

Edgar Filing: ACCEL8 TECHNOLOGY CORP - Form 10QSB

ACCEL8 TECHNOLOGY CORP
Form 10QSB
December 17, 2007

Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-QSB

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

For the quarterly period ended October 31, 2007

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

For the transition period from _____ to _____

Commission file number 0-11485

ACCEL8 TECHNOLOGY CORPORATION

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

COLORADO

(State or other jurisdiction of
incorporation or organization)

84-1072256

(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 No

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

| Class | Outstanding at December 1, 2007 |
|-------------------------------------|---------------------------------|
| ----- Common Stock, no par value | ----- 9,971,210 |

INDEX

| | Page |
|---|------|
| PART I. FINANCIAL INFORMATION | |
| Item 1. Financial Statements | |
| Condensed Balance Sheets | 3 |
| October 31, 2007 (unaudited) and July 31, 2007 | |
| Condensed Statements of Operations | 4 |
| for the three months ended October 31, 2007 | |
| and 2006 (unaudited) | |
| Condensed Statements of Cash Flows | 5 |
| for the three months ended October 31, 2007 | |
| and 2006 (unaudited) | |
| Notes to Unaudited Condensed Financial Statements | 6 |
| Item 2. Management's Discussion and Analysis of | 12 |
| Financial Condition and Results of Operations | |
| Item 3. Controls and Procedures | 14 |
| PART II. OTHER INFORMATION | |
| Item 1. Legal Proceedings | 14 |
| Item 2. Unregistered Sales of Equity Securities and | |
| Use of Proceeds | 14 |
| Item 3. Defaults Upon Senior Securities | 14 |
| Item 4. Submission of Matters to a Vote of Security Holders | 15 |
| Item 5. Other Information | 15 |
| Item 6. Exhibits and Reports on Form 8-K | 15 |
| SIGNATURES | 15 |
| CERTIFICATION OF OFFICERS | |

-2-

| |
|-------------------------------|
| PART I. FINANCIAL INFORMATION |
| Item 1. Financial Statements |

Edgar Filing: ACCEL8 TECHNOLOGY CORP - Form 10QSB

 Accelr8 Technology Corporation
 Condensed Balance Sheets

ASSETS

| | October 31, 2007 (Unaudited) |
|---|---------------------------------|
| Current assets: | |
| Cash and cash equivalents | \$ 1,027,129 |
| Accounts receivable | 0 |
| Inventory | 108,214 |
| Prepaid expenses and other current assets | 13,289 |
| | ----- |
| Total current assets | 1,148,632 |
| Property and equipment, net | 91,744 |
| Investments, net | 1,139,866 |
| Intellectual property, net (Note 3) | 3,446,511 |
| | ----- |
| Total assets | \$ 5,826,753 ===== |

LIABILITIES AND SHAREHOLDERS' EQUITY

| | |
|--|-----------------------|
| Current liabilities: | |
| Accounts payable | \$ 115,815 |
| Accrued compensation and other liabilities | 41,602 |
| Deferred revenue | 99,388 |
| | ----- |
| Total current liabilities | 256,805 |
| Long-term liabilities: | |
| Deferred compensation | 1,158,616 |
| | ----- |
| Total liabilities | 1,415,421 ----- |
| Commitments and Contingencies | |
| Shareholders' equity | |
| Common stock, no par value; 14,000,000 shares authorized; 9,971,210 shares issued and outstanding | 12,878,020 |
| Contributed capital | 653,529 |
| Accumulated (deficit) | (8,846,617) |
| Shares held for employee benefit (1,129,110 shares at cost) | (273,600) |
| | ----- |
| Total shareholders' equity | 4,411,332 ----- |
| Total liabilities and shareholders' equity | \$ 5,826,753 ===== |

Edgar Filing: ACCEL8 TECHNOLOGY CORP - Form 10QSB

Accelr8 Technology Corporation
 Condensed Statements of Operations
 For the three months ended October 31, 2007 and 2006
 (Unaudited)

| | 2007 |
|---|--------------|
| | ---- |
| Revenues: | |
| OptiChem(R) revenues | \$ 14,584 |
| Technical consulting revenues | 0 |
| License Fees (Note 4) | 50,000 |
| | ----- |
| Total revenues | 64,584 |
| | ----- |
| Costs and expenses: | |
| Research and development | 269,067 |
| General and administrative | 251,067 |
| Amortization (Note 3) | 60,046 |
| Marketing and sales | 6,512 |
| Depreciation | 15,075 |
| Cost of sales - OptiChem(R) | 1,313 |
| | ----- |
| Total costs and expenses | 603,080 |
| | ----- |
| Loss from operations | (538,496) |
| | ----- |
| Other income (expense): | |
| Interest and dividend income | 23,666 |
| Unrealized gain (loss) on investments | 26,352 |
| Other income | 1,354 |
| | ----- |
| Total other income | 51,372 |
| | ----- |
| Net (Loss) | \$ (487,124) |
| | ===== |
| Net (loss) per share: | |
| Basic and diluted net (loss) per share, basic and diluted | \$ (.05) |
| | ===== |
| Weighted average shares outstanding | 9,971,210 |
| | ===== |

Edgar Filing: ACCEL8 TECHNOLOGY CORP - Form 10QSB

Accelr8 Technology Corporation
 Condensed Statements Of Cash Flows
 For the Three months Ended October 31, 2007 and 2006
 (Unaudited)

| | 2007 |
|--|--------------|
| | ---- |
| Cash flows from operating activities: | |
| Net (loss) | \$ (487,124) |
| Adjustments to reconcile net (loss) to net cash (used in) operating activities: | |
| Depreciation | 15,075 |
| Amortization | 60,045 |
| Fair value of stock options granted for services | 18,249 |
| Unrealized holding (gain) loss on investments and reinvested earnings | (26,352) |
| (Increase) decrease in assets: | |
| Accounts receivable | 5,625 |
| Inventory | (359) |
| Prepaid expense and other | 11,177 |
| Increase (decrease) in liabilities: | |
| Accounts payable | 51,216 |
| Accrued liabilities | 9,216 |
| Deferred revenue | 41,041 |
| Deferred compensation | 45,104 |
| | ----- |
| Net cash (used in) operating activities | (257,087) |
| | ----- |
| Cash flows from investing activities: | |
| Patent Costs | (34,453) |
| Contribution to deferred compensation trust | (75,000) |
| | ----- |
| Net cash (used in) provided by investing activities | (109,453) |
| | ----- |
| Decrease in cash and cash equivalents | (366,540) |
| Beginning balance | 1,393,669 |
| | ----- |
| Ending balance | \$ 1,027,129 |
| | ===== |

Edgar Filing: ACCEL8 TECHNOLOGY CORP - Form 10QSB

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, 2007, 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, 2007 may not be indicative of the results of operations for the year ended July 31, 2008.

Reclassifications

Certain reclassifications have been made to the quarter end October 31, 2006 financial statements to conform to the quarter end October 31, 2007 financial statement presentation. Such reclassifications have no effect on financial position or net loss as previously reported.

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

-6-

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, 2007 and 2006. The carrying value of all other financial instruments potentially subject to valuation risk, principally consisting of accounts receivable and accounts payable, also approximate fair value.

Note 3. Intellectual Property

Intellectual property consisted of the following:

Edgar Filing: ACCEL R8 TECHNOLOGY CORP - Form 10QSB

| | October 31, 2007 | July 31, 2007 |
|-----------------------------|------------------|---------------|
| | ----- | ----- |
| OptiChem(R) Technologies | \$ 4,454,538 | \$ 4,454,538 |
| Patents | 328,444 | 293,991 |
| Trademarks | 49,019 | 49,019 |
| | ----- | ----- |
| Total intellectual property | 4,832,001 | 4,797,548 |
| Accumulated amortization | (1,385,490) | (1,325,445) |
| | ----- | ----- |
| Net intellectual property | \$ 3,446,511 | \$ 3,472,103 |
| | ===== | ===== |

Intellectual properties are recorded at cost and are being amortized on a straight-line basis over their estimated useful lives of 20 years, which approximates the patent and patent application life of the OptiChem(R) technologies. Amortization expense was \$60,045 and \$60,046, respectively, for the three months ended October 31, 2007 and 2006.

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.

-7-

Note 4. License and Supply Agreements

On November 24, 2004 the Company entered into an exclusive two year manufacturing and marketing agreement with SCHOTT Jenaer Glas (GMBH) of Jena Germany for OptiChem(R) coated amine-reactive slides (Slide H). SCHOTT subsequently exercised an optional one-year non-exclusive extension, which expired on November 23, 2007.

The Company granted a second royalty-bearing license to SCHOTT for streptavidin slides (Slide HS) for two years that expires on December 31, 2008.

The Company entered into an exclusive seven-year license with NanoString Technologies Inc. on October 5, 2007. The license grants to NanoString the right to apply OptiChem(R) coatings to NanoString's proprietary molecular detection products. Pursuant to the license agreement, NanoString paid the Company a non-refundable fee of \$100,000 of which \$50,000 was credited against future royalties. Under the royalty-bearing license, NanoString is to pay the Company a royalty at the rate of eight percent (8%) of net sales for sales up to \$500,000 of NanoString licensed products. The royalty rate on the second \$500,000 of net sales is six percent (6%), and the royalty thereafter is four percent (4%).

-8-

Edgar Filing: ACCEL R8 TECHNOLOGY CORP - Form 10QSB

Note 5. Employee Stock Based Compensation

Common Stock Options On October 31, 2007, there were 987,500 stock options outstanding at prices ranging from \$1.45 to \$3.20 with expiration dates between January 18, 2008 and March 16, 2017. For the three months ended October 31, 2007 and 2006, stock options exercisable into 987,500 and 947,500 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, 2007 and 2006, the company accounted for stock based compensation to employees and directors using 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 are no longer an alternative to financial statement recognition. 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 effective date will be recognized as compensation expense as the requisite service is rendered after the required effective date.

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 quarter ended October 31, 2007 and 2006: no dividend yield; risk free interest rate of 5.0%; expected life of 3-4 years; and expected volatility of 64% and 52%. The weighted average remaining contractual life of options outstanding at October 31, 2007 and 2006 was 4.11 and 4.76 years. The consulting expense related to stock options for the quarter ended October 31, 2007 and 2006 were \$18,249 and \$7,461 as follows:

| | 2007 | 2006 |
|---|----------|----------|
| | ---- | ---- |
| New grants for quarter ended October 31, 2007 | \$ 8,402 | \$ 274 |
| Prior grants | 9,847 | 7,187 |
| | ----- | ----- |
| Total | \$18,249 | \$ 7,461 |
| | ===== | ===== |

-9-

Note 6. Subsequent Events

On November 24, 2007 the Company entered into a three-year non-exclusive renewal license agreement with SCHOTT for Slide H application of OptiChem(R) amine-reactive coatings. 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. Under the royalty-bearing license, SCHOTT is to pay the Company a royalty at the rate of six percent (6%) of net sales of Licensed Products with a maximum royalty payment of \$150,000 (including the \$50,000 non-refundable minimum paid in advance).

Edgar Filing: ACCEL8 TECHNOLOGY CORP - Form 10QSB

As of December 13, 2007 the Company entered into an exclusive right to negotiate for a business relationship with Becton, Dickinson & Company (NYSE: BDX) to develop the BACcel(R) rapid diagnostic platform. The right grants an exclusive discussion period through March 31, 2008 for consideration of \$100,000.

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 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(R) system, the Company will have sufficient capital to complete the development of the BACcel(R) system, 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

-10-

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 the risks in the section entitled "Risk Factors" its 10-KSB for the year ended July 31,

Edgar Filing: ACCEL8 TECHNOLOGY CORP - Form 10QSB

2007, 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 diagnostic system for use with critically ill patients for rapid identification of bacteria and specific strains based on the presence of major antibiotic resistance mechanisms. Our business strategy is to demonstrate the value of our technology in the broad market for biomedical products with the intent of licensing our proprietary technology to established market leaders.

We are developing the BACcel(R) system, a rapid bacterial strain identification analyzer, by integrating our proprietary technologies into an automated system. Proprietary technologies include OptiChem(R) surface coatings, and various innovative assay processing methods. We have received patents or we have patent applications pending for the major technology components, methods, and systems.

The BACcel(R) system development project began with a number of innovative analytical biological concepts that had no direct precedent, even though based on familiar microbiological testing principles. Until now, these accepted principles have only been applied to cultures that contain hundreds of millions of bacteria descended from single organisms, hand-selected as cultured colonies grown from a patient specimen.

The BACcel(R) system is based on a simple transformation of standard methods, using advanced automation technology to achieve substantially better performance than is possible with current testing methods. We believed that speed and precision should be possible by analyzing, as individuals, many thousands of cells extracted directly from the patient specimen. This contrasts with standard culturing in which the descendants of fewer than ten cells are presumed to represent the entire infectious bacterial population in a specimen, and with which many hours of repeated growth are required to perform analyses. Typically, initial testing requires 2-3 days, which is too late to help the physician make treatment decisions for critically infected patients. As a result, initial therapy typically proves inadequate in 20% to 40% of such cases, causing high mortality, serious medical complications, and extended length of stay.

-11-

Published studies on ICU patients consistently show that a hospital-acquired infection doubles the risk of mortality and complications. Infection with a multi-resistant organism quadruples risks relative to comparable un-infected patients. The most important reason for elevated risk is inadequate initial therapy.

We intend the BACcel(R) system to report bacterial quantitation and identification within 2 hours of patient specimen processing. We plan to augment the first reported identification with additional strain identification based on the presence of major antibiotic resistance mechanisms. We believe that resistance mechanism identification will require no more than 4 additional hours of testing, with some results becoming available more quickly than others.

The purpose of this strategy is to narrow the drug choices for initial therapy by identifying major resistance mechanisms that are likely to cause drugs to fail. If successful, this approach would help the physician to subtract ineffective drugs from the list of available drugs, leaving those that are most likely to benefit the patient.

Edgar Filing: ACCEL R8 TECHNOLOGY CORP - Form 10QSB

For example, the first report might state that a significant number of common "Staph" is present in a patient specimen, likely causing a patient's infection. The second report might then state that all of the organisms fall into a major antibiotic resistance group known as "MRSA" (methicillin resistant Staphylococcus aureus, often referred to as "superbugs" in news reports because of their multiple drug resistance). This identification eliminates from consideration the most important drugs preferred for treating Staph infections, such as drugs related to penicillin.

The second report would include the identification of additional important resistance mechanisms that might similarly rule out the next most important drugs, such as drugs related to erythromycin. In this way, we believe that the BACcel(R) system will systematically test for the most significant resistance mechanisms. This would leave the physician with specific drug choices that are most likely to prove effective. From these, the physician would then be able to hold in reserve those drugs considered "salvage" or "last choice" drugs. This approach of reserving drugs helps to delay the emergence of resistance for the few drugs still available to treat highly resistant strains.

Without specific guidance, the physician now has no choice but to use these reserved drugs to assure initial infection control but accelerating their loss of effectiveness over time.

Popular news media have reported widely about MRSA as a multi-resistant "superbug." However, organizations such as the CDC (US Centers for Disease Control and Prevention) and IDSA (Infectious Diseases Society of America) have also identified other multi-drug resistant organisms as presenting even greater threats. They include the genera of Pseudomonas, Acinetobacter, and Klebsiella.

-12-

In the hospital ICU, MRSA typically causes no more than about 30% of mortality from acquired infections. The other organisms just listed, along with highly resistant E. coli, account for much higher percentage. In addition, Acinetobacter acquired during medical treatment has been a particular problem with wounded personnel in the Middle East.

To the best of management's knowledge, based on outside opinions and direct market research, Accelr8 is the only organization in the world to be developing a rapid diagnostic solution, and one that includes these organisms. Management is aware of no other organization that addresses this range of organisms and strain types.

To date, we have established the functional requirements of the BACcel(R) platform. We have begun testing the specific analyses required in the BACcel(R) system and published the results at major scientific and clinical conferences. We have been guided by leading medical experts in our development strategy and product design.

During the next twelve months, the Company intends to expand its experimental data to characterize and validate test performance to be used in future versions of the BACcel(r) system. In addition, we expect to further define requirements for a commercial research product in advance of clinical product development.

In addition to BACcel(R) system development, we have developed and independently licensed OptiChem(R) surface coatings to other companies for use in microarraying and other molecular detection products. We have granted Schott Jenaer Glas GmbH, which is a global leader in high-quality glass manufacturing,

Edgar Filing: ACCEL R8 TECHNOLOGY CORP - Form 10QSB

a non-exclusive license to manufacture and market microarraying slides using OptiChem(R) coatings. We have also licensed NanoString Technologies Inc. to use OptiChem(R) in their innovative molecular bar-coding systems for high-sensitivity gene expression analysis.

Changes in Results of Operations: three months ended October 31, 2007 compared to three months ended October 31, 2006.

OptiChem(R) revenues during the three month period ended October 31, 2007 were \$14,584 as compared to \$34,219 during the three month period ended October 31, 2006, a decrease of \$19,635 or 57.4%. This decrease was the result of a decrease in slide sales to SCHOTT. OptiChem(R) revenues for the three months ended October 31, 2007 were 22.6% of total revenues and 60.9% of total revenues for the three months ended October 31, 2006.

OptiChem(R) royalty revenue from SCHOTT for the quarter ended October 31, 2007 and 2006 was \$1,921 and \$4,285, respectively.

Technical Consulting Fees during the three-month period ended October 31, 2007 were \$0 as compared to \$22,000 during the three-month period ended October 31, 2006. The Technical Consulting Fees for the three month period ended October 31, 2006, were the result of the Feasibility Testing Agreement with Promega.

-13-

License Fees during the three-month period ended October 31, 2007 were \$50,000 as compared to \$0 during the three-month period ended October 31, 2006. The Technical Consulting Fees for the three month period ended October 31, 2007, were the result of the license agreement with NanoString.

Cost of sales for the three months ended October 31, 2007 was \$1,313, which represented 9% of OptiChem(R) revenue compared to \$8,580 during the three months ended October 31, 2006, which represented 25.1% of OptiChem(R) revenue. The decrease in the cost of sales expressed as a percentage of OptiChem(R) revenue was the result of efficiencies in production which reduced manpower costs. Further, reduced costs of substrates and chemicals used in the formulation of OptiChem(R) also contributed to the decrease.

Research and development expenses for the three months ended October 31, 2007 were \$269,067 as compared to \$319,371 during the three months ended October 31, 2006, a decrease of \$50,304 or 15.8%. The decrease was due to decreased engineering costs related to the development of the BACcel(R) system.

General and administrative expenses for the three months ended October 31, 2007 were \$251,067 as compared to \$263,681 during the three months ended October 31, 2006, a decrease of \$12,614 or 4.8%. The decrease was primarily due to decreases in deferred compensation which is directly related to interest and unrealized gains from investments. The unrealized gain on investments was \$26,352 for the quarter ended October 31, 2007 as compared to an unrealized loss of \$43,187 for the quarter ended October 31, 2006, a decrease of \$16,835. The change was the result of market fluctuations in the price of securities held in the deferred compensation trust.

Amortization during the three-month period ended October 31, 2007 was \$60,046 as compared to \$60,045 during the three-month period ended October 31, 2006.

Edgar Filing: ACCEL R8 TECHNOLOGY CORP - Form 10QSB

Marketing and sales expenses for the three months ended October 31, 2007 were \$6,512 as compared to \$3,440 during the three months ended October 31, 2006, an increase of \$3,072 or 89.3%. The increase was primarily due to increased costs related to technical presentations at scientific conferences.

Depreciation for the three months ended October 31, 2007 was \$15,075 as compared to \$18,382 during the three months ended October 31, 2006, a decrease of \$3,307 or 18%. This decrease resulted from the increased age of assets and related depreciation schedules.

As a result of these factors, loss from operations for the three months ended October 31, 2007 was \$538,496 as compared to a loss of \$617,281 during the three months ended October 31, 2006, a decreased loss of \$78,785 or 12.7%.

-14-

Interest income during the three months ended October 31, 2007 was \$23,666 as compared to \$34,764 during the three months ended October 31, 2006, a decrease of \$11,098 or 31.9%. Interest income decreased as a result of a decreased cash balance earning interest.

Unrealized gain on marketable securities held in the deferred compensation trust for the three months ended October 31, 2007 was \$26,352 as compared to \$43,187 during the three months ended October 31, 2006, a decrease of \$16,835 or 39%. The unrealized gain was a result of market fluctuations on the securities that are held in the deferred compensation trust.

As a result of these factors, net loss for the three months ended October 31, 2007 was \$487,124 as compared to \$539,330 during the three months ended October 31, 2006, a decreased loss of \$52,206 or 9.7%.

Capital Resources and Liquidity

At October 31, 2007, as compared to July 31, 2007, cash and cash equivalents, decreased by \$366,540 from \$1,393,669 to \$1,027,129, or approximately 26.3% and the Company's working capital decreased by 35.2% from \$1,376,284 to \$891,827. During the same period, shareholders' equity decreased from \$4,880,207 to \$4,411,332 or approximately 9.5% primarily as a result of a net loss of \$487,124.

The net cash used in operating activities was \$257,087 in the three months ended October 31, 2007 compared to cash used in operating activities in the three months ended October 31, 2006 of \$392,652 a difference of \$135,565 or 34.5%. The principal elements that gave rise to the decrease of cash used were a decrease in the net loss of \$52,206, a decrease in prepaid expenses and deposits of \$11,177, an increase in account payable and accrued liabilities of \$60,432 and an increase in deferred revenue of \$75,823.

Our primary use of capital has been for the research and development of the BACcel(R) system. The Company has historically funded its operations generally through its existing cash balances and cash flow generated from operations. Notwithstanding our investments in research and development, there can be no assurance that the BACcel(R) system or any of our other products will be successful, or even if they are successful, will provide sufficient revenues to continue our current operations. Our working capital requirements are expected to increase in line with the growth of our business. We have no lines of credit or other bank or off balance sheet financing arrangements. We believe our capital requirements will continue to be met with our existing cash balance,

Edgar Filing: ACCEL R8 TECHNOLOGY CORP - Form 10QSB

additional issuance of equity or debt securities and/or a capital infusion from potential partners in the development of the BACcel(R) system. If we are unable

-15-

to realize any revenues from our products, we will require additional funds from other sources to continue operations. Further, if capital requirements vary materially from those currently planned, we may require additional capital sooner than expected. Management believes that current cash balances plus cash flow from operations will be sufficient to fund our capital and liquidity needs for the next 12 months. Thereafter, the Company may have to seek capital resources from other sources to meet its obligations in the future. There can be no assurance that such capital will be available in sufficient amounts or on terms acceptable to us, if at all. Additional issuances of equity or convertible debt securities will result in dilution to our current common stockholders.

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, 2007. Based on that evaluation, Mr. Geimer concluded that the Company's disclosure controls and procedures were effective as of such date to ensure that information required to be disclosed in the reports that it files or submits under the 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, 2007.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

The Annual Meeting of the Company's Shareholders was held on December 13, 2007. The matters considered at the meeting were:

Edgar Filing: ACCEL8 TECHNOLOGY CORP - Form 10QSB

- a) The election of Thomas V. Geimer, A. Alexander Arnold III, and Charles E. Gerretson to the Company's Board of Directors;

-16-

- b) To ratify the selection of Comiskey & Company, P.C. as the independent registered public accounting firm of the Company for the fiscal year ending July 31, 2008.

Each of the nominees was elected to the Board of Directors, and Comiskey & Company, P.C. were ratified as the Company's independent registered public accounting firm.

The votes cast at the annual meeting upon the matters considered were as follows:

| | For --- | Withhold ----- |
|-------------------------|------------|-------------------|
| Election of Directors | | |
| Thomas V. Geimer | 7,074,632 | 180,604 |
| A. Alexander Arnold III | 7,231,311 | 23,935 |
| Charles E. Gerretson | 7,231,309 | 23,927 |

Ratification of Comiskey & Company, P.C. as the independent registered public accounting firm of the Company for the fiscal year ending July 31, 2008.

| For --- | Against ----- | Withhold ----- |
|------------|------------------|-------------------|
| 7,219,259 | 16,844 | 18,098 |

Item 5. Other Information

On December 11, 2007, the Company entered into a new employment agreement with Thomas V. Geimer. The agreement was negotiated and approved by the Compensation Committee. The agreement provides for an annual base salary of \$165,000 with annual deferred compensation of \$75,000. The agreement is effective January 1, 2008 and expires on December 31, 2012.

-17-

In the event of termination by mutual agreement, termination "with cause," as defined in the agreement, death or permanent incapacity or voluntary termination, Mr. Geimer, or his estate, would be entitled to the sum of the base salary and unreimbursed expenses accrued to the date of termination and any other amounts due under the agreement. In the event of termination "without cause," as defined in the agreement, Mr. Geimer would be entitled to the sum of the base salary and unreimbursed expenses accrued to the date of termination and

Edgar Filing: ACCEL8 TECHNOLOGY CORP - Form 10QSB

any other amounts due under the agreement and an amount equal to the greater of Mr. Geimer's annual base salary (12 months of salary) or any other amounts remaining due to Mr. Geimer under the agreement, which as of July 31, 2007 would be \$175,000. Additionally, in the event of a change in control, any unpaid amounts due under the initial term of the agreement for both base salary and deferred compensation would be payable plus five times the sum of the base salary and deferred compensation.

A copy of the Employment Agreement is attached hereto as Exhibit 10.2.

Item 6. Exhibits

a) Exhibits:

1. Exhibit 10.1 License Agreement between the Company and SCHOTT Jenaer Glas GmbH dated November 24, 2007
2. Exhibit 10.2 Employment Agreement with Thomas V. Geimer effective January 1, 2008
3. Exhibit 31.1 Certification of Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
4. Exhibit 31.2 Certification of Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
5. Exhibit 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.

-18-

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 17, 2007

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

-19-

