ACCELR8 TECHNOLOGY CORP
Form 10QSB
December 13, 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 October 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, CO 80221
(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 December 12, 2005
Common Stock, no par value	9,971,210

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Accelr8 Technology Corporation
Balance Sheets

ASSETS

	October 31, 2005	July 31, 2005
	(Unaudited)	
Current assets:		
Cash and cash equivalents	$ 4,922,054	$ 5,564,259
Accounts receivable	23,370	44,347
Inventory	27,244	27,244
Prepaid expenses and other current assets	226,043	228,097
Note receivable (Note 7)	0	266,667
Total current assets	5,198,711	6,130,614
Property and equipment, net	235,389	230,847
Investments, net	839,925	767,637
Intellectual property, net (Note 3)	3,819,799	3,878,969
Total assets	$ 10,093,824	$ 11,008,067

LIABILITIES AND SHAREHOLDERS' EQUITY

	October 31, 2005	July 31, 2005
Current liabilities:		
Accounts payable	$ 180,035	$ 153,408
Accrued compensation and other liabilities	68,989	278,682
Deferred revenue (Note 4)	72,000	65,000
Total current liabilities	321,024	497,090
Long-term liabilities:		
Deferred compensation	858,948	842,637
Total liabilities	1,179,972	1,339,727
Commitments and Contingencies		
Shareholders' equity (Notes 6)		
Common stock, no par value; 12,000,000 shares (after increase on December 14, 2004) and 11,000,000 respectively authorized; 9,971,210 and 9,961,210 shares, issued and outstanding, respectively	12,878,020	12,863,020
Contributed capital	486,099	483,549
Accumulated deficit	(4,176,667)	(3,404,629)
Shares held for employee benefit (1,129,110 shares at cost)	(273,600)	(273,600)
Total shareholders' equity	8,913,852	9,668,340
Total liabilities and shareholders' equity	$ 10,093,824	$ 11,008,067

See accompanying notes to unaudited financial statements.

Accelr8 Technology Corporation
Statements of Operations
For the three months ended October 31, 2005 and 2004
(Unaudited)

	2005	2004
Revenues:		
OptiChem Revenues	$ 44,388	$ 21,724
Technical Consulting	15,000	0
Development Fees	27,000	0
Total Revenues	86,388	21,724
Costs and expenses:		
Research and development	572,911	203,149
General and administrative	212,251	261,056
Amortization (Note 4)	59,171	58,698
Marketing and sales	28,479	10,749
Depreciation	19,031	15,405
Cost of sales - OptiChem(TM)	13,892	10,530
Total costs and expenses	905,735	559,587
Loss from operations	(819,347)	(537,863)
Other (expense) income:		
Interest and dividend income	47,372	28,766
Unrealized gain (loss) on investments	(8,063)	(703)
Other income	8,000	0
Total other income	47,309	28,063
Loss from operations	$ (772,038)	$ (509,800)
Net loss per share:		
Basic and diluted net loss per share	$ (.08)	$ (.05)
Weighted average shares outstanding	9,971,210	9,961,210

See accompanying notes to unaudited financial statements.

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Accelr8 Technology Corporation
Statements Of Cash Flows
For the Three months Ended October 31, 2005 and 2004
(Unaudited)

	2005	2004
Cash flows from operating activities:		
Net loss from continuing operations	$ (772,038)	$ (509,800)
Adjustments to reconcile net (loss) to net cash (used in) operating activities:		
Depreciation	19,031	15,405
Amortization	59,170	58,698
Increase in fair value of stock options Granted for services	2,550	-0-
Unrealized holding (gain) loss on investments	2,713	(1,411)
(Increase) decrease in assets:		
Accounts receivable	20,977	53,061
Inventory	-0-	4,366
Prepaid expense and other	2,053	3,521
Increase (decrease) in liabilities:		
Accounts payable	26,627	18,876
Accrued liabilities	(209,693)	9,051
Deferred revenue	7,000	30,000
Deferred compensation	16,311	20,161
Net cash used in operating activities	(825,299)	(298,072)
Cash flows from investing activities:		
Receipt of note payment	266,667	-0-
Issuance of Common Stock	15,000	-0-
Purchases of equipment	(23,573)	(3,287)
Cost of obtaining patents and trademarks	-0-	(5,985)
Contribution to deferred compensation trust	(75,000)	(75,000)
Net cash used in investing activities	183,094	(84,272)
Cash used by discontinued operations	-0-	(35,925)
Decrease in cash	(642,205)	(418,269)
Beginning balance	5,564,259	7,233,430
Ending balance	$ 4,922,054	$ 6,815,161

See accompanying notes to unaudited financial statements.

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Accelr8 Technology Corporation
Notes to Financial Statements

Note 1. Basis of Presentation

The financial statements included herein have been prepared by Accelr8 Technology Corporation (the "Company") without audit, pursuant to the rules and regulations of the United States Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted as allowed by such rules and regulations. The Company believes that the disclosures are adequate to make the information presented not misleading. These financial statements should be read in conjunction with our annual audited financial statements dated July 31, 2005, included in our annual report on Form 10-KSB as filed with the SEC.

Management believes that the accompanying unaudited financial statements are prepared in conformity with generally accepted accounting principles, which require the use of management estimates, and contain all adjustments (including normal recurring adjustments) necessary to present fairly the operations and cash flows for the periods presented. The results of operations for the three months ended October 31, 2005 may not be indicative of the results of operations for the year ended July 31, 2006.

Note 2. Reclassification

Certain reclassifications have been made in the fiscal 2005 financial statements to conform to the classifications used in fiscal 2006. Such reclassifications have no effect on net income (loss) as previously reported.

Note 3. Intellectual Property

Intellectual property consisted of the following:

	October 31, 2005	July 31, 2005
OptiChem Technologies	$ 4,454,538	$ 4,454,538
Patents	223,991	223,991
Trademarks	49,019	49,019
Total intellectual property	4,727,548	4,727,548
Accumulated amortization	(907,749)	(848,579)
Net intellectual property	$ 3,819,799	$ 3,878,969

Intellectual properties are recorded at cost and are being amortized on a straight-line basis over their estimated useful lives of 20 years, which approximates the patent and patent application life of the OptiChem technologies. Amortization expense was $59,170 and $58,698 respectively, for the three months ended October 31, 2005 and 2004.

Accelr8 Technology Corporation
Notes to Financial Statements

Note 3, continued:

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. Deferred Revenue

The deferred revenue amount of $50,000 is composed of prepaid royalty fees of $50,000 included in the "License Agreement" with SCHOTT and $22,000 related to the Promega agreement. See Note 5.

Note 5. License and Supply Agreements

SCHOTT Slide H Agreement
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 entered into a supply agreement (the "Slide "H" Supply Agreement") with SCHOTT for OptiChem coated amine-reactive slides manufactured by the Company.

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. (See Note 4) An additional $15,000 has been 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. 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 Slide "H" Supply Agreement, the Company supplied 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 also included an option to SCHOTT until December 31, 2005 to negotiate an exclusive license for the application of OptiChem coatings on multi-well microtiter plates. In return, SCHOTT provided 7,500 glass substrates to the Company at no charge. The option is valued at $12,750 and has been recorded as option fees. The supply agreement was amended on April 25, 2005 to include the purchase of an additional 5,000 slides through July 15, 2005 under the same terms.

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Accelr8 Technology Corporation
Notes to Financial Statements

Note 5, continued

SCHOTT, Slide HS Agreement
On June 2, 2005, the Company and SCHOTT entered into a second supply agreement (the "HS Supply Agreement") for an additional formula of OptiChem (Slide HS).

Pursuant to the HS Supply Agreement, the Company will supply a minimum of 5,000 OptiChem Slide HS streptavidin coated microarrying slides to SCHOTT on a non-exclusive basis, at a price of $20.82 each for the first 1,000 slides and $17.15 for the remaining slides. This Supply Agreement expires 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 will pay the Company $15,000 for training on manufacturing of Slide HS. In addition, for this right, SCHOTT has provided 7,500 glass substrates to the Company at no charge. The slides are valued at $12,750 and that amount was been recorded as option fees prior to the fiscal year end.

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 must formally initiate negotiations by October 1, 2005 and complete the agreement by December 31, 2005. On September 27, 2005, SCHOTT also provided written notification, in accordance with the HS Supply Agreement, that it intends to exercise its exclusive right for the manufacturing an worldwide sales of Slide HS coatings on microarraying slides. As of this filing there is no final outcome to these negotiations.

Feasibility Testing Agreement
Effective October 5, 2005, the Company and Promega Corporation ("Promega") entered into a Feasibility Testing Agreement (the "Agreement"). Pursuant to the Agreement, the Company will focus on the development of a customized coating for a glass slide for a product owned by Promega. The Agreement requires that the feasibility testing be divided into two phases. Promega will pay the Company $49,000 in return for Accelr8's performance under the Agreement. If Promega determines that Phase 1 is not successfully completed, the Company will return $22,000 to Promega and the Company will have no further obligation under the Agreement.

Note 6. Employee Stock Based Compensation

Common Stock Options At October 31, 2005, there were 960,000 stock options outstanding at prices ranging from $1.45 to $3.20 with expiration dates between May 6, 2006 and March 16, 2015. For the three months ended October 31, 2005 and 2004, stock options exercisable into 960,000 and 702,500 shares of common stock, respectively, were not included in the computation of diluted earnings per share because their effect was antidilutive.

Accelr8 Technology Corporation
Notes to Financial Statements

Note 6, continued

Contingent Options
On July 12, 2003, the Company issued 50,000 options at an exercise price of $2.25 each, to purchase all rights in technology known as YoDx which will be integrated into the Company's existing technology. In connection with the purchase of the YoDx technology, 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(TM) 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 October 31, 2005, 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.

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.

	Three Months Ended October 31, 2005	Three Months Ended October 31, 2004
Net loss - as reported	$ (772,038)	$ (509,800)
Deduct: Total stock-based compensation expense determined under fair value based method for all awards	0	(1,025)
Pro forma net loss	$ (772,038)	$ (510,825)
Earnings per share:		
Basic and diluted - as reported	$ (.08)	$ (.05)
Basic and diluted - pro forma	$ (.08)	$ (.05)

Note 6, continued:

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" (SFAS 123R), which replaces SFAS 123 and supersedes APB Opinion No. 25. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. The proforma disclosures previously permitted under SFAS 123 no longer will be an alternative to financial statement recognition. For the Company, SFAS 123R is effective for periods beginning after December 15, 2005. Early application of SFAS 123R is encouraged, but not required. We plan to adopt SFAS 123R on February 1, 2006 using the modified prospective application method described in the statement. Under the modified prospective application method, we will apply the standard to new awards, and to awards modified, repurchased, or cancelled after the required effective date. Additionally, compensation cost for the unvested portion of awards outstanding as of the required effected date will be recognized as compensation expense as the requisite service is rendered after the required effective date.

Note 7. Sale of Software Migration Tools

On July 30, 2004, we completed the sale of the assets which consisted of tools for legacy-code modernization and the resale of third-party software (the "Software Migration Business") 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 balance of the note payable was paid in the quarter ended October 31, 2005.

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

Forward Looking Information

This Quarterly Report on Form 10-QSB contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the Company, intends that such forward-looking statements be subject to the safe harbors created thereby. These forward-looking statements, which can be identified by the use of words such as "may," "will," "expect," "anticipate," "estimate," or "continue," or variations thereon or comparable terminology, include the plans and objectives of management for future operations, including plans and objectives relating to the products and future economic performance of the Company. In addition, all statements other 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, the Company will be successful in the development of the BACcelr8r, the Company will be able to protect its intellectual property, the Company's ability to respond to technological change, that the Company will accurately anticipate market demand for the Company's products and that there will be no material adverse change in the Company's operations or business. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Company. Although the Company believes that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate and, therefore, there can be no assurance that the results contemplated in forward-looking statements will be realized. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

The following discussion should be read in conjunction with the Company's unaudited financial statements and related notes included elsewhere herein. The Company's future operating results may be affected by various trends and factors which are beyond the Company's control. These include, among other factors, general public perception of issues and solutions, and other uncertain business conditions that may affect the Company's business. The Company cautions the reader that a number of important factors discussed herein, and in other reports, filed with the Securities and Exchange Commission including its 10-KSB for the year ended July 31, 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 Technology Corporation ("Accelr8" or the "Company") was primarily a provider of software tools and consulting services.

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(TM)). 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. The OptiChem activated surface 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.

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 OptiChem slides, the products support both DNA and protein microarraying. The glass and chemical coatings are identical to those used in OptiChem slides. Management believes that 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 (Fisher Scientific) and at least one European company that is selling a plate for multiplexed microarraying.

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.) On June 2, 2005, the Company signed a new supply agreement (the "New Supply Agreement") with SCHOTT for a new product, a Streptavidin coated microarraying slide (the "Slide HS"). (See Note 5 to the Financial Statements.)

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).

In fiscal 2006 we intend to complete technical studies on materials and processes to be used in the BACcelr8r system. We believe that the BACcelr8r will significantly speed up bacterial testing and improve treatment outcomes. By developing and selling the system we intend to generate revenues and prove the value of our technology to large diagnostic companies. We believe that the most significant achievement of the BACcelr8r may be its ability to provide the

physician with rapid antibiotic susceptibility tests results. We believe that this information should increase the number of lives saved by eliminating the often-ineffective use of "empiric therapy" (when specific bacteria have not been identified, the doctor prescribes a cocktail of drugs, hoping that the combination will kill the bacteria).

Furthermore, we believe that dramatic compression of time that the BACcelr8r will provide compared to standard culturing practices, will give doctors an increased chance of getting patients out of the Intensive Care Unit days ahead of present norms (typically 6 to 10 extra days for pneumonia). We believe that this reduction in ICU costs, estimated at $3-4,000 per day, should also significantly reduce un-reimbursed hospital costs, improving the bottom line of an operating hospital budget. During the most recent quarter ending October 31, 2005, we devoted substantially all of our internal resources to testing of an 8-channel cassette that is the test bed for Version 0.1 of the BACcelr8r prototype. Our in-house scientists directed our various outside engineering consultants in further development of instrument software, image analysis software for conversion of digitized photos of bacteria to analytical data. We also began cassette design for Version 0.4 BACcelr8r. In addition we have commenced custom antibody development for rapid bacterial identification and count.

Current design concepts anticipate a 64-channel cassette. The Version 0.4 prototype will enable simultaneous testing of four separate 64-channel cassettes, each cassette analyzing a different sample. Version 0.4 contemplates increased throughput for bacterial identification and count while offering antibiotic resistance testing. The Company foresees the development of Version 0.4 to proceed through calendar year 2006.

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

OptiChem revenues during the three month period ended October 31, 2005 were $44,388 as compared to $21,724 during the three month period ended October 31, 2004, an increase of $22,664 or 104.3%. This increase was primarily the result of sales of OptiChem slides under the HS Supply Agreement with SCHOTT. OptiChem revenues for the three months ended October 31, 2005 were 51.4% of total revenues and 100% of total revenues for the three months ended October 31, 2004.

During the three months ended October 31, 2005, sales of OptiChem slides to the Company's largest customer were $37,713, representing 43.7% of the Company's total revenues. During the three months ended October 31, 2004, sales to the Company's largest customer were $18,774 representing 86.4% of total revenues. The largest customer during the three month periods ending October 31, 2005 and 2004 was SCHOTT. The loss of this customer would have a material adverse effect on the Company's financial performance if the Company was unable to replace the revenue received from this customer.

Consulting fees during the three-month period ended October 31, 2005 were $15,000 as compared to $0 during the three-month period ended October 31, 2004. These technical consulting fees were the result of the completion of training provided to SCHOTT for the manufacture of Slide H.

During the three month period ended October 31, 2005, development fees were $27,000 as compared to $0 during the three month period ended October 31, 2004. The development fees were the result of the Agreement with Promega to develop new surface chemistry technology (See Note 5 to the Financial Statements.)

Cost of sales for the three months ended October 31, 2005 was $13,892, which represented 31.3% of OptiChem revenue compared to $10,530 during the three months ended October 31, 2004, which represented 48.5% of OptiChem revenue. The decrease in the cost of sales expressed as a percentage of OptiChem revenue was the result of efficiencies in production as new methods were developed which reduced manpower costs. Further, reduced costs of substrates and chemicals used in the formulation of OptiChem also contributed to this decrease.

Research and development expenses for the three months ended October 31, 2005 were $572,911 as compared to $203,149 during the three months ended October 31, 2004, an increase of $369,762 or 182%. This increase was primarily due to increased scientific staff and the consulting fees related to the development of BACcelr8r.

General and administrative expenses for the three months ended October 31, 2005 were $212,251 as compared to $261,056 during the three months ended October 31, 2004, a decrease of $48,805 or 18.6%. This decrease was primarily due to decreases in consulting fees, corporate and shareholder expenses and corporate insurance.

The increase in amortization was negligible for the three months ended October 31, 2005 as compared to the three month period ended October 31, 2004.

Marketing and sales expenses for the three months ended October 31, 2005 were $28,479 as compared to $10,749 during the three months ended October 31, 2004, an increase of $17,730 or 165.0 %. This was primarily due to a contract with an outside firm for a market research report, offset in part by a reduction in salary expense due to outsourcing of our network support.

Depreciation for the three months ended October 31, 2005 was $19,031 as compared to $15,405 during the three months ended October 31, 2004, an increase of $3,626 or 23.5%. This increase resulted from depreciation of additional laboratory equipment placed into service.

As a result of these factors, loss from operations for the three months ended October 31, 2005 was $819,347 as compared to a loss of $537,863 during the three months ended October 31, 2004, an increased loss of $281,484 or 52.3%.

Interest income during the three months ended October 31, 2005 was $47,372 as compared to $28,766 during the three months ended October 31, 2004, an increase of $18,606 or 64.7%. Interest income increased as a result of increased interest rates on the amounts of cash held by the Company.

An unrealized holding loss on marketable securities held in the deferred compensation trust for the three months ended October 31, 2005 was $8,062 as compared to $703 for the three months ended October 31, 2004, a difference of $7,359. The change was the result of market fluctuations in the price of securities held in the deferred compensation trust.

As a result of these factors, net loss for the three months ended October 31, 2005 was $772,038 as compared to $509,803 during the three months ended October 31, 2004, an increased loss of $262,235 or 51.4%.

Capital Resources and Liquidity

At October 31, 2005, as compared to July 31, 2005, cash and cash equivalents, decreased by $642,205 from $5,564,259 to $4,922,054, or approximately 11.5% and the Company's working capital decreased by 13.0% from $5,633,524 to $4,877,687. During the same period, shareholders' equity decreased from $9,668,340 to $8,913,852 or approximately 7. 7% as a result of a net loss of $772,038 offset by the receipt of $15,000 for the exercise of 10,000 stock options.

The net cash used in operating activities was $825,299, in the three months ended October 31, 2005 compared to cash used in operating activities of $298,072 in the three months ended October 31, 2004. The principal elements that gave rise to the increase of cash used were an increase in the net loss of $262,238, a decrease in accrued liabilities of $218,744 and a net decrease in deferred revenue in the amount of $23,000.

The Company has historically funded its operations generally through cash flow generated from operations and equity financing. Management believes that current cash balances plus cash flow from operations will be sufficient to fund our capital and liquidity needs for at least the next twenty-four months.

Item 3. Controls and Procedures

An evaluation was conducted under the supervision and with the participation of the Company's management, including Thomas V. Geimer, the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of October 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, as amended, is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. Such officers also confirm that there was no change in the Company's internal control over financial reporting during the quarter ended October 31, 2005.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Not Applicable.

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

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Not applicable.

Item 3. Defaults upon Senior Securities

Not applicable.

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

Not applicable.

Item 5. Other Information

None

Item 6. Exhibits 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 on September 28, 2005 disclosing Supply Agreement SCHOTT Jenaer Glas GmbH

Form 8-K filed on October 182005 Disclosing Feasibility Testing Agreement with Promega Corporation.

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: December 13, 2005

ACCELR8 TECHNOLOGY CORPORATION

By: /s/ Thomas V. Geimer

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

Officer

By: /s/ Joan D. Montgomery

Joan D. Montgomery, Principal Accounting
Officer

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