, 2006, a decreased loss of \$1,106,378 or 36.5%.

### Capital Resources and Liquidity

During the fiscal year ended July 31, 2007, we did not generate positive cash flows from operating activities. The primary sources of capital have been from sales and our existing cash balance. As of July 31, 2007, the Company had \$1,393,669 in cash and cash equivalents, a decrease of \$1,610,667 from \$3,004,336 at July 31, 2006. The primary reasons for change in cash and cash equivalents were cash used for operating activities of \$1,535,667 plus \$75,000 net cash used in investing activities.

For the year ended July 31, 2007, we spent \$991,581 on research and development expenses. As of the date of this annual report, we have only realized nominal revenues from the sale of our products. Notwithstanding our investments in research and development, there can be no assurance that the BACcel(R) system or any of our other products will be successful, or even if they are successful, will provide sufficient revenues to continue our current operations. As of July 31, 2007, management believes that current cash balances will be sufficient to fund our capital and liquidity needs for the next twelve months.

The following summarizes the Company's capital resources at July 31, 2007 compared with July 31, 2006:

|   | July 31, 2007  | July 31, 2006  | Increase<br>(Decrease) |
|---|----------------|----------------|------------------------|
| Cash and cash equivalents                           | \$ 1,393,669   | \$ 3,004,336   | \$ (1,610,667)         |
| Current assets                                      | \$ 1,531,615   | \$ 3,084,175   | \$ (1,552,560)         |
| Total Assets  | \$ 6,138,087   | \$ 7,848,223   | \$ (1,710,136)         |
| Current liabilities                                 | \$ 155,331     | \$ 162,488     | \$ (7,157)             |
| Working capital                                     | \$ 1,376,284   | \$ 2,841,848   | \$ (1,465,564)         |
| Net cash (used in) operating activities             | \$ (1,535,667) | \$ (2,640,956) | \$ (1,105,289)         |
| Net cash (used in) provided by investing activities | \$ (75,000)    | \$ 81,033      | \$ (156,033)           |

Our primary use of capital has been for the research and development of the BACcel(R) system. Our working capital requirements are expected to increase in line with the growth of our business. We have no lines of credit or other bank or off balance sheet financing arrangements. We believe our capital requirements will continue to be met with our existing cash balance, additional issuance of equity or debt securities and/or a capital infusion from potential partners in the development of the BACcel(R) system. Further, if capital requirements vary materially from those currently planned, we may require additional capital sooner than expected. There can be no assurance that such capital will be available in sufficient amounts or on terms acceptable to us, if at all. Additional issuances of equity or convertible debt securities will result in dilution to our current Common Stockholders'.

### Capital Commitments

As of July 31, 2007, the Company had one outstanding lease commitment in

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the amount of \$120,271 through September 30, 2009 and an employment agreement with Tom Geimer, our Chairman and Chief Executive Officer which calls for the aggregate payments of approximately \$175,000 during the period from July 31, 2007 to December 31, 2007. See Note 12 to financial statements "Operating Leases" and "Employment Agreement." On September 29, 2007, the Compensation Committee approved entering into a new employment agreement with Mr. Geimer, effective on January 1, 2008 on substantially similar terms as Mr. Geimer's current employment agreement, which will provide for an annual base salary of \$165,000 with annual deferred compensation of \$75,000. The new employment agreement would expire on December 31, 2012.

### Recent Accounting Pronouncements

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (an interpretation of FASB Statement No. 109) ("FIN 48"). This interpretation prescribes a more likely than not recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provided guidance on derecognition of a tax position, classification of a liability for unrecognized tax benefits, accounting or interest and penalties, accounting in interim periods, and expanded income tax disclosures. FIN 48 becomes effective for the Company on October 31, 2007.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS 157). The changes to current practice resulting from the application of this Statement relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements. This issuance is effective for fiscal year ends beginning after November 15, 2007.

### 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 as services are performed.

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

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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, 2007 and July 31, 2006, 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.



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### 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.

### Contractual Obligations

The following table sets forth information with respect to our contractual obligations and commercial commitments as of July 31, 2007.

#### Contractual Obligations(3)

#### Payments Due By Period

|   | Total       | 1 to 3<br>years | 4 to 5<br>years | More than<br>5 years |
|---|-------------|-----------------|-----------------|----------------------|
| Office and Laboratory<br>Lease Payments(1)  | \$ 120,271  | \$ 120,271      | -0-             | -0-                  |
| Thomas V. Geimer<br>Employment Contracts(2) | \$1,375,000 | \$ 720,000      | \$ 480,000      | \$ 175,000           |

- (1) Includes monthly deposits for taxes and assessments, landlord's liability insurance and common facilities charges. We have a two-year lease agreement that began on October 1, 2007 for our office and laboratory located at 7000 North Broadway, Building 3-307, Denver, Colorado 80221.
- (2) Calculated as of July 31, 2007. Includes the \$75,000 payment of the deferred compensation for the fiscal year ended July 31, 2007, which payment was made on October 26, 2007. On October 29, 2007, the Compensation Committee approved a new employment agreement with Mr. Geimer upon the expiration of Mr. Geimer's current employment agreement on substantially similar terms as his previous employment agreement, which provides for an annual base salary of \$165,000 with annual deferred compensation of \$75,000 and expires on December 31, 2012. See "Item 10-Executive Compensation." The amounts from the new employment agreement are reflected above.
- (3) Excludes accounts payable and accrued liabilities.

### Item 7. Financial Statements

The response to this item is submitted as a separate section of this report beginning on page F-1.

### Item 8. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

Not Applicable.

### Item 8A. 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 July 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 Exchange Act of 1934, 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

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the Company's internal control over financial reporting during the year ended July 31, 2007.

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Item 8B. Other Information.

Not Applicable.

### PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance With Section 16(a) of the Exchange Act

Set forth below is certain information concerning the directors, executive officers and key employees and consultants of the Company as of the date hereof.

#### Directors, Executive Officers, and Key Employees and Key Consultants

|                             |    |  |
|-----------------------------|----|--|
| Thomas V. Geimer            | 60 | Secretary, Chief Executive Officer, Chief Financial Officer, Chairman of the Board |
| David C. Howson             | 63 | President  |
| Charles E. Gerretson (1)    | 62 | Director   |
| A. Alexander Arnold III (1) | 66 | Director   |
| Ken Emoto, Ph.D.            | 43 | Senior Scientist   |
| Steven W. Metzger           | 33 | Senior Scientist   |
| David W. Grainger, Ph.D.    | 47 | Chairman, Scientific Advisory Board, Consultant                                    |
| David Goldberg, Ph.D.       | 53 | Consultant   |
| Marin Kollef, MD            | 50 | Consultant   |

(1) Members of the Audit and Compensation Committees

Officers are appointed by and serve at the discretion of the Board of Directors. Each director holds office until the next annual meeting of shareholders or until a successor has been duly elected and qualified. All of our officers devote their full-time to our business and affairs. There are no family relationships between any directors, executive officers or key employees or consultants.

Thomas V. Geimer has been the Chairman of the Board of Directors and a director of Accelr8 since 1987. He currently serves as the Chief Executive Officer, Chief Financial Officer and Secretary of the Company. Mr. Geimer is responsible for development of our business strategy, day-to-day operations, accounting and finance functions. Before assuming full-time responsibilities at the Company, Mr. Geimer founded and operated an investment banking firm.

David Howson became the President of the Company in April 2004. Previously Mr. Howson was a consultant to the Company and had acted as the Director for Business Development since January 2001. Mr. Howson is responsible for coordinating business plan development and execution. Before assuming responsibilities at the Company, Mr. Howson founded and operated the Altro Group, LLC, a medical technology consulting firm. His clients at Altro included medical industry leaders such as Pfizer, Boston Scientific, and Becton Dickinson. Mr. Howson had previously founded and managed three companies for advanced medical devices. From 1966 through 1970, Mr. Howson was enrolled in the Neurobiology Doctoral Program at Cornell University and received a Bachelor of Science degree from Hobart College in 1966.

A. Alexander Arnold III has served as a director of the Company since September 1992. For the past 25 years Mr. Arnold has served as a Managing Director of Trainer, Wortham & Co., Inc., a New York City-based investment counseling firm. Mr. Arnold received a Bachelor of Arts degree from Rollins College in 1964 and a Masters of Business Administration from Boston University in 1966.

Charles E. Gerretson was appointed a director of the Company on July 19, 2003. For the past 28 years, Mr. Gerretson has served as the President of Gerretson Realty, Inc., a Denver Colorado based real estate firm, which Mr. Gerretson founded. Mr. Gerretson received a Bachelor of Science degree in Business Administration from the University of Minnesota in 1968. Mr. Gerretson was formerly a CPA with Arthur Andersen and Company and currently heads the Company's Audit Committee.

#### Employees and Consultants

Steven W. Metzger has been a Research Scientist with the Company since April 2001, and is now a Senior Scientist. From 2000 through 2001, Mr. Metzger was responsible for the implementation of merging core technologies at Heska Corporation. He was previously employed by Geo-Centers, Inc. under contract at the Naval Research Laboratory in Washington, D.C. where he focused on bio-warfare pathogen detection. Mr. Metzger received a Bachelor of Arts degree in Chemistry from Colorado College in 1996.

Ken Emoto Ph.D. has been a Senior Scientist with Accelr8 since June 2004. From 2001 through 2003, Mr. Emoto contributed to three projects for the delivery of small to large drug molecules utilizing polymers at Nektar Therapeutics. Mr. Emoto earned his Ph.D. in Materials Science from the University of Alabama. He specializes in the preparation of polymer coated surfaces for biomedical and biotechnical applications.

David W. Grainger, Ph.D. has been a consultant to the Company since January 2001. Since 1994, Dr. Grainger has taught as a Professor and Assistant Professor of Chemistry at Colorado State University. From 1998 through 1999, Dr. Grainger was the President and Chief Scientific Officer for Gamma-A Technologies, Inc. Dr. Grainger received a Bachelor of Arts degree in Engineering from Dartmouth College in 1983 and a Ph.D. in Pharmaceutical Chemistry from the University of Utah in 1987. Dr. Grainger chaired the prestigious Gordon Conference on Tissue Engineering and Biomaterials in 2001. He has been a consultant to companies such as Novartis, Johnson & Johnson, 3M, Ciba-Geigy, and others.

David Goldberg, Ph.D. has been a consultant to the Company since October 2002. Dr. Goldberg received his Doctorate in Biology from the California Institute of Technology. He did postdoctoral studies at Harvard and at the Molecular Biology Laboratory of the MRC, Cambridge. Dr. Goldberg has wide-ranging expertise in analytical systems and engineering as well as molecular biology. He is the inventor of the Company's proprietary molecular capture methodology and has been an officer / founder of various startup technology companies that have focused on areas that apply to our business, i.e. vapor deposition sputtering and tunable thin film filter technologies.

Marin Kollef, M.D., FACP, FCCP has been a consultant to the Company since October of 2004. For the past five years Dr. Kollef has been self employed as a consultant to Barnes-Jewish Hospital. Dr. Kollef is a Professor of Medicine at the Washington University School of Medicine in St. Louis, Director of the Medical Intensive Care Unit, and Director of Respiratory Care Services at Barnes-Jewish Hospital. Dr. Kollef is a graduate of the United States Military Academy at West Point (1979) and received his degree as Doctor of Medicine at

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the University of Rochester School of Medicine and Dentistry (1983). Dr. Kollef has advised the Company on clinical applications and the major issues involved in managing infectious diseases in critically ill patients.

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### Scientific Advisory Board

The Company established a Scientific Advisory Board in 2003. Dr. David Grainger is Chairman and Dr. David Goldberg is a member.

### Involvement in Certain Legal Proceedings

During the past five years, none of our directors, executive officers or persons that may be deemed promoters is or has been involved in any legal proceeding concerning (i) any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time; (ii) any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses); (iii) been subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction permanently or temporarily enjoining, barring, suspending or otherwise limiting involvement in any type of business, securities or banking activity; or (iv) been found by a court, the SEC or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law (and the judgment has not been reversed, suspended or vacated).

### Board Committees

The Board of Directors maintains a Compensation Committee and an Audit Committee. The members of the Compensation Committee and the Audit Committee are Mr. Arnold and Mr. Gerretson, the Company's independent directors. The Compensation Committee held one meeting during the last fiscal year. The Audit Committee held five meetings during the last fiscal year. The Audit Committee's financial expert is Charles E. Gerretson.

### Audit Committee Report

The Audit Committee has reviewed and discussed with management the Company's audited financial statements for the year ended July 31, 2007.

The Audit Committee has also discussed with Comiskey & Company, P.C. the matters required to be discussed by Statement on Auditing Standards No. 61, Communication with Audit Committees, as amended, by the Auditing Standards Board of the American Institute of Certified Public Accountants.

The Audit Committee has received and reviewed the written disclosures and the letter from Comiskey & Company, P.C. required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees, as amended, and has discussed with Comiskey & Company, P.C. their independence.

Based on the reviews and discussions referred to above, the Audit Committee has recommended to the Board of Directors that the audited financial statements referred to above be included in the Company's Annual Report on Form 10-KSB for the year ended July 31, 2007 filed with the Securities and Exchange Commission.

### Audit Committee of The Board of Directors

A. Alexander Arnold III  
Charles E. Gerretson

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### Compliance With Section 16(a) of The Exchange Act

Section 16(a) of the Exchange Act, generally requires the Company's directors and executive officers and persons who own more than 10% of a registered class of the Company's equity securities ("10% owners") to file with

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the SEC initial reports of ownership and reports of changes in ownership of Common Stock and other equity securities of the Company. Directors and executive officers and 10% owners are required by Securities and Exchange Commission regulation to furnish the Company with copies of all Section 16(a) forms they file. To the Company's knowledge, based solely on review of copies of such reports furnished to us and verbal representations that no other reports were required to be filed during the fiscal year ended July 31, 2007, all Section 16(a) filing requirements applicable to its directors, executive officers and 10% owners were met except that Thomas V. Geimer filed a delinquent Form 4 on January 4, 2007 reporting one transaction that was required to be filed on January 3, 2007.

### Code of Ethics

The Company has adopted a code of ethics for its principal executive officer and senior financial officers and a code of ethics and standards of conduct, that is applicable to all directors, officers and employees. Stockholders may request a free copy of these documents from:

Accelr8 Technology Corporation  
7000 North Broadway, Building 3-307  
Denver, Colorado 80221

### Item 10. Executive Compensation

#### Compensation Discussion and Analysis

Our executive compensation program for Thomas V. Geimer and David C. Howson, the named executive officers (the "NEOs") is administered by the Company's compensation committee, which is comprised of A. Alexander Arnold III and Charles E. Gerretson.

#### Compensation Objectives

We believe that the compensation programs for the NEOs should reflect our performance and the value created for the Company's stockholders. In addition, the compensation programs should support the long-term strategic goals and values of the Company, and should reward individual contributions to the Company's success. We believe that the structure of the compensation programs for our executives reflects these objectives. Our compensation programs consist of two basic components: base salary and long-term compensation.

#### Elements of Compensation

The elements of our compensation program include: (1) base salary and (2) long term compensation.

**Base Salary.** The NEOs are paid a base salary. Base salary for the NEOs is established based on the scope of their responsibilities, professional qualifications and the other elements of his/her compensation.

**Long-term Compensation.** Long-term compensation is comprised of various

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forms of equity compensation. The long-term elements are designed to assist the Company in long-term retention of key personnel and further align the interests of the NEOs with our shareholders.

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The determination of each element of compensation to the NEOs is entirely in the discretion of the Compensation Committee. We do not currently use any specific benchmarks or performance goals in determining the elements of and the size of awards and compensation.

### Equity Award Practices

All equity awards are approved before or on the date of grant. The exercise price of at-the-money stock options and the grant price of all full-value awards is the closing price on the date of grant.

Our equity award approval process specifies the individual receiving the grant, the number of units or the value of the award, the exercise price or formula for determining the exercise price and the date of grant. The Company has no program, plan or practice to the timing of its option grants.

### Summary Compensation Table

The following table summarizes the compensation of the NEOs for the fiscal years ended July 31, 2007 and 2006.

| Name and<br>Principal Position                               | Fiscal<br>Year | Salary    | Bonus | Stock<br>Awards | Option<br>Awards | All other<br>Compensation | Total (\$) |
|--|----------------|-----------|-------|-----------------|------------------|---------------------------|------------|
| Thomas V. Geimer   | 2007           | \$165,000 | \$0   | 0               | 0                | \$75,000 (1)              | \$240,000  |
| Chief Executive<br>Officer and<br>Chief Financial<br>Officer | 2006           | \$165,000 | \$0   | 0               | 0                | \$75,000 (1)              | \$240,000  |
| David C. Howson  | 2007           | \$138,807 | \$0   | 0               | 0                | \$0                       | \$138,807  |
| President  | 2006           | \$120,000 | \$0   | 0               | 0                | \$0                       | \$120,000  |

(1) Represents deferred compensation for Mr. Geimer pursuant to the Company's deferred compensation plan, \$75,000 of which vested during each of the fiscal years ended July 31, 2007 and 2006.

### Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table

#### Individual Arrangements and Employment Agreements

The following is a description of the individual arrangements that we have made to each of the NEO's the with respect to their compensation. Mr. Geimer was paid during the fiscal year ended July 31, 2007 in accordance with his employment agreement with us, which is described. Mr. Howson does not have an employment agreement with the Company. In addition, Mr. Geimer also has a Change-in-Control payment that is described in the "Potential Payments Upon Termination" below.

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Thomas V. Geimer - Chief Executive Officer, Chief Financial Officer,  
Secretary and Chairman of the Board of Directors

Effective December 1, 2002, we entered into an employment agreement with Mr. Geimer. The agreement was negotiated and approved by the Compensation Committee. The agreement provides for an annual base salary of \$165,000 with

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annual deferred compensation of \$75,000. The agreement expires on December 31, 2007. On September 29, 2007, the Compensation Committee approved entering into a new employment agreement with Mr. Geimer, effective on January 1, 2008 on substantially similar terms as Mr. Geimer's current employment agreement, which provides for an annual base salary of \$165,000 with annual deferred compensation of \$75,000. The new employment agreement would expire on December 31, 2012.

In the event of termination by mutual agreement, termination "with cause," as defined in the agreement, death or permanent incapacity or voluntary termination, Mr. Geimer, or his estate, would be entitled to the sum of the base salary and unreimbursed expenses accrued to the date of termination and any other amounts due under the agreement. In the event of termination "without cause," as defined in the agreement, Mr. Geimer would be entitled to the sum of the base salary and unreimbursed expenses accrued to the date of termination and any other amounts due under the agreement and an amount equal to the greater of Mr. Geimer's annual base salary (12 months of salary) or any other amounts remaining due to Mr. Geimer under the agreement, which as of July 31, 2007 would be \$175,000. Additionally, in the event of a change in control, any unpaid amounts due under the initial term of the agreement for both base salary and deferred compensation would be payable plus five times the sum of the base salary and deferred compensation. In his positions as Chief Executive Officer and Chief Financial Officer, Mr. Geimer exercises detailed supervision over the operations of the Company and is ultimately responsible for the operations of the Company. Mr. Geimer is also responsible for all duties incident to the title of Chief Financial Officer and Secretary.

David C. Howson - President

During the fiscal year ended July 31, 2007, we paid Mr. Howson \$138,807 in cash compensation. Mr. Howson's salary is \$150,000. Mr. Howson does not have an employment agreement with the Company. In his position as President, Mr. Howson supervises the technical development and develop product strategies. Mr. Howson further performs all duties incident to the title of President and such other duties as from time to time may be assigned to him by the Board of Directors.

### Outstanding Equity Awards at Fiscal Year End

The following table sets forth information concerning options awards to Messrs. Geimer and Howson at the fiscal year ended July 31, 2007. The Company did not grant any options during the fiscal year ended July 31, 2007.

#### Option Awards

| Name             | Grant Date      | Number of<br>Securities<br>Underlying<br>Unexercised<br>Options (#)<br>Exercisable | Number of<br>Securities<br>Underlying<br>Unexercised<br>Options (#)<br>Unexercisable | Option<br>Exercise<br>Price | Option<br>Expiration<br>Date |
|------------------|-----------------|--|--|-----------------------------|------------------------------|
| Thomas V. Geimer | August 2, 2001  | 200,000  | 0  | \$1.45                      | August 1, 2011               |
|                  | August 27, 1999 | 100,000  | 0  | \$1.50                      | August 26, 2009              |

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|              |                |         |        |        |                |
|--------------|----------------|---------|--------|--------|----------------|
| David Howson | March 16, 2005 | 225,000 | 0      | \$2.57 | March 16, 2015 |
|              | March 16, 2005 | 0       | 75,000 | \$2.57 | March 16, 2015 |

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Option Exercises During Fiscal Year

There were no options exercised by the NEO's during the year ended July 31, 2007.

Potential Payments Upon Termination

Cash Compensation.

Mr. Geimer's employment agreement contains provisions under which the Company will be obligated to pay Mr. Geimer certain compensation upon his termination. The following tables set forth the details of the estimated payments and benefits that would be provided to Mr. Geimer in the event that his employment with us is terminated for any reason, including a termination for cause, resignation or retirement, a constructive termination, a without cause termination, death, long term disability, and termination in connection with a change in control as of July 31, 2007.

| Thomas V. Geimer  | Termination by Mutual Agreement | Illness or incapacity | With cause | Without cause        | Resignation/retirement | Termination with in |
|-------------------|---------------------------------|-----------------------|------------|----------------------|------------------------|---------------------|
| Cash Compensation | 0                               | 0                     | 0          | \$415,000<br>(1) (2) | 0                      | \$1,<br>(1)         |

- (1) Represents the amounts due under Mr. Geimer's current employment agreement and not Mr. Geimer's new employment agreement. See "Individual Arrangements and Employment Agreements."
- (2) Includes the \$75,000 payment of the deferred compensation for the fiscal year ended July 31, 2007, which payment was made on October 26, 2007.

A change of control is defined in the employment agreement to mean the occurrence of one or more of the following three events:

(1) Any person becomes a beneficial owner (as such term is defined in Rule 13d-3 promulgated under the Securities Exchange Act of 1934, as amended) directly or indirectly of securities representing 33% or more of the total number of votes that may be cast for the election of directors of the Company;

(2) Within two years after a merger, consolidation, liquidation or sale of assets involving the Company, or a contested election of a Company director, or any combination of the foregoing, the individuals who were directors of the Company immediately prior thereto shall cease to constitute a majority of the Board; or

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(3) Within two years after a tender offer or exchange offer for voting securities of the Company, the individuals who were directors of the Company immediately prior thereto shall cease to constitute a majority of the Board.



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### Effects of Termination Events or Change in Control on Unvested Equity Awards

All unvested stock option awards granted to Mr. Howson provide that upon a change of control, the unvested stock options will not immediately vest unless the contingencies to the stock options have been met.

### Compensation of Non-Management Directors

The Company did not pay its non-management directors any compensation during the fiscal year ended July 31, 2007.

### Cash Compensation.

We have not paid any cash compensation to our directors for their service on our Board of Directors.

### Liability Insurance.

The Company provides liability insurance for its directors and officers. Carolina Casualty Insurance Company is the underwriter of the current coverage, which extends until January 7, 2008. The annual cost of this coverage is approximately \$20,000.

### Compensation Pursuant to Plans

Deferred Compensation Plan. In January 1996, we established a deferred compensation plan for our employees. Contributions to the plan are provided for under the employment agreement detailed above. For each of the fiscal years ended July 31, 2007 and 2006, we contributed \$75,000 to the plan. The \$75,000 contribution for the fiscal year ended July 31, 2007 was made on October 26, 2007.

On October 14, 1997, Thomas V. Geimer exercised an aggregate of 1,140,000 warrants and options to acquire 1,140,000 shares of the Company's Common Stock at an exercise price of \$0.24 per share. Under the terms of the Rabbi Trust, we will hold the shares in trust and carry the shares as held for employee benefit by the Company. The Rabbi Trust provides that upon Mr. Geimer's death, disability, or termination of his employment the shares will be released ratably over the subsequent ten (10) years, unless the Board of Directors determines otherwise. See Note 14 to the Financial Statement for further information.

### Securities Authorized For Issuance Under Compensation Plans

The table set forth below presents the securities authorized for issuance with respect to compensation plans under which equity securities are authorized for issuance as of July 31, 2007:

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#### Equity Compensation Plan Information

| Plan Category       | Number of securities<br>to be issued upon<br>exercise<br>of outstanding<br>options,<br>warrants and rights | Weighted-average<br>exercise price of<br>outstanding<br>options, warrants<br>and rights | Number of securities rem<br>available for future iss<br>under equity compensation<br>(excluding securities ref<br>in the 1st column) |
|---------------------|--|---|--|
| Equity Compensation | 897,500  | \$2.06  | 510,000  |

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Plans approved by  
security holders

|  |                  |        |                |
|--|------------------|--------|----------------|
| Equity Compensation<br>Plans not approved by<br>security holders | 200,000 (1)      | \$2.25 | N/A            |
| <b>Total</b>   | <b>1,097,500</b> |        | <b>510,000</b> |

(1) In connection with the purchase of the YoDx technology, the Company agreed to issue an additional 200,000 stock options with the same terms as the Company's Non-Qualified Stock Option Plan upon the earlier of (a) the Company achieving certain accumulated revenue levels associated with the YoDx(TM) technology or (b) a change in control of the Company prior to the expiration date of the options. As of October 15, 2007, the contingent provisions have not been met and the options have not been granted. The Company has reserved a sufficient number of shares for such options.

### The 1996 Stock Option Plans

The Board of Directors of the Company has adopted an incentive stock option plan (the "Qualified Plan") which provides for the grant of options to purchase an aggregate of not more than 700,000 shares of the Company's Common Stock. The purpose of the Qualified Plan is to make options available to management and employees of the Company in order to provide them with a more direct stake in the future of the Company and to encourage them to remain with the Company. The Qualified Plan provides for the granting to management and employees of "incentive stock options" within the meaning of Section 422 of the Internal Revenue Code of 1986 (the "Code").

The Board of Directors of the Company has adopted a non-qualified stock option plan (the "Non-Qualified Plan") which provides for the grant of options to purchase an aggregate of not more than 300,000 shares of the Company's Common Stock. The purpose of the Non-Qualified Plan is to provide certain key consultants, independent contractors, technical advisors and directors of the Company with options in order to provide additional rewards and incentives for contributing to the success of the Company. These options are not incentive stock options within the meaning of Section 422 of the Code.

The Qualified Plan and the Non-Qualified Plan (the "Stock Option Plans") are administered by a committee (the "Committee") appointed by the Board of Directors which determines the persons to be granted options under the Stock Option Plans and the number of shares subject to each option. No options granted under the Stock Option Plans are transferable by the optionee other than by will or the laws of descent and distribution and each option is exercisable, during the lifetime of the optionee, only by such optionee. Any options granted to an employee terminate 90 days after his ceasing to be an employee, except in limited circumstances, including death of the employee, and where the Committee deems it to be in the Company's best interests not to terminate the options.

The exercise price of all incentive stock options granted under the Qualified Plan must be equal to the fair market value of such shares on the date of grant as determined by the Committee, based on guidelines set forth in the Qualified Plan. The exercise price may be paid in cash or (if the Qualified Plan shall meet the requirements of rules adopted under the Exchange Act) in Common Stock or a combination of cash and Common Stock. The term of each option and the manner in which it may be exercised will be determined by the Committee, subject

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to the requirement that no option may be exercisable more than 10 years after the date of grant. With respect to an incentive stock option granted to a participant who owns more than 10% of the voting rights of the Company's outstanding capital stock on the date of grant, the exercise price of the option must be at least equal to 110% of the fair market value on the date of grant and the option may not be exercisable more than five years after the date of grant.

The Stock Option Plans were approved by our shareholders at a special shareholders meeting held on November 8, 1996. At the annual meeting of shareholders held on December 12, 2002, shareholders approved the following amendments to the Qualified Plan and the Non-Qualified Plan: (i) the Committee was given the power to amend and alter the Qualified Plan and the Non-Qualified Plan so long as the amendments do not affect any outstanding options; (ii) provide that any shares cancelled, terminated, or expired pursuant to the Qualified Plan and the Non-Qualified Plan be made available for purposes of the Qualified Plan and the Non-Qualified Plan; (iii) provide that the cashless exercise provision of the Qualified Plan and the Non-Qualified Plan be in the sole discretion of the Committee; and (iv) extended the expiration date of the Qualified Plan and the Non-Qualified Plan until December 12, 2012.

As of July 31, 2007, 599,000 options had been granted pursuant to the Qualified Plan with 12,500 of these options exercised, 179,000 options that expired, leaving 280,000 available for grant and 300,000 options had been granted pursuant to the Non-Qualified Plan with 75,000 of these options exercised, 50,000 options that expired and 50,000 available for grant.

### 2004 Omnibus Stock Option Plan

On December 14, 2004, the shareholders approved the Company's 2004 Omnibus Stock Option Plan (the "Omnibus Plan"). The Omnibus Plan authorizes the issuance of up to five hundred thousand (500,000) shares of the Company's Common Stock. The purpose of the Omnibus Plan is to promote the growth of the Company by permitting the Company to grant options ("Options") to purchase shares of its Common Stock, to attract and retain the best available personnel for positions of substantial responsibility and to provide certain key employees, independent contractors, consultants, technical advisors and directors of the Company with a more direct stake in the future of the Company and provide an additional incentive to contribute to the success of the Company.

The Omnibus Plan is administered by the Compensation Committee of the Board or any committee of the Board performing similar functions, as appointed from time to time by the Board (the "Omnibus Committee"). Pursuant to the terms of the Omnibus Plan, the Omnibus Committee may grant either "incentive stock options" within the meaning of Section 422 of the Internal Revenue Code of 1986 (the "Code") or nonqualified stock options, provided that incentive stock options may not be granted to independent contractors and consultants. The exercise price of all incentive stock options granted under the Omnibus Plan must be equal to the fair market value of such shares on the date of grant as determined by the Omnibus Committee, based on guidelines set forth in the Omnibus Plan. The exercise price of nonqualified stock options granted under the Omnibus Plan shall be not less than 50% of the fair market value of a share on the date of grant of such Option. The Omnibus Committee may grant on behalf of the Company, Options to purchase shares of the Company's Common Stock to any key employee, independent contractor, consultant, technical advisor or director.

As of July 31, 2007, 377,500 options had been granted pursuant to the Omnibus Plan with none of these options exercised, 15,000 expired leaving 137,500 available for grant.

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### Item 11. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information regarding beneficial ownership of our Common Stock as of October 25, 2007 by (i) each person who is known by the Company to own beneficially more than 5% of the Company's outstanding Common Stock; (ii) each of the Company's executive officers and directors; and (iii) all executive officers and directors as a group. The calculation excludes 1,129,110 shares which are held by the Rabbi Trust for the benefit of Thomas V. Geimer. Further, Mr. Geimer does not have voting power over the shares that are held in the Rabbi Trust. Common Stock not outstanding but deemed beneficially owned by virtue of the right of an individual to acquire shares is treated as outstanding only when determining the amount and percentage of Common Stock owned by such individual. Except as noted, each person or entity has sole voting and sole dispositive power with respect to the shares shown.

| Name and Address of Beneficial Owner<br>-----  | Shares Beneficially Owned |                  |
|--|---------------------------|------------------|
|  | Number<br>-----           | Percent<br>----- |
| Thomas V. Geimer (1)<br>7000 North Broadway, Building 3-307<br>Denver, Colorado 80221    | 351,400                   | 3.84%            |
| A. Alexander Arnold III(2)<br>845 Third Ave., 6th Floor<br>New York, NY 10021            | 868,000                   | 9.73%            |
| Charles E. Gerretson(3)<br>7000 North Broadway, Building 3-307<br>Denver, Colorado 80221 | 128,150                   | 1.44%            |
| David Howson(4)<br>7000 North Broadway, Building 3-307<br>Denver, Colorado 80221         | 300,000                   | 3.28%            |
| Executive Officers and Directors<br>as a Group (4 persons)                               | 1,647,550                 | 17.29%           |

- 
- (1) Does not include 1,129,110 shares, which were purchased by Mr. Geimer upon exercise of warrants and options. Mr. Geimer exercised these options and warrants on October 14, 1997, and simultaneously contributed the shares acquired to a Rabbi Trust. See Note 9 to Financial Statements for further information. Includes 300,000 shares, which may be purchased by Mr. Geimer upon exercise of options. Includes 400 shares held in brokerage accounts for Mr. Geimer's children, in which Mr. Geimer has the power and authority to dispose of the shares held by these accounts.
  - (2) Includes 730,000 shares held by four trusts. Mr. Arnold merely serves as trustee for each of those trusts, but is not a beneficiary of and has no pecuniary interest in any of those trusts. Also includes 63,000 shares held in investment advisory accounts for which Mr. Arnold serves as the investment advisor. Also includes 75,000 shares, which may be purchased by Mr. Arnold upon exercise of options.
  - (3) Includes: (i) 103,250 shares owned directly by Mr. Gerretson and (ii) 10,000 shares, which may be purchased by Mr. Gerretson upon exercise of options which options expire on March 15, 2015. Also includes 14,900 shares held in brokerage and retirement accounts of individuals in which Mr. Gerretson has the power and authority to dispose of the shares held by these accounts. Mr. Gerretson disclaims any beneficial ownership with respect to such shares.

- (4) Includes 300,000 shares, which may be purchased by Mr. Howson upon exercise of options which options expire on March 15, 2015, of which 75,000 stock options shall vest if and only if prior to the expiration date of the Options, the Company closes on a transfer for the sale of the Company assets or the acquisition of the Company in which the Company's shareholders receive aggregate consideration at closing equal to or greater than \$250,000,000.

Item 12. Certain Relationships and Related Transactions

During fiscal year 1996, we established a deferred compensation plan for our employees. We may make discretionary contributions to the plan based on recommendations from the Board of Directors. As of July 31, 2005, the Board of Directors had authorized deferred compensation totaling \$900,000 since fiscal year 1996 to Mr. Geimer of which \$750,000 had been funded. The \$75,000 representing the difference between the authorized deferred compensation and the funded deferred compensation was funded on October 26, 2007.

There were no other transactions or series of transactions for the fiscal year ended July 31, 2007, nor are there any currently proposed transactions, or series of the same to which we are a party, in which the amount involved exceeds \$60,000 and in which, to the knowledge of the Company, any director, executive officer, nominee, 5% shareholder or any member of the immediate family of the foregoing persons, have or will have a direct or indirect material interest.

Item 13. Exhibits and Reports on Form 8-K

(a) Exhibits

14.1 Code of Ethics for Accelr8's principal executive officer and senior financial officers (1)

14.2 Code of Ethics and Standards of Conduct (1)

31.1 Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Principal Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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(1) Attached to the Company's Form 10-KSB for the year ended July 31, 2007.

(b) Financial Statements

The following financial statements of the Company are included in Item 7:

Report of Independent Registered Public Accounting Firm- Comiskey & Company, P.C.

Balance Sheets as of July 31, 2007 and 2006

Statements of Operations for the years ended July 31, 2007 and 2006

Statements of Stockholders' Equity for the years ended July 31, 2007 and 2006

Statements of Cash Flows for the years ended July 31, 2007 and 2006

Notes to Financial Statements

Item 14. Principal Accountant Fees and Services

The aggregate fees billed by Comiskey & Company, P.C. for professional services rendered for the audit of the Company's annual consolidated financial statements for the years ended July 31, 2007 and 2006, including the reviews of the unaudited interim financial statements of the Company's Form 10-QSBs was approximately \$32,000 and \$ 37,000, respectively.

Tax Fees

The aggregate fees billed by Comiskey & Company, P.C. for professional services rendered for the tax compliance, tax advice and tax planning for the fiscal years ended July 31, 2007 and 2006 ("Tax Fees") was \$0 and \$0, respectively.

All other Fees

Comiskey & Company, P.C. did not perform any professional services other than those set forth above for the fiscal years ended July 31, 2007 and 2006.

Audit Committee Pre-Approval Policies

The Audit Committee shall pre-approve all auditing services and permitted non-audit services (including the fees and terms thereof) to be performed for the Company by its independent auditor, subject to any de minimus exceptions that may be set for non-audit services described in Section 10A(i)(1)(B) of the Exchange Act which are approved by the Committee prior to the completion of the audit.

None of the hours expended on the principal accountant's engagement to audit the Company's financial statements for the most recent fiscal year were attributed to work performed by persons other than the principal accountant's full-time permanent employees.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ACCEL8 TECHNOLOGY CORPORATION

Date: October 29, 2007

By: /s/ David C. Howson

-----  
David C. Howson, President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the

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registrant and in the capacities and on the dates indicated.

Date: October 29, 2007

By: /s/ Thomas V. Geimer

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

Date: October 29, 2007

By: /s/ Bruce McDonald

-----  
Bruce McDonald, Principal  
Accounting Officer

Date: October 29, 2007

By: /s/ A. Alexander Arnold III

-----  
A. Alexander Arnold III, Director

Date: October 29, 2007

By: /s/ Charles E. Gerretson

-----  
Charles E. Gerretson, Director

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### ACCEL8 TECHNOLOGY CORPORATION

#### FINANCIAL STATEMENTS

JULY 31, 2007 and 2006

### ACCEL8 TECHNOLOGY CORPORATION

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NOTES TO FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

Board of Directors  
Accelr8 Technology Corporation  
Denver, Colorado

We have audited the accompanying balance sheets of Accelr8 Technology Corporation (a Colorado corporation) as of July 31, 2007 and 2006, and the related statements of operations, shareholders' equity and cash flows for the years ended July 31, 2007 and 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Accelr8 Technology Corporation as of July 31, 2007 and 2006, and the results of its operations and changes in its cash flows for the years ended July 31, 2007 and 2006, in conformity with U.S. generally accepted accounting principles.

Denver, Colorado  
October 19, 2007

/s/ COMISKEY & COMPANY  
PROFESSIONAL CORPORATION

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ACCEL8 TECHNOLOGY CORPORATION  
BALANCE SHEETS  
JULY 31, 2007 and 2006

ASSETS

2007

2006

-----

Current assets:



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|  |             |             |
|--|-------------|-------------|
| Cash and cash equivalents  | 1,393,669   | 3,004,336   |
| Trade accounts receivable  | 5,625       | 10,852      |
| Inventory (Note 3)   | 107,855     | 25,887      |
| Prepaid expenses and other current assets (Note 4)   | 24,466      | 43,100      |
|  | -----       | -----       |
| Total current assets   | 1,531,615   | 3,084,175   |
| Property and equipment, net (Note 5)   | 106,819     | 180,347     |
| Investments, net (Note 12)   | 1,027,550   | 871,415     |
| Intellectual property, net (Note 6)  | 3,472,103   | 3,712,286   |
|  | -----       | -----       |
| Total assets   | 6,138,087   | 7,848,223   |
|  | =====       | =====       |
| LIABILITIES AND SHAREHOLDERS' EQUITY   |             |             |
| Current liabilities:   |             |             |
| Accounts payable   | 64,599      | 71,570      |
| Accrued compensation and other liabilities   | 32,386      | 31,389      |
| Deferred revenue (Note 13)   | 58,346      | 59,529      |
|  | -----       | -----       |
| Total current liabilities  | 155,331     | 162,488     |
| Long-term liabilities:   |             |             |
| Deferred compensation  | 1,102,549   | 946,415     |
|  |             |             |
| Total liabilities  | 1,257,880   | 1,108,903   |
|  | -----       | -----       |
| Shareholders' equity (Notes 8):  |             |             |
| Common stock, no par value; 14,000,000(2007) and<br>12,000,000(2006) shares, respectively, authorized;<br>9,971,210(2007) and 9,971,210(2006) shares issued<br>and Outstanding | 12,878,020  | 12,878,020  |
| Contributed capital  | 635,280     | 570,150     |
| Accumulated (deficit)  | (8,359,493) | (6,435,250) |
| Shares held for employee benefit (1,129,110 shares at cost)  | (273,600)   | (273,600)   |
|  | -----       | -----       |
| Total shareholders' equity   | 4,880,207   | 6,739,320   |
|  | -----       | -----       |
| Total liabilities and shareholders' equity   | 6,138,087   | 7,848,223   |
|  | =====       | =====       |

See accompanying notes to financial statements.

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ACCEL8 TECHNOLOGY CORPORATION  
STATEMENTS OF OPERATIONS  
FOR THE YEARS ENDED JULY 31, 2007 and 2006

|                           | 2007    | 2006    |
|---------------------------|---------|---------|
|                           | -----   | -----   |
| Revenues (Note 7 and 10): |         |         |
| OptiChem(TM) revenue      | 108,280 | 155,701 |
| Consulting Fees           | 22,000  | --      |

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|  |             |             |
|--|-------------|-------------|
| License Fees   | 50,000      | 57,000      |
| Option Fees  | 2,850       | --          |
|  | -----       | -----       |
| Total revenues   | 183,130     | 212,701     |
| Cost of sales  | 56,646      | 41,604      |
|  | -----       | -----       |
| Gross profit   | 126,484     | 171,097     |
|  | -----       | -----       |
| Costs and expenses:                                    |             |             |
| Research and development                               | 991,581     | 2,155,988   |
| General and administrative                             | 920,175     | 828,745     |
| Amortization (Note 6)                                  | 240,183     | 236,683     |
| Depreciation (Note 5)                                  | 73,528      | 79,295      |
| Marketing and sales                                    | 15,496      | 74,909      |
|  | -----       | -----       |
| Total costs and expenses                               | 2,240,963   | 3,375,620   |
|  | -----       | -----       |
| (Loss) from operations                                 | (2,114,479) | (3,204,523) |
|  | -----       | -----       |
| Other (expense) income:                                |             |             |
| Interest and dividend income                           | 111,567     | 181,243     |
| Unrealized holding gain (loss) on investments (Note 2) | 64,849      | (15,671)    |
| Miscellaneous  | 13,820      | 8,330       |
|  | -----       | -----       |
| Total other income                                     | 190,236     | 173,902     |
|  | -----       | -----       |
| Net (loss)   | (1,924,243) | (3,030,621) |
|  | =====       | =====       |
| Net loss per share:                                    |             |             |
| Basic and diluted net (loss) per share                 | (0.19)      | (0.30)      |
|  | =====       | =====       |
| Weighted average shares outstanding                    | 9,967,034   | 9,967,034   |
|  | =====       | =====       |

See accompanying notes to financial statements.

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ACCEL8 TECHNOLOGY CORPORATION  
STATEMENTS OF SHAREHOLDERS' EQUITY

|  | Common Stock | Stock to  | Contributed | Ret   |
|--|--------------|-----------|-------------|-------|
|  | Shares       | be Issued | Capital     | Ear   |
|  | Amount       |           |             | (Accu |
|  |              |           |             | Def   |
|  | -----        | -----     | -----       | ----- |

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|  |           |            |    |         |      |
|--|-----------|------------|----|---------|------|
| Balances, July 31, 2005                    | 9,961,210 | 12,863,020 | -- | 483,549 | (3,4 |
| Exercise of options                        | 10,000    | 15,000     |    | --      |      |
| Extension of Stock Option Expiration Dates |           |            |    | 67,836  |      |
| Stock option expense under SFAS 123R       |           |            |    | 18,765  |      |
| Net loss                                   | --        | --         | -- | --      | (3,0 |
| Balances, July 31, 2006                    | 9,971,210 | 12,878,020 | -- | 570,150 | (6,4 |
| Extension of Stock Option Expiration Dates |           |            |    | 16,812  |      |
| Stock option expense under SFAS 123R       |           |            |    | 48,318  |      |
| Net loss                                   | --        | --         | -- | --      | (1,9 |
| Balances, July 31, 2007                    | 9,971,210 | 12,878,020 | -- | 635,280 | (8,3 |

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ACCEL8 TECHNOLOGY CORPORATION  
 STATEMENTS OF CASH FLOWS  
 FOR THE YEARS ENDED JULY 31, 2007 and 2006

|  | 2007        | 2006        |
|--|-------------|-------------|
|  | -----       | -----       |
| Cash flows from operating activities:  |             |             |
| Net loss   | (1,924,243) | (3,030,621) |
| Adjustments to reconcile net (loss) to net cash<br>(used in) operating activities: |             |             |
| Depreciation   | 73,528      | 79,295      |
| Amortization   | 240,183     | 236,683     |
| Fair value of stock options<br>granted for services                                | 65,130      | 86,601      |
| Unrealized (gain) loss on investments  | (64,849)    | 15,671      |
| Realized (gain) loss on sale of investments, interest and<br>dividends reinvested  | (16,286)    | (17,608)    |
| (Increase) decrease in assets:   |             |             |
| Accounts receivable  | 5,227       | 33,495      |
| Inventory  | (81,968)    | 1,357       |
| Prepaid expense and other  | 18,634      | 184,997     |
| Increase (decrease) in liabilities:  |             |             |

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|   |             |             |
|---|-------------|-------------|
| Accounts payable                                    | (6,972)     | (81,840)    |
| Accrued liabilities                                 | 997         | (247,293)   |
| Deferred revenue                                    | (1,183)     | (5,471)     |
| Deferred compensation                               | 156,135     | 103,778     |
|   | -----       | -----       |
| Net cash (used in) operating activities             | (1,535,667) | (2,640,956) |
|   | -----       | -----       |
| Cash flows from investing activities:               |             |             |
| Purchase of laboratory equipment                    | --          | (28,794)    |
| Cost of obtaining patents and trademarks            | --          | (70,000)    |
| Contribution to deferred compensation trust         | (75,000)    | (101,840)   |
| Issuance of common stock                            | --          | 15,000      |
| Receipt of note payment                             | --          | 266,667     |
|   | -----       | -----       |
| Net cash provided by (used in) investing activities | (75,000)    | 81,033      |
|   | -----       | -----       |
| Increase (decrease) in cash and cash equivalents    | (1,610,667) | (2,559,923) |
| Beginning balance:                                  | 3,004,336   | 5,564,259   |
|   | -----       | -----       |
| Ending balance:                                     | 1,393,669   | 3,004,336   |
|   | =====       | =====       |

See accompanying notes to financial statements.

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ACCEL8 TECHNOLOGY CORPORATION  
NOTES TO FINANCIAL STATEMENTS

NOTE 1 ORGANIZATION AND NATURE OF BUSINESS

We were incorporated on May 26, 1982, under the laws of the State of Colorado. Prior to the acquisition of the OpTest(TM) suite of technologies ("OpTest"), which occurred in January of 2001, Accler8 Technology Corporation ("Accler8" or the "Company") was primarily a provider of software tools and consulting services. We provided software tools and consulting services for system modernization solutions for Digital Equipment Corporation (DEC), VMS legacy systems. We sold the assets related to the software business on July 30, 2004 to Transoft Group Ltd.

On January 18, 2001, the Company acquired the OpTest(TM) suite of technologies from DDx, Inc. ("DDx"). The purchase of the assets of DDx provided the Company with a proprietary surface chemistry and quantitative instruments. The Company expects that its proprietary surface chemistry and quantitative instruments will support real-time analysis of medical diagnostic markers, pathogens, and bio-warfare agents.

Since the acquisition of the assets, we have focused primarily upon research and development relating to the technologies acquired, and the development of revenue producing products related to that technology. We have manufactured and marketed OptiChem(R) coated microarraying slides ("OptiChem") for a variety of custom applications for specific customers. In November of 2004 we licensed the use of OptiChem(R) (See Note 7). During most of the fiscal years ended July 31,

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2007 and 2006, our primary focus shifted to development of a program to integrate our OptiChem(R) surface chemistry ("OptiChem"), QuanDx(TM) light-scattering quantitative assay instrumentation ("QuanDx"), and YoDx(TM) assay acceleration process ("YoDx") into a novel system for rapid bacterial identification and antibiotic resistance testing, the BACcel(R) system ("BACcel"). We intend to customize our technologies to the specific requirements of large licensees as well as develop new rapid pathogen detection assays.

### 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.

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#### Concentration Of Credit Risk

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

The Company places its cash equivalents with a high credit quality financial institution. The Company periodically maintains cash balances at a commercial bank in excess of the Federal Deposit Insurance Corporation insurance limit of \$100,000. At July 31, 2007, the Company's uninsured cash balance was approximately \$1,293,669, however, this amount is invested under a repurchase agreement with the bank and is collateralized by securities of the United States Federal agencies with approximate market value of 102% of the investment.

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

#### Estimated Fair Value of Financial Instruments

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

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

Cash and Cash Equivalents - The carrying amount approximates fair value.  
Investments - The carrying amount is based on quoted market prices plus cash.  
Other Long-Term Liabilities - The carrying amount approximates fair value.

#### Cash And Cash Equivalents

All highly liquid investments with an original maturity of three months or less at time of purchase are considered to be cash equivalents.

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### Investments

The Company accounts for its investments in accordance FAS 115. All investments are recorded as trading and reported at fair value with unrealized gains and losses are reported with current earnings.

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### Inventory

Inventory is maintained by specific identification and valued at cost using the first-in first out method. Amounts of any particular inventory item are small and are used depending on particular characteristics.

### Property And Equipment

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

### Research And Development

Research and development costs charged to operations for the years ended July 31, 2007 and 2006 were \$991,581 and \$2,155,988, respectively.

### Intellectual Property

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

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.

### Revenue Recognition

#### Consulting Services:

Consulting revenue is recognized at the completion of the contract.

#### OptiChem(R) Slides:

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Revenue is recognized when the Company ships the product.

### Sales Returns and Allowances:

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:

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

### Income Taxes:

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.

### Earnings Per Share:

The Company follows SFAS No. 128, "Earnings Per Share," which requires companies to present basic earnings per share and diluted earnings per share. Basic earnings (loss) per share includes no dilution and is computed by dividing income (loss) available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution of securities that could share in the earnings of an entity.

The Company's net losses for the periods presented cause the inclusion of potential common stock instruments outstanding to be antidilutive. During the years ended July 31, 2007 and 2006, common stock options exercisable for 806,250 and 945,000 shares of common stock were not included in diluted loss per share as the effect was antidilutive due to the Company recording losses in each of those years. In addition, at July 31, 2007 and July 31, 2006, 200,000 contingently issuable options were not included in loss per share. See Note 8.

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### Stock Based Compensation:

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." See Note 8 for further information.

As of February 1, 2006, the Company applies SFAS No. 123R in valuing all options granted using the Black-Scholes option-pricing model. The fair value is recorded

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as consulting expense as the vesting period lapses. Options granted for which vesting is contingent based on future performance are measured at their then current fair value at each period end, until vested.

The Company elected to use the modified prospective transition method for adopting SFAS No. 123R, which required the recognition of stock-based compensation cost on a prospective basis; therefore, prior period financial statements have not been restated. Under this method, the provisions of SFAS No. 123R are applied to all awards granted after the adoption date and to awards not yet vested with unrecognized expense at the adoption date based on the estimated fair value at grant date as determined under the original provisions of SFAS No. 123. The impact of forfeitures that may occur prior to vesting is also estimated and considered in the amount recognized. Pursuant to the requirements of SFAS No. 123R, the Company will continue to present the pro forma information for periods prior to the adoption date.

The Company has historically used the Black-Scholes option pricing model to determine the fair value of stock options on the date of grant. This model derives the fair value of stock options based on certain assumptions related to expected stock price volatility, expected option life, risk-free interest rate and dividend yield. The Company's expected volatility is based on the historical volatility of the Company's stock price over the most recent period commensurate with the expected term of the stock option award. The estimated expected option life is based primarily on historical employee exercise patterns. The Company has not paid dividends in the past and does not have any plans to pay any dividends in the future. See Note 8 for further information.

### Comprehensive Income (loss):

The Company follows SFAS No. 130, "Reporting Comprehensive Income," which establishes standards for reporting and displaying comprehensive income (loss) and its components (revenues, expenses, gains and losses) in a full set of general-purpose financial statements. The Company has no other items that would be included in comprehensive income (loss).

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### Recent Accounting Pronouncements:

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (an interpretation of FASB Statement No. 109) ("FIN 48"). This interpretation prescribes a more likely than not recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provided guidance on derecognition of a tax position, classification of a liability for unrecognized tax benefits, accounting or interest and penalties, accounting in interim periods, and expanded income tax disclosures. FIN 48 becomes effective for the Company on October 31, 2007.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS 157). The changes to current practice resulting from the application of this Statement relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements. This issuance is effective for fiscal year ends beginning after November 15, 2007.

### NOTE 3 INVENTORY

The Company purchases raw materials (custom chemicals and glass substrates) for producing OptiChem coated slides. Raw material on hand at the end of each reporting period is priced at cost based on the first-in first-out method. There was no work-in-process or finished goods inventory as of July 31, 2007 and July



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31, 2006 as slides currently are made for specific orders and shipped as produced.

### NOTE 4 PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets for the year ended July 31, 2007 were \$24,466 as compared to \$43,100 for the year ended July 31, 2006.

### NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost and consisted of the following at July 31:

|                                     | 2007       | 2006       |
|-------------------------------------|------------|------------|
|                                     | -----      | -----      |
| Computer equipment                  | \$ 21,102  | \$ 21,102  |
| Laboratory and scientific equipment | 394,175    | 394,175    |
| Furniture and fixtures              | 16,601     | 16,601     |
|                                     | -----      | -----      |
| Total property and equipment        | 431,878    | 431,878    |
| Accumulated depreciation            | (325,059)  | (251,531)  |
|                                     | -----      | -----      |
| Net property and equipment          | \$ 106,819 | \$ 180,347 |
|                                     | =====      | =====      |

Depreciation expense for the years ended July 31, 2007 and 2006 was \$73,528 and \$79,295, respectively.

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### NOTE 6 INTELLECTUAL PROPERTY

Intellectual property consisted of the following at July 31:

|                          | 2007                     | 2006                     |
|--------------------------|--------------------------|--------------------------|
|                          | -----                    | -----                    |
| OptiChem technologies    | \$ 4,454,538             | \$ 4,454,538             |
| Patents                  | 293,991                  | 293,991                  |
| Trademarks               | 49,019                   | 49,019                   |
|                          | -----                    | -----                    |
| Accumulated amortization | 4,797,548<br>(1,325,445) | 4,797,548<br>(1,085,262) |
|                          | -----                    | -----                    |
|                          | \$ 3,472,103             | \$ 3,712,286             |
|                          | =====                    | =====                    |

Future amortization expense for the intangible assets is estimated as follows:

| Years Ending July 31,     |             |
|---------------------------|-------------|
| -----                     |             |
| 2008                      | 240,000     |
| 2009                      | 240,000     |
| 2010                      | 240,000     |
| 2011                      | 240,000     |
| Thereafter                | 2,512,103   |
|                           | -----       |
| Total future amortization | \$3,472,103 |
|                           | =====       |

Intellectual properties are recorded at cost and are being amortized on a straight-line basis over their estimated useful lives of 20 years, the patent and patent application life of the OptiChem(R) Technologies. Amortization

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expense was \$240,183 and \$236,683, respectively, for the years ended July 31, 2007 and 2006. The Company routinely evaluates the recoverability of its long-lived assets based upon estimated future cash flows from and estimated fair value of such long-lived assets. If in management's judgment, the anticipated undiscounted cash flows or estimated fair value are insufficient to recover the carrying amount of the long-lived asset, the Company will determine the amount of the impairment and the value of the asset will be written down. As of July 31, 2007 and 2006, management believes there was no impairment of the Company's long-lived assets.

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### NOTE 7. LICENSE AND SUPPLY AGREEMENTS

On November 24, 2004 the Company entered into an exclusive two year manufacturing and marketing agreement with SCHOTT Jenaer Glas (GMBH) of Jena Germany for OptiChem(R) coated amine-reactive slides (Slide H).

Pursuant to the License Agreement SCHOTT paid the Company a non-refundable fee of \$100,000, of which \$50,000 was credited against future royalties. An additional \$15,000 in deferred revenue was recorded for training supplied to SCHOTT. 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. An optional 1-year non-exclusive license extension to market and manufacture Slide H was exercised by SCHOTT on September 27, 2006. This license expires November 23, 2007.

On June 2, 2005 the Company signed a second Supply Agreement (Slide HS) with SCHOTT which expired on December 31, 2005. The Company also granted an option for SCHOTT to receive a non-exclusive right to manufacture and sell, up to 12,500 glass slides, from January 1, 2006 to December 31, 2006. SCHOTT exercised this right and paid the Company \$15,000 for training on manufacturing of Slide HS. Subsequently, SCHOTT paid \$9,656 in royalties for Slide HS sold during 2007.

The Company also granted SCHOTT the right to negotiate an exclusive right for the manufacturing and worldwide sales of Slide HS coatings on microarraying slides. SCHOTT signed the license December 21, 2006. The agreement grants SCHOTT the right to manufacture and market streptavidin coated microarray slides for 2 years through December 31, 2008. A \$50,000 license fee and \$50,000 prepaid royalty payment were made on January 24, 2007.

### NOTE 8 SHAREHOLDERS' EQUITY

#### Authorized Shares Of Common Stock

On December 6, 2006 the Shareholders adopted an amendment to the Company's Articles of Incorporation, as amended, to increase the number of authorized shares of the Company's no par value common stock from 12,000,000 to 14,000,000.

#### Stock Option Plans

The Company has option agreements with key executives and two stock-based compensation plans, which are discussed below:

#### Option And Warrant Agreement With Key Executive

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In fiscal 1998, options for the purchase of 1,129,110 shares held by the Chief

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Executive Officer ("Executive Options and Warrants") were exercised and placed into a "Rabbi" Trust as discussed in Note 12. Such shares are issuable upon the occurrence of retirement, death or termination of the Chairman's employment over a ten-year period after such occurrence, unless the Board of Directors determines otherwise.

In accordance with generally accepted accounting principles, the Company has included the assets and liabilities of the "Rabbi" Trust in its financial statements, and the shares of the Company's common stock held by the "Rabbi" Trust have been treated as treasury stock for financial reporting purposes and have no voting rights.

### Qualified Stock Option Plan

The Company has reserved 700,000 shares of its authorized but unissued common stock for stock options to be granted to officers and employees of the Company under its Incentive Stock Option Plan (the "Incentive Plan"). The exercise price of each option, which has a maximum ten-year life, is established by the Company's compensation committee on the date of grant.

As of July 31, 2007, 357,500 options remain outstanding as granted pursuant to the Qualified Plan. Prior grants of 17,500 had been exercised in prior years and 325,000 remained available for grant.

### Non-qualified Stock Option Plan

The Company has reserved 300,000 shares of its authorized but unissued common stock for stock options to be granted to independent contractors, technical advisors and directors of the Company under its Non-Qualified Stock Option Plan (the "Non-Qualified Plan"). The exercise price of each option, which has a maximum ten-year life, is established by the Company's compensation committee on the date of grant.

As of July 31, 2007, 185,000 options remain outstanding pursuant to the Non-Qualified Plan. Prior grants of 75,000 options had been exercised in prior years and 40,000 options remained available for grant.

### Omnibus Stock Option Plan

On December 14, 2004 the Shareholders approved an Omnibus Stock Option Plan and reserved 500,000 shares of its authorized but unissued common stock for stock options to be granted to employees, independent contractors, technical advisors and directors of the Company.

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As of July 31, 2007, 355,000 options remain outstanding pursuant to the Omnibus Plan. No prior grants have been exercised and 145,000 options remain available for grant.

### Contingent Options

In connection with the purchase of the YoDx technology discussed above, the Company agreed to issue an additional 200,000 stock options with the same terms upon the earlier of (a) the Company achieving certain accumulated revenue levels associated with the YoDx technology, as defined in the agreement, or (b) a change in control of the Company prior to the expiration date of the options. As of July 31, 2007, the contingent provisions have not been met and the options have not been granted. The Company has reserved a sufficient number of shares for such options.

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### Accounting For Employee Based Option Plans

As is discussed in Note 2, the Company accounted for stock based compensation to employees and directors using the intrinsic value method in accordance with APB No. 25 until January 31, 2007.

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 year ended July 31, 2006: no dividend yield; risk free interest rate of 5.0%; expected life of 3-4 years; and expected volatility of 51%. The weighted average fair value of options granted in fiscal 2006 was \$4.46. The weighted average remaining contractual life of options outstanding at July 31, 2006 was 4.46 years.

The following table illustrates the effect on net loss if the Company had applied the fair value recognition provisions of SFAS 123:

|  | Year Ended<br>July 31, 2006<br>----- |
|--|--------------------------------------|
| Net loss - as reported   | \$(3,030,621)                        |
| Deduct: Total stock-based compensation<br>expense determined under fair<br>value based method for all awards | (0)<br>-----                         |
| Pro forma net loss   | \$(3,030,621)<br>=====               |
| Earnings per share:  |                                      |
| Basic and diluted - as reported  | \$ (.30)<br>=====                    |
| Basic and diluted - pro forma  | \$ (.30)<br>=====                    |

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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."

As is discussed in Note 2, the Company accounted for all option grants using the Black-Scholes option pricing model in accordance with SFAS 123R for option granted or extending after February 1, 2007.

As of July 31, 2006, total unrecognized share-based compensation cost related to unvested stock options was approximately \$25,896. For the year ended July 31, 2006, the Company recognized \$18,765 in stock based compensation costs related to the issuance of options to employees under SFAS 123R. For the year ended July 31, 2006, the total recognized stock based compensation costs related to the extension of currently existing, fully vested options was \$67,836. These costs were calculated in accordance with SFAS No. 123R and are reflected in operating expenses.

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The following weighted-average assumptions were used for grants for the year ended July 31, 2006: no dividend yield; risk free interest rate between 3.27 and 5.0%; expected life between 2 and 4 years; and expected volatility between 47 and 59% The weighted average fair value of options granted in fiscal 2006 was \$3.06. The weighted average remaining contractual life of options outstanding at July 31, 2006 was 5.0 years. The expected forfeiture rate used was 37%.

As of July 31, 2007, total unrecognized share-based compensation cost related to unvested stock options was approximately \$10,176. For the year ended July 31, 2007, the Company recognized \$48,318 in stock based compensation costs related to the issuance of options to employees under SFAS 123R. For the year ended July 31, 2007, the total recognized stock based compensation costs related to the extension of currently existing, fully vested options was \$16,812. These costs were calculated in accordance with SFAS No. 123R and are reflected in operating expenses.

The following weighted-average assumptions were used for grants for the year ended July 31, 2007: no dividend yield; risk free interest rate between 2.8 and 5.0%; expected life between 3 and 10 years; and expected volatility between 51 and 64% The weighted average fair value of options granted in fiscal 2007 was \$2.08. The weighted average remaining contractual life of options outstanding at July 31, 2007 was 4.44 years. The expected forfeiture rate used was 37%.

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The following table summarizes information on stock option activity for the Executive Options, the Omnibus Plan, the Qualified Plan and the Non-Qualified Plan, excluding the 200,000 contingent options noted above.

|                                    | Number of<br>Shares | Exercise Price<br>Per Share | Weighted Average<br>Exercise Price<br>Per Share |
|------------------------------------|---------------------|-----------------------------|---|
| Options outstanding, July 31, 2005 | 970,000             | 1.45 - 3.20                 | \$2.06  |
| Options granted                    | 57,500              | 2.70 - 3.20                 | \$2.80  |
| Options exercised                  | (10,000)            | 1.5                         |   |
| Options expired                    | (72,500)            | 2.25 - 3.20                 | \$2.38  |
| Options outstanding, July 31, 2006 | 945,000             | \$1.45 - \$3.20             | \$2.08  |
| Options granted                    | 67,500              | 2.00 - 2.36                 | \$2.03  |
| Options exercised                  | (0)                 | .00 - .00                   |   |
| Options expired                    | (115,000)           | 2.00 - 2.70                 | \$2.20  |
| Options outstanding, July 31, 2007 | 897,500             | \$1.45 - \$3.20             | \$2.06  |

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As of July 31, 2007 and 2006, 798,750 and 821,250 options outstanding were currently exercisable and carried weighted average exercise prices of \$2.00 and \$2.00 respectively. The following table summarizes information about stock options outstanding and exercisable at July 31, 2007:

| Range of Exercise Prices | Number  | Outstanding   |                                 | Exercisable |                                 |
|--------------------------|---------|---|---------------------------------|-------------|---------------------------------|
|                          |         | Weighted Average Remaining Contractual Life (Years) | Weighted Average Exercise Price | Number      | Weighted Average Exercise Price |
| \$1.45 - \$1.50          | 375,000 | 3.4   | \$1.47                          | 375,000     | \$1.47                          |
| \$2.00 - \$2.36          | 170,000 | 1.7   | \$2.20                          | 152,500     | \$2.21                          |
| \$2.57 - \$2.90          | 335,000 | 7.2   | \$2.59                          | 260,000     | \$2.60                          |
| \$3.00 - \$3.20          | 17,500  | 2.0   | \$3.06                          | 11,250      | \$3.07                          |
| \$1.45 - \$3.20          | 897,500 | 4.4   | \$2.06                          | 798,750     | \$2.00                          |

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NOTE 9 INCOME TAXES

The following items comprise the Company's net deferred tax assets (liabilities) as of July 31:

|                                     | 2007         | 2006         |
|-------------------------------------|--------------|--------------|
| Deferred tax assets:                |              |              |
| Net operating loss                  | \$ 3,540,000 | \$ 2,830,000 |
| Deferred revenue and gains          | (91,286)     | 0            |
| Depreciation and amortization       | (92,000)     | (75,000)     |
| Stock options issued to consultants | 45,000       | 45,000       |
| General business credit             | 266,000      | 220,000      |
| Contribution and timing differences | 4,700        | 4,000        |
| Total                               | 3,763,700    | 3,024,000    |
| Less valuation allowance            | (3,763,700)  | (3,024,000)  |
| Net deferred tax asset              | \$ 0         | \$ 0         |

As of July 31, 2007, a valuation allowance increase of \$739,700 has been recorded for the deferred tax asset, as management has determined that it is more likely than not that the deferred tax asset will not be realized.

Total income tax expense (benefit) differed from the amounts computed by

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applying the U.S. Federal statutory tax rates to pre-tax loss for the fiscal years ended July 31, 2007 and 2006 as follows:

|  | 2007    | 2006    |
|--|---------|---------|
|  | -----   | -----   |
| Total expense (benefit) computed by:           |         |         |
| Applying the U.S. Federal statutory rate       | (34.0)% | (34.0)% |
| State income taxes, net of Federal tax benefit | (3.0)   | (3.0)   |
| General business credits and other             | (3.8)   | (3.8)   |
| Valuation allowance                            | 40.8    | 40.8    |
|  | -----   | -----   |
| Effective tax rate (benefit)                   | - %     | - %     |
|  | =====   | =====   |

The Company has unused net operating loss carry forward of approximately \$8,300,000 and general business credits of approximately \$265,000 that are available to offset future income taxes. The net operating loss will expire beginning in 2013 and the general business tax credits expire from 2007 through 2024.

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### NOTE 10 MAJOR CUSTOMERS AND FOREIGN REVENUE

For the years ending July 31, 2007 and 2006, revenues were \$183,130 and \$212,701 respectively. Of the total OptiChem(R) slide revenues, revenues from one customer were \$83,464 (45.6%) in the year ended July 31, 2007 and \$121,353 (57.1%) for the year ended July 31, 2006.

In fiscal 2007 the consulting revenues of \$22,000 were all from one customer.

Foreign Revenues were as follows:

| Foreign Revenues     | 2007      | 2006      |
|----------------------|-----------|-----------|
|                      | -----     | -----     |
| OptiChem(R) Revenues | \$108,280 | \$155,701 |
| License Fees         | 50,000    | -0-       |
| Option Fees          | 2,850     | -0-       |
| Consulting Fees      | 22,000    | 57,000    |
|                      | -----     | -----     |
| Total                | \$183,130 | \$212,701 |
|                      | =====     | =====     |

### NOTE 11 SALE OF SOFTWARE MIGRATION TOOLS

On July 30, 2004, the Company entered into an asset sale agreement and closed the transaction selling substantially all of the business assets of the software business for an aggregate purchase price of \$500,000; payable \$100,000, at the time of closing and a promissory note with principal payable in three equal annual installments of \$133,333 beginning July 15, 2005. During fiscal year end July 31, 2006, the final note payment in the amount of \$266,666 was paid on August 31, 2005.

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### NOTE 12 COMMITMENTS

#### Investments And Deferred Compensation Arrangement

In January 1996, the Company established a deferred compensation plan for key employees. Contributions to the plan are provided for under the employment agreement with Thomas V. Geimer, which is detailed at the end of this note. For each of the fiscal years ended July 31, 2007 and 2006, the Company contributed \$75,000 to the plan which was accrued but unpaid by the Company at year end. On October 26, 2007, \$75,000 was paid to the deferred compensation plan.

The following information is provided related to the trust assets, which consist of cash and equity securities as of July 31, 2007 and 2006. These assets, which based upon the Company's intended use of the investments, have been classified as trading securities. Unrealized holding gains or loss on trading securities are included in other income (expense).

|                                | 2007        | 2006       |
|--------------------------------|-------------|------------|
| Cost basis                     | \$ 971,280  | \$ 879,994 |
| Unrealized holding gain (loss) | 56,270      | (8,579)    |
| Aggregate fair value           | \$1,027,550 | \$ 871,415 |

Deferred compensation related to the Rabbi Trust was \$952,550 and \$946,415 as of July 31, 2007 and 2006, respectively. The difference between the aggregate fair value and the deferred compensation amounts represents the award of \$75,000 for each of the years ended July 31, 2007 and 2006 which was accrued but unpaid by the Company at year end. On October 26, 2007, \$75,000 was paid to the deferred compensation plan.

#### Operating Leases

The Company has renegotiated a two-year lease for its office and laboratory space with a term of October 1, 2007 through September 30, 2009. Total rent expense was approximately \$55,124 and \$57,791 in fiscal 2007 and 2006, respectively. Future minimum lease payments on the office and laboratory lease are as follows:

| Year Ending<br>July 31, | Premises<br>Rent |
|-------------------------|------------------|
| 2008                    | \$ 59,334        |
| 2009                    | 60,937           |
|                         | \$120,271        |

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#### Employment Agreement

Effective December 1, 2002, an employment agreement with Thomas V. Geimer, CEO and CFO, was negotiated and approved by the Compensation Committee. The agreement provides for an annual base salary of \$165,000 with annual deferred compensation of \$75,000. The agreement expires on December 31, 2007. In the event of termination by mutual agreement, termination "with cause," as defined in the agreement, death or permanent incapacity or voluntary termination, Mr. Geimer or his estate would be entitled to the sum of the base salary and



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unreimbursed expenses accrued to the date of termination and any other amounts due under the agreement. In the event of termination "without cause," as defined in the agreement, Mr. Geimer would be entitled to the sum of the base salary and unreimbursed expenses accrued to the date of termination and any other amounts due under the agreement and an amount equal to the greater of Mr. Geimer's annual base salary (12 months of salary) or any other amounts remaining due to Mr. Geimer under the agreement, which as of July 31, 2007 would be \$175,000. Additionally, in the event of a change in control, any unpaid amounts due under the initial term of the agreement for both base salary and deferred compensation would be payable plus five times the sum of the base salary and deferred compensation.

### NOTE 13 DEFERRED REVENUE

Deferred revenue was \$58,346 at year end July 31, 2007. Deferred revenue consists of prepaid royalty fees from SCHOTT in the amounts of \$58,346. All services and material requirements for the Feasibility Testing Agreement with Promega have been completed as of September 12, 2006, and no further work on the part of Accelr8 is required. Therefore, deferred revenue of \$22,000 for prepaid technology license fees was recognized in the first quarter of fiscal year 2007.

### NOTE 14 SUBSEQUENT EVENTS

License Agreement - On October 5, 2007 the Company signed a License Agreement with NanoString Technologies, Inc. ("NanoString"). With this agreement, NanoString exercised its right to a worldwide, non-exclusive royalty-bearing license to make, use, sell, offer to sell, import and export the licensed product as per the Agreement for an initial term of 7 years. Exercise of this license agreement requires a non-refundable payment by NanoString of \$50,000 to Accelr8 for the license and \$50,000 as non-refundable prepaid royalties.