ACCELR8 TECHNOLOGY CORP
Form 10QSB
March 17, 2005

Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-QSB

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

For the quarterly period ended January 31, 2005

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

For the transition period from __________________ to ____________________

Commission file number 0-11485

ACCELR8 TECHNOLOGY CORPORATION
(Exact name of small business issuer as specified in its charter)

COLORADO	84-1072256
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

7000 Broadway, Bldg 3-307, Denver, Colorado 80203
(Address of principal executive office)

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

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

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

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

Class	Outstanding at March 14, 2005
Common Stock, no par value	9,679,960

INDEX

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Accelr8 Technology Corporation
Balance Sheets

ASSETS

	January 31, 2005	July 31, 2004

	(Unaudited)	
Current assets:		
Cash and cash equivalents	$ 6,424,063	$ 7,233,430
Accounts receivable	55,192	15,948
Other Accounts Receivable	1,359	50,000
Inventory	32,799	30,287
Prepaid expenses and other current assets	83,954	33,972
Current portion note receivable	133,333	133,333
Current assets of discontinued operations (Note 7)	--	7,225
Total current assets	6,730,700	7,504,195
Property and equipment, net	201,390	216,733
Note Receivable (Note 7)	266,667	266,667
Investments	752,789	666,305
Intellectual property, net (Note 3)	3,974,502	4,070,832
Total assets	$ 11,926,048	$ 12,724,732

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accounts payable	$ 74,655	$ 96,844
Accrued compensation and other liabilities	83,786	46,793
Liabilities for discontinued operations (Note 7)		43,150
Deferred revenue (Note 4)	65,000	60,000
Total current liabilities	223,441	246,787
Long-term liabilities:		
Deferred compensation	790,289	741,305
Total liabilities	1,013,730	988,092
Commitments and Contingencies		
Shareholders' equity (Notes 5 & 6)		
Common stock, no par value; 12,000,000 shares authorized; 9,961,210 and 9,961,210 shares issued and outstanding, respectively	12,863,020	12,863,020
Contributed capital	461,049	461,049
Accumulated deficit	(2,138,151)	(1,313,829)
Shares held for employee benefit (1,129,110 shares at cost)	(273,600)	(273,600)
Total shareholders' equity	10,912,318	11,736,640
Total liabilities and shareholders' equity	$ 11,926,048	$ 12,724,732

See accompanying notes to unaudited financial statements.

3

Accelr8 Technology Corporation
Statements of Operations
(Unaudited)

	Three Months Ended		Six Month
	January 31, 2005	January 31, 2004	January 31, 2005
Revenues:			
Consulting fees	$ 90,000	$ --	$ 90,000
License Fees (Note 4)	62,750	62,750	
OptiChem(TM) revenue	89,196	36,968	110,005
Total revenues	241,946	36,968	262,755
Costs and Expenses:			
Cost of sales - OptiChem	32,771	16,163	42,386
General and administrative	236,653	253,047	497,707
Marketing and sales	11,426	37,574	22,175
Research and development	233,542	137,532	436,545
Depreciation	28,258	8,865	43,664
Amortization	58,823	58,128	117,522
Total costs and expenses	601,473	511,309	1,159,999
Loss from operations	(359,527)	(474,341)	(897,244)
Other (expense) income			
Interest income	34,785	15,989	63,551
Unrealized holding gain (loss) on investments	5,364	26,401	4,661
Realized gain (loss) on sale of investments	4,710		4,710
Total other income	44,859	42,390	72,922
Income from Discontinued Operations (Note 7)	0	59,828	0
Net loss	$ (314,668)	$ (372,123)	$ (824,322)
Basic and diluted net loss per share	$ (.03)	$ (.04)	$ (.08)
Weighted average shares outstanding - basic and diluted	9,961,210	9,961,210	9,961,210

See accompanying notes to unaudited financial statements.

Accelr8 Technology Corporation.
Statements Of Cash Flows
For the Six Months Ended January 31, 2005 and 2004
(Unaudited)

	2005	2004
Cash flows from operating activities:		

Net loss	$ (824,322)	$ (795,121)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation	43,664	20,082
Amortization	117,522	116,256
(Decrease) in fair value of stock options granted for consulting services		(2,416)
Unrealized holding (gain) loss on investments	(4,661)	(37,630)
Realized (gain) on sale of investments, interest and dividends reinvested	(6,823)	(5,332)
Changes in assets and liabilities:		
Accounts receivable	9,397	(2,898)
Inventory	(2,512)	(68,555)
Prepaid expenses and other	(49,982)	(26,152)
Accounts payable	(22,189)	(10,289)
Accrued liabilities	36,993	3,946
Deferred revenue	5,000	--
Deferred compensation	48,984	80,462
Net cash (used in) operating activities	(648,929)	(727,647)
Cash flows from investing activities:		
Purchase of property and equipment	(28,321)	(5,491)
Purchase of intellectual property	(21,192)	(12,975)
Purchase of investments	(75,000)	(75,000)
Net cash (used in) investing activities	(124,513)	(93,466)
Cash (used by) discontinued operations	(35,925)	(87,553)
Net (decrease) in cash	(809,367)	(908,666)
Cash, beginning of period	7,233,430	8,711,951
Cash, end of period	$ 6,424,063	$ 7,803,285

See accompanying notes to unaudited financial statements.

5

Accelr8 Technology Corporation
Notes to Unaudited Financial Statements
For the six months ended January 31, 2005

Note 1. Basis of Presentation

The financial statements included herein have been prepared by Accelr8 Technology Corporation (the "Company") without audit, pursuant to the rules and regulations of the United States Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted as allowed by such rules and regulations. The Company believes that the disclosures are adequate to make the information presented not misleading. These financial statements should be read in conjunction with our annual audited financial statements dated July 31, 2004, included in our annual report on Form 10-KSB as filed with the SEC on October 29, 2004.

The accompanying unaudited financial statements have been prepared in conformity with generally accepted accounting principles, which require the use of management estimates, and contain all adjustments (including normal recurring adjustments) necessary to present fairly the operations and cash flows for the periods presented. The results of operations for the six month and three month periods ended January 31, 2005 may not be indicative of the results of operations for the fiscal year ending July 31, 2005.

Note 2. Reclassification

Certain reclassifications have been made in the fiscal 2004 financial statements to conform to the classifications used in fiscal 2005. Such reclassifications have no effect on net income (loss) as previously reported.

Note 3. Intellectual Property

Intellectual property consisted of the following:

	January 31, 2005	July 31, 2004
OptiChem technologies	$ 4,469,517	$ 4,454,538
Patents	186,458	180,245
Trademarks	49,019	49,019
Total intellectual property	4,704,994	4,683,802
Accumulated amortization	(730,492)	(612,970)
Net intellectual property	$ 3,974,502	$ 4,070,832

Intellectual properties are recorded at cost and are being amortized on a straight-line basis over their estimated useful lives of 20 years, which approximates the patent and patent application life of the OptiChem(TM) technologies. Amortization expense was $117,522 and $116,256, respectively, for the six months ended January 31, 2005 and 2004.

6

The Company routinely evaluates the recoverability of its long-lived assets based upon estimated future cash flows from or estimated fair value of such long-lived assets. If in management's judgment, the anticipated undiscounted cash flows or estimated fair value are insufficient to recover the carrying amount of the long-lived asset, the Company will determine the amount of the impairment and the value of the asset will be written down. Management believes that the fair value of the technology exceeds the carrying value. However, it is possible that future impairment testing may result in intangible asset write-offs, which could adversely affect the Company's financial condition and results of operations.

Note 4. License and Supply Agreements

On November 24, 2004, the Company entered into a worldwide exclusive manufacturing and marketing license agreement (the "License Agreement") with SCHOTT Jenaer Glas GmbH ("SCHOTT"). The Company also signed a supply agreement (the "Supply Agreement") with SCHOTT for OptiChem coated amine-reactive slides manufactured by Accelr8.

Pursuant to the License Agreement SCHOTT paid the Company a non-refundable fee of $100,000, of which fifty thousand dollars ($50,000) of such fee was credited against future royalties. An additional $15,000 in deferred revenue has been recorded for training supplied to SCHOTT. During the 2-year term of the License Agreement SCHOTT shall pay Accelr8 a royalty payment equal to 6% of net sales of licensed products. If the total net sales during the initial 2-year term equal or exceed, $1,125,000, then the total royalty payable by SCHOTT for the initial term shall be a flat fee of $90,000. An optional 1-year extension may be exercised by SCHOTT by payment of a $90,000 upfront renewal fee.

Pursuant to the Supply Agreement, the Company will supply SCHOTT 10,000 OptiChem coated microarraying slides, including 1,000 slides purchased prior to the execution of the Supply Agreement, at a price of $14.00 each. The Supply Agreement with SCHOTT has a term of six months or until delivery of all of the slides purchased under the Supply Agreement. The Supply Agreement also includes an option to SCHOTT until December 31, 2005 to negotiate an exclusive license for the application of OptiChem coatings on 96-well microtiter plates. In return, SCHOTT provided 7,500 glass substrates to Accelr8 at no charge. The option is valued at $12,750 and has been recorded as a license fee.

Note 5. Shareholders' Equity

Common Stock Options

At January 31, 2005, there were 692,500 stock options outstanding at prices ranging from $1.45 to $3.25 with expiration dates between May 6, 2005 and August 1, 2011. For the six months ended January 31, 2005 and 2004, stock options exercisable into 692,500 and 960,000 shares of common stock were not included in the computation of diluted earnings per share because their effect was antidilutive.

Note 6. Employee Stock Based Compensation

In December 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 148, "Accounting for Stock-Based Compensation--Transition and Disclosure--an amendment of FASB Statement No. 123." SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures about the method of accounting for stock-based employee compensation and the effect of the method used on reported results in both annual and interim financial statements. The Company accounts for employee stock-based compensation arrangements using the intrinsic value method in accordance with Accounting Principals Board ("APB") No. 25 and related interpretations and has adopted the disclosure-only provisions of SFAS No. 123 as amended by SFAS No. 148. The following table illustrates the effect on net loss if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based compensation.

	Six Months Ended January 31, 2005	2004
Net loss - as reported	$(824,322)	$(795,121)
Deduct: Total stock-based compensation expense determined under fair value based method for all awards	(1,025)	(5,595)
Pro forma net loss	$(825,347)	$(800,716)
Earnings per share:		
Basic and diluted - as reported	$ (.08)	$ (.08)
Basic and diluted - pro forma	$ (.08)	$ (.08)

Note 7. Sale of Software Migration Tools

On July 30, 2004, we completed the sale of the assets related to the Software Migration Business, which consisted of tools for legacy-code modernization and the resale of third-party software to Transoft Group Ltd (the "Asset Sale"). The aggregate purchase price of the Asset Sale was $500,000; which was payable $100,000 in cash and the Company was issued a promissory note payable in three equal annual installments of $133,333 with annual interest of 4% on the unpaid balance payable quarterly. In addition, the purchase price included the assumption of support obligations under pre-existing support and maintenance agreements. The assets, liabilities, results of operations and cash flows for the Software Migration Business have been classified as Discontinued Operations in the financial statements. Net income from the discontinued operations for the three and six months ended January 31, 2004 was $59,828 and $50,266, respectively. A summary of income and expenses for these periods is below:

8

	Three Months Ended January, 31, 2004	Six Months Ended January 31, 2004
Revenues	$115,772	$219,457
Cost of sales	30,629	49,362
Administrative and marketing	24,139	117,477
Depreciation	1,176	2,352
Total costs and expenses	55,944	169,191
Income from discontinued operations	$ 59,828	$ 50,266

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

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Forward Looking Information

This Quarterly Report on Form 10-QSB contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the Company, intends that such forward-looking statements be subject to the safe harbors created thereby. These forward-looking statements, which can be identified by the use of words such as "may," "will," "expect," "anticipate," "estimate," or "continue," or variations thereon or comparable terminology, include the plans and objectives of management for future operations, including plans and objectives relating to the products and future economic performance of the Company. In addition, all statements other that statements of historical facts that address activities, events, or developments the Company expects, believes, or anticipates will or may occur in the future, and other such matters, are forward-looking statements.

The forward-looking statements included herein are based on current expectations that involve a number of risks and uncertainties. These forward-looking statements are based on assumptions that the Company will retain key management personnel, that the Company will accurately anticipate market demand for the Company's products and that there will be no material adverse change in the Company's operations or business. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Company. Although the Company believes that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate and, therefore, there can be no assurance that the results contemplated in forward-looking 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.

The following discussion should be read in conjunction with the Company's future operating results may be affected by various trends and factors which are beyond the Company's control. These include, among other factors, general public perception of issues and solutions, and other uncertain business conditions that may affect the Company's business. The Company cautions the reader that a number of important factors discussed herein, and in other reports, filed with the Securities and Exchange Commission including its 10-KSB for the year ended July 31, 2004, could affect the Company's actual results and cause actual results to differ materially from those discussed in forward-looking statements.

Overview

Prior to January 2001, Accelr8 was primarily a provider of software tools and consulting services. The potential market opportunity in the growing area of biosciences, coupled with unique patented technology that was beyond initial development stage, led the Company to pursue a purchase agreement with DDx, Inc.

On January 18, 2001, Accelr8 purchased the OpTest technology assets from DDx and commenced investment in development and optimization of OpTest's surface chemistry (OptiChem) and quantitation instrument (QuanDx). The Company's proprietary surface chemistry and its quantitation instruments support real-time assessment of medical diagnostics, food-borne pathogens, water-borne pathogens, and bio-warfare assessments. Presently the Company holds for sale advanced microarray slides and specialty microtiter plates coated with its proprietary OptiChem 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. Management believes that this property substantially improves analytical performance by enabling higher sensitivity, greater reproducibility, and higher throughput by virtue of simplified application methods.

The Company is currently offering OptArray microarray slides to university and government labs, pharmaceutical, drug discovery, and diagnostic companies that rely upon customized surface chemistry for their assays. The surface chemistry will be customized to meet the specific requirements of large manufacturers, with the intent of licensing its products to users.

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

In July 2003, the Company introduced its OptiPlate(TM) products, which are 96- and 384-well glass bottom microtiter plates for multiplexed microarraying. These products allow the customers to print a small microarray (as many as 2,000 spots) in each well. As with OptArray slides, the products support both DNA and protein arraying. The glass and chemical coatings are identical to those used in OptArray slides. This high throughput mode is essential in drug discovery and diagnostics where a lab must validate an assay over a large number of individual samples. The Company knows of only one other US company (Apogent) that is selling a plate for multiplexed microarraying.

In January 2004, management commenced development of the BACcelr8r, a rapid bacterial identification and antibiotic resistance detection platform.

The BACcelr8r embodies all three of Accelr8's wholly owned core technologies: OptiChem surface chemistry, QuanDx optical detection, and YoDx(TM) accelerated assay processing. We believe that the same integrated technology combination will provide a platform for molecular analysis, as used in genomics and proteomics, and molecular diagnostics. We expect the benefits of BACcelr8r to be very high sensitivity, rapid results, high reproducibility, and relatively low cost per test and expect the BACelr8r will be initially used in the ICU (intensive care units) of hospitals for the diagnosis and treatment assessment of VAP (ventilator associated pneumonia).

On November 24, 2004, we entered into an exclusive global manufacturing and distribution licensing agreement (the "License Agreement) with Schott Nexterion (Schott Jenaer Glas GmbH, Jena, Germany "SCHOTT") and a supply agreement (the "Supply Agreement") for microarray slides using Accelr8's OptiChem(R) surface chemistry. (See Note 4 to the Financial Statements.)

In fiscal 2005 we intend to complete technical studies on materials and processes to be used in the BACcelr8r system. We also intend to begin BACcelr8r product design and development. During the first six months of fiscal 2005 we focused on assay development and refined methods of analyte capture intended for use in BACcelr8r. With our microarraying products, we will continue manufacturing hydrogel slides for resale to Schott customers pursuant to the Supply Agreement. In addition, we expect to conduct further custom OptiChem coating development.

Changes in Results of Operations: Six months ended January 31, 2005 compared to six months ended January 31, 2004.

On July 30, 2004, we completed the sale of the assets related to the Software Migration Business. See Note 7 to the financial statements for details. The following revenues, costs and expenses relate only to our continuing operations.

Consulting fees during the six month period ended January 31, 2005 were $90,000 as compared to $0 for the six month period ended January 31, 2004. The consulting fees were the result of a contract completed on December 31, 2004 for a custom coating for an industrial customer.

During the six month period ended January 31, 2005, license fees were $62,750 as compared to $0 for the six month period ended January 31, 2004. The License fees were the result of the License Agreement entered into with SCHOTT to produce and sell the Company's OptiChem surface chemistry technology, sales to repeat customers and new customers that are evaluating the Company's OptArray slides as well as an option to license OptiChem coated 96 well plates. (See Note 4 to the Financial Statements.)

OptiChem revenues for the six month period ended January 31, 2005 were $110,005 as compared to $59,252 for the six month period ended January 31, 2004, an increase of $50,753 or 85.7%. This increase was primarily the result of sales of OptArray slides under the Supply Agreement with SCHOTT, and a custom application to another SCHOTT customer for a new formula not covered by the Supply Agreement.

During the six months ended January 31, 2005, sales to the Company's two largest customers were $90,000 and $131,514, representing 34.2% and 50.1% of the Company's gross revenues. During the six months ended January 31, 2004, sales to the Company's two largest customers were $35,150 and $11,900, representing 59.3% and 20.0% of gross revenues. The loss of a major customer could have a significant impact on the Company's financial performance.

Cost of sales for the six months ended January 31, 2005 was $42,386, which represented 38.5% of OptiChem revenue compared to $24,670 during the six months ended January 31, 2004, which represented 41.6% of OptiChem revenue. The decrease in the cost of sales expressed as a percentage of Optichem revenue was the result of efficiencies in producing a greater number of slides and lower cost of substrates used in the formulation of OptiChem.

General and administrative expenses for the six months ended January 31, 2005 were $497,708 as compared to $460,414 during the six months ended January 31, 2004, an increase of $37,294 or 8.1%. This increase was largely due to increased salaries as some individuals that were contractors were hired as full time employees. Some of the increase was offset by the consolidation of our corporate offices with our laboratory facility as of October 1, 2004.

Marketing and sales expenses for the six months ended January 31, 2005 were $22,175 as compared to $77,085 during the six months ended January 31, 2004, a decrease of $54,910 or 71.2%. This decrease was largely due to an outside consultant being hired as an employee and the salary being classified in general and administrative.

Research and development expenses for the six months ended January 31, 2005 were $436,545 as compared to $280,365 during the six months ended January 31, 2004, an increase of $156,180 or 55.7%. This increase was largely due to increased spending on the development of the BACcelr8r by outside consultants of $31,745 and hiring of new lab personnel.

Depreciation for the six months ended January 31, 2005 was $43,664 as compared to $17,730 during the six months ended January 31, 2004, an increase of $25,934 or 146.3%. This increase results from the depreciation of additional laboratory equipment placed into service.

The increase in amortization for the six months ended January 31, 2005 was negligible since the only additions were legal fees associated with patent filings.

As a result of these factors, loss from operations for the six months ended January 31, 2005 was $897,244 as compared to a loss of $917,268 during the six months ended January 31, 2004, a decreased loss of $20,024 or 2.2%.

Interest income during the six months ended January 31, 2005 was $63,551 as compare to $32,276 during the six months ended January 31, 2004, an increase of $31,275 or 96.9%. Interest income increased as a result of the interest earned on the note from discontinued operations and an increase in the interest rate on the amounts of cash held by the Company.

Unrealized holding gains on marketable securities held in the deferred compensation trust for the six months ended January 31, 2005 was $4,661 as compared to of $37,630 held for the six months ended January 31, 2004, a decrease of $32,969, or 87.6%. The decreased gain was the result of a decrease in the price of securities held in the deferred compensation trust.

Realized gain on the sale of investments was $4,710 for the six months ended January 31, 2005, as compared to $1,975 for the six months ended January 31, 2004, an increased gain of $2,735 or 138.5%. The increased gain was the result of increased interest rates and cash dividends.

As a result of these factors, net loss for the six months ended January 31, 2005 was $824,322 as compared to $795,121 during the six months ended January 31, 2004, an increased loss of $29,201 or 3.7%.

Changes in Results of Operations: Three months ended January 31, 2005 compared to three months ended January 31, 2004.

Consulting fees during the three month period ended January 31, 2005 were $90,000 as compared to $0 for the three month period ended January 31, 2004. The consulting fees were the result of a contract completed on December 31, 2004 for a custom coating for an industrial customer.

License fees during the three month period ended January 31, 2005, were $62,750 as compared to $0 for the three month period ended January 31, 2004. The License fees were the result of the License Agreement entered into with SCHOTT to produce and sell the Company's technology. See Note 5 to the financial statements.

OptiChem revenues for the three month period ended January 31, 2005 were $89,196 as compared to $36,968 for the three month period ended January 31, 2004, an increase of $52,228 or 141.3%. This increase was primarily the result of sales of OptArray slides under the Supply Agreement with SCHOTT, sales to repeat customers and new customers that are evaluating the Company's OptArray slides.

During the three months ended January 31, 2005, revenues included a $90,000 consulting contract for custom slides with one customer, license fees of $62,750 and OptiChem revenue of $64,600 with SCHOTT. These three amounts represented 90% of the Company's net revenues, with 52.5% from SCHOTT. During the three months ended January 31, 2004, sales to the Company's two largest customers were $20,350 and $11,900, representing 55% and 32% of net revenues. The loss of a major customer could have a significant impact on the Company's financial performance.

Cost of sales for the three months ended January 31, 2005 were $32,771 as compared to $16,163 during the three months ended January 31, 2004, an increase of $16,608, or 1.01%. The increase is the result of increased production. The cost of goods sold as a percentage of OptiChem sales was 36.7% for the three months ended January 31, 2005 as compared to 43.7% during the three months ended January 31, 2004, a decrease of 7%. This decrease is due to efficiencies as a result of increased production and lower glass and substrate costs.

General and administrative expenses for the three months ended January 31, 2005 were $236,652 as compared to $253,047 for the three months ended January 31, 2004, a decrease of $16,395 or 6.5%. This decrease was primarily the result of decreased deferred compensation resulting from changes in market value of investments in the deferred compensation trust.

Marketing and sales expenses for the three months ended January 31, 2005 were $11,426 as compared to $37,574 during the three months ended January 31, 2004, a decrease of $26,148 or 69.6%. This decrease was primarily the result of a consultant being hired as an employee and the salary reclassified into general and administrative.

Research and development expenses for the three months ended January 31, 2005 were $233,543 as compared to $137,532 for the three months ended January 31, 2004, an increase of $96,011 or 69.8%. The increase was primarily the result of the addition of consultants working on the BACcelr8r and hiring of additional lab personnel.

Depreciation for the three months ended January 31, 2005 was $28,258 as compared to $8,865, an increase of $19,393 or 218.8%. This increase results from the purchase of additional lab equipment.

The change in amortization for the three months ended January 31, 2005 was negligible from the prior year.

As a result of the above factors, the loss from operations for the three months ended January 31, 2005 was $359,527 as compared to a loss of $474,341 during the three months ended January 31, 2004, a decreased loss of $114,814 or 24.2%.

Interest income during the three months ended January 31, 2005 was $34,785 as compared to $15,989 during the three months ended January 31, 2004, an increase of $18,796 or 117.6%. Interest income increased as a result of the interest earned on the note from discontinued operations and an increase in the interest rate on the amounts of cash held by the Company.

Unrealized holding gains on marketable securities held in the deferred compensation trust for the three months ended January 31, 2005 were $5,364 as compared to $26,401 held for the three months ended January 31, 2004, a decrease of $21,037, or 79.7%. The decrease was the result of a decrease in the price of securities held in the deferred compensation trust.

Realized gain on the sale of investments was $4,710 for the three months ended January 31, 2005, as compared to $0 for the three months ended January 31, 2004. The realized gain on investment was the result of increased interest rates and cash dividends.

As a result of these factors, the net loss for the three months ended January 31, 2005 was $328,407 as compared to a net loss of $314,668 during the three months ended January 31, 2004, a decreased loss of $57,455 or 15.4%.

Capital Resources and Liquidity

At January 31, 2005, as compared to July 31, 2004, the Company's current assets decreased $773,495 or 10%. During the same period, shareholders' equity decreased 7%, a total of $770,103, the amount of the net operating loss.

Cash and cash equivalents for the six months ended January 31, 2005 decreased by $809,367. This decrease was largely the result of the net loss of $838,061, an increase in prepaid expenses of $49,982 and an increase in accounts payable of $23,163, offset by a decrease in deferred compensation of $48,984.

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

Item 3. Controls and Procedures

An evaluation was conducted under the supervision and with the participation of the Company's management, including Thomas V. Geimer, the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of January 31, 2005. Based on that evaluation, Mr. Geimer concluded that the Company's disclosure controls and procedures were effective as of such date to ensure that information required to be disclosed in the reports that it files or submits under the Securities Exchange Act of 1934, amended, is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. Such officers also confirm that there was no change in the Company's internal control over financial reporting during the quarter ended January 31, 2005 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 2. Changes in Securities and Use of Proceeds

Not applicable.

Item 3. Defaults of Senior Securities

Not applicable.

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

None.

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits:

1. Exhibit 31.1 Certification of Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

2. Exhibit 31.2 Certification of Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

3. Exhibit 32.1 Certification of Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act 0f 2002.

b) Reports on Form 8-K:

Form 8-K filed December 6, 2004 announcing entering into a License Agreement and a Supply Agreement with SCHOTT Jenaer Glas BmbH.

Form 8-K Filed January 6, 2005 announcing resignation of James Godkin and appointment of Joan D. Montgomery.

SIGNATURES

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

Dated: March 16, 2005

ACCELR8 TECHNOLOGY CORPORATION

/s/ Thomas V. Geimer

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

/s/ Joan D. Montgomery

Joan D. Montgomery, Principal

Accounting Officer

17