

ACCEL8 TECHNOLOGY CORP
Form 10-Q
December 14, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended October 31, 2011

or

TRANSITION REPORT PURSUANT TO 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

(Exact name of registrant as specified in its charter)

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

7000 N Broadway, Bldg. 3-307, Denver, CO 80221

(Address of principal executive offices) (Zip Code)

(303) 863-8088

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of December 9, 2011, there were 11,103,367 shares of common stock outstanding.

INDEX

| | Page |
|--|-------------|
| PART I | |
| FINANCIAL INFORMATION | |
| Item 1. Financial Statements | 3 |
| Condensed Balance Sheets October 31, 2011 (unaudited) and July 31, 2011 | 3 |
| Condensed Statements of Operations for the three months ended October 31, 2011 and 2010 (unaudited) | 4 |
| Condensed Statements of Cash Flows for the three months ended October 31, 2011 and 2010 (unaudited) | 5 |
| Notes to Unaudited Condensed Financial Statements | 6-9 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 9 |
| Item 3. Quantitative and Qualitative Disclosures about Market Risk | 14 |
| Item 4. Controls and Procedures | 14 |
| PART II. OTHER INFORMATION | |
| Item 1. Legal Proceedings | 15 |
| Item 1A. Risk Factors | 15 |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds | 15 |
| Item 3. Defaults Upon Senior Securities | 15 |
| Item 4. Submission of Matters to a Vote of Security Holders | 15 |
| Item 5. Other Information | 15 |

| | |
|---------------------------|-------------------|
| Item 6. Exhibits | Page 16 |
| SIGNATURES | 17 |
| CERTIFICATION OF OFFICERS | |

PART I—FINANCIAL INFORMATION**Item 1. Financial Statements.****Accelr8 Technology Corporation****Condensed Balance Sheets****ASSETS**

| | October 31, 2011 | July 31, 2011 |
|---|---------------------|------------------|
| | (Unaudited) | |
| Current assets: | | |
| Cash and cash equivalents | \$584,985 | \$775,856 |
| Trade Accounts Receivable | 760,729 | 596,128 |
| Inventory | 30,278 | 30,278 |
| Prepaid expenses and other current assets | 10,747 | 20,577 |
| Total current assets | 1,386,739 | 1,422,839 |
| Long Term Accounts Receivable, Net of current portion | 746,587 | 745,440 |
| Property and equipment, net | 3,012 | 3,528 |
| Investments, net | 1,377,091 | 1,304,522 |
| Intellectual property, net (Note 4) | 2,738,186 | 2,788,009 |
| Total assets | \$6,251,615 | \$6,264,338 |

LIABILITIES AND SHAREHOLDERS' EQUITY

| | | |
|--|-----------|-----------|
| Current liabilities: | | |
| Accounts payable | \$56,687 | \$34,961 |
| Accrued compensation and other liabilities | 36,081 | 24,582 |
| Deferred revenue | 105,276 | 9,797 |
| Total current liabilities | 198,044 | 69,340 |
| Long-term liabilities: | | |
| Deferred compensation | 1,395,841 | 1,379,522 |
| Total liabilities | 1,593,885 | 1,448,862 |

Commitments and Contingencies

Shareholders' equity

| | | |
|--|-----------------|-----------------|
| Common Stock, no par value; 19,000,000 shares authorized; 11,103,367 shares issued and outstanding | 14,333,258 | 14,333,258 |
| Contributed capital | 1,519,393 | 1,246,864 |
| Accumulated (deficit) | (10,921,321) | (10,491,046) |
| Shares held for employee benefit (1,129,110 shares at cost) | (273,600) | (273,600) |
| Total Shareholders' equity | 4,657,730 | 4,815,476 |
| Total liabilities and Shareholders' equity | \$6,251,615 | \$6,264,338 |

See accompanying notes to financial statements.

Condensed Statements of Operations**For the Three Months Ended October 31, 2011 and 2010****(Unaudited)**

| | 2011 | 2010 |
|---|--------------|------------|
| Revenues: | | |
| OptiChem® revenues | \$ 12,008 | \$ 11,883 |
| Technical Development Fees | 140,000 | 210,000 |
| Product Licensing Fees | 50,000 | — |
| Qualified Therapeutic Discovery Grant | — | 244,479 |
| Total revenues | 202,008 | 466,362 |
| Costs and expenses: | | |
| Research and development | 104,162 | 111,050 |
| General and administrative | 458,983 | 235,567 |
| Amortization | 64,087 | 63,179 |
| Marketing and sales | 4,170 | 5,993 |
| Depreciation | 515 | 599 |
| Total costs and expenses | 631,917 | 416,388 |
| Income(Loss) from operations | (429,909) | 49,974 |
| Other income (loss): | | |
| Interest and dividend income | 4,003 | 3,447 |
| Unrealized gain (loss) on investments | (4,368) | 13,829 |
| Total other income (loss) | (365) | 17,276 |
| Net Income(loss) | \$(430,274) | \$67,250 |
| Net loss per share: | | |
| Basic and diluted net income (loss) per share | \$(0.04) | \$0.01 |
| Weighted average shares outstanding | 11,103,367 | 10,757,317 |

See accompanying notes to financial statements

Accelr8 Technology Corporation**Condensed Statements of Cash Flows****For the Three Months Ended October 31, 2011 and 2010****(Unaudited)**

| | 2011 | 2010 |
|---|-------------|-----------|
| Cash flows from operating activities: | | |
| Net Income(loss) | \$(430,274) | \$67,250 |
| Adjustments to reconcile net (loss) to net cash (used in) operating activities: | | |
| Depreciation | 515 | 599 |
| Amortization | 64,087 | 63,179 |
| Fair value of stock options granted for services | 272,529 | 8,654 |
| Unrealized holding (gain) loss on investments | 4,368 | (13,829) |
| (Increase) decrease in assets: | | |
| Accounts receivable | (165,748) | (248,750) |
| Inventory | — | (300) |
| Prepaid expense and other | 9,830 | 8,343 |
| Increase (decrease) in liabilities: | | |
| Accounts payable | 21,726 | 32,043 |
| Accrued liabilities | 11,499 | 10,790 |
| Deferred revenue | 95,479 | (4,077) |
| Deferred compensation | 16,319 | 34,058 |
| Net cash (used in) operating activities | (99,670) | (42,040) |
| Cash flows from investing activities: | | |
| Purchase Investments | (1,938) | (1,527) |
| Purchases of equipment and patent costs | (14,263) | (17,212) |
| Contribution to Deferred Compensation Trust | (75,000) | — |
| Net cash (used in) investing activities | (91,201) | (18,739) |
| Decrease in cash and cash equivalents | (190,871) | (60,779) |
| Beginning balance | 775,856 | 283,273 |
| Ending balance | \$584,985 | \$222,494 |

See accompanying 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, 2011 included in our Annual Report on Form 10-K, as amended, as filed with the SEC on October 27, 2011.

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, 2011 may not be indicative of the results of operations for the fiscal year ended July 31, 2012.

Note 2. Summary of Significant Accounting Policies

Use of Estimates

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

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash equivalents 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 \$250,000. At October 31, 2011 and 2010, the Company's uninsured cash balance was approximately \$105,104 and \$0, respectively. The Company grants credit to domestic and international clients in various industries. Exposure to losses on accounts receivable is principally dependent on each customer's financial position. The Company performs ongoing credit

evaluations of its customer's 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 October 31, 2011 and 2010. 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.

Income Taxes

The Company has no unrecognized tax benefits. Should the Company determine that any penalty and interest be accrued as a result of current or future tax positions taken on its returns, such penalties and interest will be accrued in its financial statements as other non-interest expense and as interest expense during the period in which such determination is made.

The Company files federal and state income tax returns. These returns are subject to examination by taxing authorities for all tax years after 2007.

Note 3. Recently Issued Accounting Pronouncements

In October 2009, the FASB issued ASU-2009-13, *Multiple-Deliverable Revenue Arrangements*. We adopted this standard on August 1, 2010 for revenue arrangements entered into or materially modified after that date. The standard requires an allocation of revenue among separate deliverables using the relative fair value method. The adoption of this standard did not have a material effect on the financial statements for the year ended July 31, 2011.

In June 2011, the FASB issued new accounting standards which require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income, or in two separate but consecutive statements. The new accounting rules eliminate the option to present components of other comprehensive income as part of the statement of changes in shareholders' equity. The new accounting rules will be effective for the Company in fiscal 2013. The Company does not expect the adoption of the new accounting rules to have a material effect on the Company's financial condition or results of operations.

Note 4. Intellectual Property

Intellectual property consisted of the following:

| | October 31, 2011 | July 31, 2011 |
|-----------------------------|---------------------|---------------|
| OptiChem® Technologies | \$4,454,538 | \$4,454,538 |
| Patents | 619,056 | 604,792 |
| Trademarks | 49,018 | 49,018 |
| Total intellectual property | 5,122,612 | 5,108,348 |
| Accumulated amortization | (2,384,426) | (2,320,339) |
| Net intellectual property | \$2,738,186 | \$2,788,009 |

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 \$64,087 and \$63,179, respectively, for the three months ended October 31, 2011 and 2010.

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 5. Research and Option Agreement and License and Supply Agreements

The Company originally signed a licensing agreement for microarraying slides using OptiChem® coatings with Schott Jenaer Glas GmbH ("SCHOTT") on November 4, 2004. Since this time, SCHOTT and the Company have extended this license. On August 15, 2011 Schott Technical Glass Solutions GmbH (Jena, Germany) renewed and expanded its licenses for OptiChem® microarray slide products, designated as Schott Nexterion Slide H and Slide HS. The terms remain substantially the same as in previous agreements, with the expansion to include microarray slide products intended for use in medical diagnostic devices. Previous agreements excluded medical applications. This expansion makes Schott the second company that intends to use OptiChem® coatings on medical devices with the other Company being Nanosphere.

The new agreement extends the non-exclusive license through November 24, 2014. Schott paid the Company \$150,000, with \$50,000 being a one time license fee and \$100,000 being nonrefundable prepaid royalties. Royalties consist of 5% of Schott's net product sales. For medical applications, Schott agrees to refer individual customers directly to Accelr8 for licensing if annual purchases by a customer exceed 20,000 units.

On October 5, 2007, the Company additionally entered into an exclusive seven year license with NanoString Technologies, Inc. ("NanoString"). The license grants NanoString the right to apply OptiChem® coatings to NanoString's proprietary molecular detection products.

On June 14, 2010 the Company entered into an Evaluation Agreement and Letter of Intent with Novartis for a technical evaluation project with the Company's BACcel™ rapid diagnostic technology. The agreement includes a first right of refusal option for the diagnostics company to license the BACcel™ technology and commercialize clinical diagnostics instruments using Accelr8's technology. Under the agreement, Accelr8 received initial payments of \$220,000 during the fiscal year ended July 31, 2010 and continued to receive monthly funding during the period of data evaluation. Since the initial agreement, there were three amendments to the Letter of Intent extending the evaluation period to September 30, 2011. The evaluation agreement with Novartis expired on September 30, 2011 without Novartis exercising its option for licensing the Company's BACcel™ system intellectual property. During the fiscal years ended July 31, 2011 and 2010, total revenues from Novartis were \$842,408 and \$290,000, respectively or 75.1% and 12.9% of total revenues.

On July 9, 2010, the Company entered into a non-exclusive patent-life OptiChem® license with Nanosphere, Inc. The license grants to Nanosphere the right to apply OptiChem® coatings to Nanosphere's proprietary analytical products. The products may include FDA-regulated diagnostics devices, unlike the other current licensees. Pursuant to the license agreement, Nanosphere paid the Company a nonrefundable first-year fee of \$150,000 plus a \$15,000 technology transfer fee. On each anniversary of the agreement date, Nanosphere will pay to the Company the amounts of \$350,000 in 2011; \$600,000 in 2012, and \$750,000 in 2013 in order to complete the payments for rights under the remaining patent life. Pursuant to the Company's revenue recognition policy and generally accepted accounting policies, all of the amounts due from Nanosphere have been recognized as OptiChem® revenue during the fiscal year ended July 31, 2010. During the fiscal years ended July 31, 2011 and 2010, total revenues from Nanosphere were \$0 and \$1,842,596, respectively or 0% and 82.05% of total revenues.

Note 6. Employee Stock Based Compensation

On October 31, 2011, there were Common Stock options outstanding at prices ranging from \$0.73 to \$4.50 with expiration dates between October 3, 2011 and December 11, 2017. For the three months ended October 31, 2011 and 2010, stock options exercisable into 985,000 and 1,010,000 shares of Common Stock, respectively, were not included

in the computation of diluted earnings per share because their effect was antidilutive.

For the quarters ended October 31, 2011 and 2010, the Company accounted for the compensation cost related to awards of stock options and other equity-based instruments to its employees, directors and consultants based on the fair value of the instrument on the grant date, and recognized this cost over the requisite service period. During the quarter ended October 31, 2011, the Company issued 2-year options to purchase at total of 235,000 common shares at \$2.69 per share.

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 three months ended October 31, 2011 and 2010: no dividend yield; risk free interest rate of 1.00% to 4.5%; expected life of 3-10 years; and expected volatility of 44% to 119%. The weighted average remaining contractual life of options outstanding at October 31, 2011 and 2010 was 2.67 and 4.40 years, respectively.

As of October 31, 2011, there was no unrecognized share-based compensation cost related to unvested stock options. For the three-month period ended October 31, 2011 and 2010 the Company recognized \$272,529 and \$8,654, respectively in stock based compensation costs related to the issuance of stock options to employees.

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

Forward Looking Information

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

The forward-looking statements included herein are based on current expectations that involve a number of risks and uncertainties. These forward-looking statements are based on assumptions that the Company will retain key management personnel, the Company will be successful in the development of the BACcel™ system, the Company will obtain sufficient capital to complete the development of the BACcel™ system, the Company will find a long term strategic partner to assist in developing, manufacture and taking the BACcel™ system to market, 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 condensed financial statements and related notes included elsewhere herein. The Company's future operating results may be affected by various trends

and factors which are beyond the Company's control. These include, among other factors, general public perception of issues and solutions, and other uncertain business conditions that may affect the Company's business. The Company cautions the reader that a number of important factors discussed herein, and in other reports, filed with the Securities and Exchange Commission including but not limited to the risks in the section entitled "Risk Factors" are in its Form 10-K for the fiscal year ended July 31, 2011, could affect the Company's actual results and cause actual results to differ materially from those discussed in forward-looking statements.

Overview

Our vision is to develop and commercialize an innovative, integrated system to rapidly identify bacteria and their mechanisms of antibiotic resistance in critically ill patients. Our business strategy for primary products in vertical markets is to prove the validity of our technology and recruit an industry leader as a commercial partner or licensee. We also plan to spin off specific OEM technology components through additional licensed applications that do not compete with our platform licensees.

We envision our continuing role as licensor and alliance partner as one of leading the technical development of new technology, validating the application methods, expanding platform applications, and integrating additional capabilities into our proprietary platforms.

Since 2007, we have focused our efforts on the development of an innovative rapid diagnostic platform, the BACcel™ system, intended for rapid diagnosis in life-threatening bacterial infections. Our goal is to reduce the failure rate of initial therapy by shortening the lab turnaround time to less than 8 hours, rather than the 2-3 days now required. Rapid testing would provide guidance in time to influence initial therapy.

The BACcel™ system applies our proprietary technology to eliminate time-consuming bacterial culturing, thus eliminating the major source of delay with current testing methods. Proprietary technologies include our patented analytical methods, and our patented OptiChem® surface coatings. The BACcel™ system includes a fixed instrument and proprietary single-use (disposable) test cassettes. Each cassette tests a single patient specimen and then must be discarded.

The BACcel™ system uses long-accepted bacteriological testing principles, but applies our proprietary technology to adapt them to analyze live bacteria extracted directly from a patient specimen. The instrumentation uses an automated digital microscope to measure the responses of extracted live bacterial cells to various test conditions. The system analyzes thousands of these individual cells to arrive at organism identification and antibiotic resistance characteristics.

Based on data obtained during development, Management believes that the BACcel™ 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. Management believes that the BACcel™ system 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 is to narrow the drug choices available for initial therapy by rapidly reporting presumptive identification and major resistance types, thus ruling out antibiotic classes that are most likely to fail.

Management believes that the BACcel™ system is the only new diagnostic technology under development that will address a clinically adequate range of species and antibiotic resistance mechanisms needed to help manage critical infectious diseases. Management also believes that other rapid technologies, such as gene detection, are better suited to screening non-infected carriers of a small number of species and resistance mechanisms, but are too limited to compete with the BACcel™ platform for managing infected patients.

During the quarter ended October 31, 2011, the Company applied the latest prototype version of the automated BACcel™ system to define technical specifications needed for produce design and market launch in international clinical markets and research markets in the US.

Preliminary analysis of data in a prospective pilot clinical study at Denver Health revealed positive results that the principle investigators presented in May 2011 at a major medical congress. This study continues under Institutional Review Board authorization and patient informed consent. In it, the investigators examine a series of new respiratory specimens acquired from ICU patients started on mechanical ventilation. They compare results from BACcel™ rapid analysis with those standard cultures performed on portions of the same specimens. The study's purpose is to assess BACcel™ analytical accuracy and speed when used as intended for an important medical application. The study also has an objective to assess whether repeated monitoring, pre-symptomatic, and rapid analysis affects treatment decisions if a patient begins to exhibit symptoms of infection. Accelr8 also began to expand the diagnostic scope of the BACcel™ system with studies on additional specimen types and medical indications. In particular, the company began studies for rapid analysis of positive blood cultures. Feasibility studies showed that the BACcel™ system has the potential to reduce the typical 3-4 day turnaround time for cultures to second-day results. In addition, the company demonstrated feasibility for an innovative specimen preparation method that can reduce specimen handling time from 45 minutes to 10 minutes. The new BAC-Xtrax™ technology can be fully automated and integrated into the BACcel™ system for full “specimen-to-answer” performance. The BAC-Xtrax™ technology could also enable a stand-alone product for hospital and research labs.

On June 14, 2010 the Company entered into an Evaluation Agreement and Letter of Intent with Novartis for a technical evaluation project with the Company's BACcel™ rapid diagnostic technology. The agreement includes a first right of refusal option for the diagnostics company to license the BACcel™ technology and commercialize clinical diagnostics instruments using Accelr8's technology. Under the agreement, Accelr8 received initial payments of \$220,000 during the fiscal year ended July 31, 2010 and will continue to receive monthly funding until completion of data evaluation. Since the initial agreement, there were three amendments to the Letter of Intent extending the evaluation period to September 30, 2011. The evaluation agreement with Novartis expired on September 30, 2011 without Novartis exercising its option for licensing the Company's BACcel™ system intellectual property. The Company intends to continue to seek a long term strategic partner to assist in developing, manufacture and taking the BACcel™ system to market.

Subject to the receipt of capital, during the fiscal year ending July 31, 2012 we intend to continue technical validation of the BACcel™ system methods, continue field studies including pilot clinical studies at Denver Health and Barnes-Jewish Hospital, continue to publish the results of internal and collaborative studies, and seek a strategic partner or licensee for BACcel™ product commercialization.

Recently Issued Accounting Pronouncements

In October 2009, the FASB issued ASU-2009-13, *Multiple-Deliverable Revenue Arrangements*. We adopted this standard on August 1, 2010 for revenue arrangements entered into or materially modified after that date. The standard requires an allocation of revenue among separate deliverables using the relative fair value method. The adoption of this standard did not have a material effect on the financial statements for the year ended July 31, 2011.

In June 2011, the FASB issued new accounting standards which require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income, or in two separate but consecutive statements. The new accounting rules eliminate the option to present components of other comprehensive income as part of the statement of changes in shareholders' equity. The new accounting rules will be effective for the Company in fiscal 2013. The Company does not expect the adoption of the new accounting rules to have a material effect on the Company's financial condition or results of operations.

Changes in Results of Operations: Three months ended October 31, 2011 compared to three months ended October 31, 2010

During the three months ended October 31, 2011, OptiChem® royalty revenues were \$12,008 as compared to \$11,883 during the three month period ended October 31, 2010, an increase of \$125, or 1.05%. The increase was a result of licensing of OptiChem® technology to Nanosphere, one of Schott's principal customers for the Optichem technology and the resulting reduction in royalty income from Schott.

Technical development fees during the three-month period ended October 31, 2011 were \$140,000 as compared to \$210,000 during the three-month period ended October 31, 2010, a decrease of 70,000 or 33.33%. The technical development fees during the fiscal year ended July 31, 2011 and 2010 were the result of the development agreement with Novartis that began in June of 2010 and that ended during the three months ended October 30, 2011.

During the period ended October 31, 2010, we applied for and were notified of acceptance for the Qualified Therapeutic Discovery Grant. Our original submission disclosed eligible expenditures subject to the grant which were certified in the amount of \$488,958. The grant awarded 50% of the certified expenditures and grant funds totaling \$244,479 have been recorded as income. Grant income was not earned during the three months ended October 31, 2011.

Research and development expenses for the three months ended October 31, 2011 were \$104,162 as compared to \$111,050 during the three months ended October 31, 2010, a decrease of \$6,888 or 6.2%. The decrease was primarily the result of decreases in lab supplies, consulting, and clinical trial expenditures of approximately \$15,000 with increases of approximately \$7100 in salaries and vacation accruals.

During the three months ended October 31, 2011, general and administrative expenses were \$458,983 as compared to \$235,567 during the three-month period ended October 31, 2010, an increase of \$223,416 or 94.8%. The increase was primarily the result of stock based compensation charges of \$272,529.

The increase in amortization was negligible for the three months ended October 31, 2011 as compared to the three-month period ended October 31, 2010.

Marketing and sales expenses for the three months ended October 31, 2011 were \$4,170 as compared to \$5,993 during the three months ended October 31, 2010. The decrease was primarily due to travel related costs in connection with industry conferences and visiting technological development partners.

Depreciation for the three months ended October 31, 2011 was \$515 as compared to \$599 during the three months ended October 31, 2010, a decrease of \$84 or 14%. The decreased depreciation was the result of the increased age of assets.

As a result of the above factors, loss from operations for the three months ended October 31, 2011 was \$429,909 as compared to income of \$49,974 during the three months ended October 31, 2010, a decrease in income of \$479,883.

Interest and dividend income during the three months ended October 31, 2011 was \$4,003 as compared to \$3,447 during the three months ended October 31, 2010 an increase of \$556 or 16.1%. Interest income increased as a result of the recognition of interest imputed related to our long term accounts receivable.

Unrealized holding gain/(loss) on investments held in the deferred compensation trust for the three months ended October 31, 2011 was \$4,368 as compared to a gain of \$13,829 for the three months ended October 31, 2010, a decrease of \$18,197 or 131.5%. The change was a result of decreased value of the underlying securities and general market conditions.

As a result of these factors, net loss for the three months ended October 31, 2011 was \$430,274 as compared to net income of \$67,250 during the three months ended October 31, 2010, a decrease in income of \$497,524.

Capital Resources and Liquidity

During the three months ended October 31, 2011, we did not generate positive cash flows from operating activities.

The Company has historically funded its operations generally through its existing cash balances, cash flow generated from operations and sales of equity securities. Our primary use of capital has been for the research and development of the BACcel™ system and general and administrative expenses.

Notwithstanding our investments in research and development, there can be no assurance that the BACcel™ 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. 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.

At October 31, 2011, as compared to July 31, 2011, cash and cash equivalents decreased by \$190,871 from \$775,856 to \$584,985, or approximately 24.6% and the Company's working capital increased \$364,351 or 44.2% from \$824,344 to \$1,118,695. During the same period, shareholders' equity decreased from \$4,815,476 to \$4,657,730 as a result of our net loss during the three months ended October 31, 2011.

The net cash used in operating activities was \$99,670 during the three months ended October 31, 2011 compared to net cash used in operating activities of \$42,040 during the three months ended October 31, 2010. The principal elements that gave rise to the increase in net cash used in operating activities were primarily the result of decreased revenues from technical development fees of \$70,000 and the fact that the Company received grant funds during the three months ended October 31, 2010 and it did not receive during the three months ended October 31, 2011.

Cash used by investing activities during the three months ended October 31, 2011 was \$190,871. The cash used by investing activities was the result additional patent expenditures.

Management believes that current cash balances plus cash flow from operations will be sufficient to fund our capital and liquidity needs for the next twelve months given the new licensing and deferred revenue agreement with SCHOTT totaling \$150,000.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk

The Company's interest income is sensitive to fluctuations in the general level of U.S. interest rates. As such, changes in U.S. interest rates affect the interest earned on the Company's cash, cash equivalents, and short-term investments.

Item 4. 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 defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act"). Based on that evaluation, Mr. Geimer concluded that as of October 31, 2011, 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. Mr. Geimer also confirmed that there was no change in the Company's internal control over financial reporting during the quarter ended October 31, 2011.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

Not Applicable.

Item 1A. Risk Factors.

Not Applicable.

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

Not Applicable.

Item 3. Defaults Upon Senior Securities.

Not applicable.

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

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

| Exhibit No. | Description |
|-------------|--|
| 31.1 | Certification of Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

* Portions of these exhibits have been omitted and filed separately with the Office of the Secretary of the Securities and Exchange Commission pursuant to a confidential treatment request.

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 14, 2011 ACCEL8 TECHNOLOGY CORPORATION

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

/s/ Bruce H. McDonald
Bruce H. McDonald, Principal
Accounting Officer