ACCELR8 TECHNOLOGY CORP
Form 10QSB
June 14, 2004

U.S. 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 April 30, 2004

[ ] 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.)

303 East Seventeenth Avenue, Suite 108, Denver, Colorado 80203
(Address of principal executive office)

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

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

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

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

Class	Outstanding at June 11, 2004
Common Stock, no par value	9,961,210

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Accelr8 Technology Corporation
Balance Sheets

ASSETS

	April 30, 2004 (Unaudited)	July 31, 2003
Current assets:		
Cash and cash equivalents	$ 7,510,777	$ 8,711,951
Accounts receivable	75,259	5,809
Inventory (Note 10)	63,303	--
Prepaid expenses and other current assets	62,239	55,313
Total current assets	7,711,578	8,773,073
Property and equipment, net (Note 4)	203,684	141,967
Investments, net	672,317	574,399
Intellectual property, net (Note 5)	4,103,977	4,255,934
Total assets	$ 12,691,556	$ 13,745,373

LIABILITIES AND SHAREHOLDERS' EQUITY

	April 30, 2004	July 31, 2003
Current liabilities:		
Accounts payable	$ 191,464	$ 177,309
Accrued compensation and other liabilities	31,859	39,155
Deferred revenue	65,025	--
Deferred maintenance revenue	120,153	150,366
Total current liabilities	408,501	366,830
Long-term liabilities:		
Deferred compensation	728,567	649,399
Total long-term liabilities	728,567	649,399
Total liabilities	1,137,068	1,016,229
Commitments and Contingencies (Notes 3, 8, 11, and 12)		
Shareholders' equity (Notes 3, 6, and 9)		
Common stock, no par value; 11,000,000 shares authorized; 9,961,210 and 9,511,210 shares issued and outstanding, respectively	12,863,020	12,488,020
Stock to be issued	--	375,000
Contributed capital	499,132	544,132
Accumulated deficit	(1,534,064)	(404,408
Shares held for employee benefit (1,129,110 shares at cost)	(273,600)	(273,600

Total shareholders' equity	11,554,488	12,729,144
Total liabilities and shareholders' equity	$ 12,691,556	$ 13,745,373

See accompanying notes to unaudited financial statements.

Accelr8 Technology Corporation
Statements of Operations
(Unaudited)

	Three Months Ended		Nine months E	
	April 30, 2004	April 30, 2003	April 30, 2004	A
Revenues:				
Consulting fees	$ --	$ 5,000	$ --	$
Product license and customer support fees	23,062	3,536	67,039	
Resale of software and support purchased	85,354	252,417	263,724	
OptiChem(TM)revenue	26,262	17,945	85,514	
Provision for sales returns and allowances	(2,375)	(2,450)	(5,265)	
Net revenues	132,303	276,448	411,012	
Costs & expenses:				
Cost of services	7,443	13,169	21,407	
Cost of purchased software and customer support for resale	14,724	44,137	50,535	
Cost of sales-OptiChem	14,520	6,242	38,777	
General and administrative	198,276	225,515	728,193	
Marketing and sales	24,570	79,939	149,628	
Research and development	127,829	121,941	408,194	
Amortization	58,128	60,075	174,384	
Depreciation	14,886	7,695	34,968	
Total Costs and Expenses	460,376	558,713	1,606,086	
Loss from operations	(328,073)	(282,265)	(1,195,074)	
Other income (expense):				
Interest income	15,808	22,070	48,084	
Realized gain (loss) on investment	--	--	1,975	

Unrealized gain (loss) on investment	(22,270)	45,997	15,359	
Total other income (expense)	(6,462)	68,067	65,418	
Loss before income taxes	(334,535)	(214,198)	(1,129,656)	
Income tax benefit	--	--	--	
Net Loss $	(334,535)	$ (214,198)	$(1,129,656)	$
Net loss per share - basic and diluted	$ (0.03)	$ (0.02)	$ (0.11)	$
Weighted average shares outstanding - basic and diluted	9,961,210	9,421,322	9,961,210	

See accompanying notes to unaudited financial statements.

Accelr8 Technology Corporation
Statements Of Cash Flows
For the Nine months Ended April 30, 2004 and 2003
(Unaudited)

	2004	2003
Cash flows from operating activities:		
Net loss	$(1,129,656)	$ (718,
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation	34,968	19,
Amortization	174,384	179,
Increase (decrease) in fair value of stock options granted for consulting services	(45,000)	37,
Unrealized holding gain on investments	(15,359)	(18,
Realized gain on sale of investments, interest and dividends reinvested	(7,559)	(1,
Net change in assets and liabilities:		
Accounts receivable	(69,450)	(70,
Insurance recovery receivable	--	825,
Inventory	(63,303)	-
Prepaid expenses and other	(6,926)	(24,
Income tax receivable and deferred tax asset	--	311,
Accounts payable	14,155	16,
Accrued liabilities	(7,296)	
Accrued settlement loss	--	(450,

Deferred revenue	65,025	(2,
Deferred maintenance revenue	(30,213)	(33,
Deferred compensation	79,168	76,
Net cash (used in) provided by operating activities	(1,007,062)	149,
Cash flows from investing activities:		
Purchase of fixed assets	(96,685)	(24,
Purchase of intellectual property	(22,427)	(26,
Purchase of investments	(75,000)	(75,
Net cash used in investing activities	(194,112)	(125,
Cash flows from financing activities:		
Employee stock option exercised	--	36,
Net cash provided by financing activities	--	36,
Net (decrease) increase in cash and cash equivalents	(1,201,174)	59,
Cash and cash equivalents, beginning of period	8,711,951	8,631,
Cash and cash equivalents, end of period	$ 7,510,777	$ 8,690,
Supplemental information:		
Cash received from income tax refunds	--	$ 331,

See accompanying notes to unaudited financial statements.

Accelr8 Technology Corporation
Notes to Unaudited Financial Statements
For the Nine Months Ended April 30, 2004

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, 2003, 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 nine month and three month periods ended April 30, 2004 may not be indicative of the results of operations for the year ended July 31, 2004.

Note 2. Reclassification

Certain reclassifications have been made in the fiscal 2003 financial statements to conform to the classifications used in fiscal 2004. Such reclassifications have no effect on net income (loss) as previously reported.

Note 3. Shareholders' Equity

Common Stock Options

At April 30, 2004, there were 762,500 stock options outstanding at prices ranging from $1.45 to $3.25 with expiration dates between June 29, 2004 and August 1, 2011. There are no additional option shares available for issuance under the Company's stock option plans. For the nine months ended April 30, 2004 and 2003, stock options exercisable into 762,500 and 740,000 shares of common stock were not included in the computation of diluted earnings per share because their effect was antidilutive.

Note 4. Property and Equipment

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

	April 30, 2004	July 31, 2003
Computer equipment	$ 30,060	$ 30,060
Laboratory and scientific equipment	273,940	177,255
Furniture and fixtures	11,114	11,114
Total property and equipment	315,114	218,429
Accumulated depreciation	(111,430)	(76,462)
Net property and equipment	$ 203,684	$ 141,967

Note 5. Intellectual Property

Intellectual property consisted of the following:

	April 30, 2004	July 31, 2003
OptiChem technologies	$ 4,454,538	$ 4,454,538
Patents	148,081	134,066
Trademarks	54,217	45,805

Total intellectual property	4,656,836	4,634,409
Accumulated amortization	(552,859)	(378,475)
Net intellectual property	$ 4,103,977	$ 4,255,934

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 $174,384 and $179,955 respectively, for the nine months ended April 30, 2004 and 2003.

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.

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

Years Ending July 31,	
2004 (3 months)	$ 58,123
2005	232,500
2006	232,500
2007	232,500
2008	232,500
Thereafter	3,115,854
Total future amortization	$4,103,977

Note 6. Employee Stock Based Compensation

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

	Nine Months Ended 2004	April 30, 2003
Net loss - as reported	$(1,129,656)	$ (718,3
Add: Stock-based compensation expense included in reported net loss	-	-
Deduct: Total stock-based compensation expense determined under fair value based method for all awards	(5,595)	-
Pro forma net loss	$ (1,135,251)	$ (718,3
Earnings per share:		
Basic and diluted - as reported	$ (.11)	$ (.
Basic and diluted - pro forma	$ (.11)	$ (.

Note 7. Business Segment Information

The Company operates in two business segments: (i) selling software tools for legacy code modernization and the resale of third party software and (ii) selling surface chemistry within the general area of microarraying, which includes DNA/RNA assays, protein-based assays and biosensors. Operating results and other financial data for the three months and nine months ended April 30, 2004 and 2003 is presented for the principal business segments as follows:

Three Months Ended April 30, 2004	Software Tools	Biosciences Business	Total
Revenues	$ 106,041	$ 26,262	$ 1
Costs and expenses	141,454	318,922	4
Interest income	7,904	7,904	
Segment loss	(38,644)	(295,891)	(33

Total assets	8,254,618	4,436,938	12,6
Intellectual property, net	-	4,103,977	4,1
Depreciation and amortization expense	1,176	71,838	

Three Months Ended April 30, 2003	Software Tools	Biosciences Business	Total
Revenues	$ 258,503	$ 17,945	$ 2
Costs and expenses	201,577	357,136	5
Interest income	11,035	11,035	
Segment profit (loss)	90,960	(305,158)	(21
Total assets	9,412,395	4,550,498	13,9
Intellectual property, net	-	4,469,578	4,4
Depreciation and amortization expense	2,055	65,715	

Nine months Ended April 30, 2004	Software Tools	Biosciences Business	Total
Revenues	$ 325,498	$ 85,514	$ 41
Costs and expenses	497,672	1,108,414	1,60
Interest income	24,042	24,042	4
Segment loss	(139,465)	(990,191)	(1,129
Total assets	8,254,618	4,436,938	12,69
Intellectual property, net	-	4,103,977	4,10
Depreciation and amortization expense	3,528	205,824	20

Nine months Ended April 30, 2003	Software Tools	Biosciences Business	To
Revenues	$ 632,405	$ 36,547	
Costs and expenses	514,520	991,621	
Interest income	41,769	41,768	

Segment profit (loss)	217,287	(935,644)	
Tax benefit	-	19,431	
Total assets	9,412,395	4,550,498	
Intellectual property, net	-	4,469,578	
Depreciation and amortization expense	5,655	194,295	

Note 8. Legal Proceedings

Concluded legal matters

All claims and counterclaims in the litigation against Deloitte & Touche LLP which the Company initiated on November 20, 2002, have been resolved, and the litigation is concluded. The litigation and its conclusion were not material to the Company's financial statements. The Company made no payments to Deloitte & Touche LLP in connection with the litigation. This settlement terminates all legal matters concerning the company and any of its officers, directors, or employees.

Note 9. Non-Cash Financing

On October 30, 2002, the Company agreed to issue 375,000 shares of common stock valued at $375,000 under a settlement agreement. In accordance with instructions received on August 5, 2003, 93,750 shares of common stock were issued in the names of plaintiffs' counsel. In January 2004, the Company received instructions for issuing the balance of 281,250 shares of common stock to the Settlement Fund. The shares were issued on February 2, 2004 and have been delivered to plaintiffs' counsel.

Note 10. Inventory

The Company purchases raw materials (custom chemicals and glass substrates) for producing OptArray slides. Raw material on hand at the end of each reporting period is priced at cost based on the first-in first-out method. There was no work-in-process or finished goods inventory at April 30, 2004, as slides currently are made for specific orders and shipped as produced.

Note 11. Proof of Principle Testing Agreement

On April 12, 2004, the Company signed a proof of principle testing agreement with a major life sciences company (the agreement has a non-disclosure clause as to name of entity). Under the agreement, Accelr8 will develop a customized surface coating to be applied to blank substrates provided by the customer. The agreement calls for the delivery of twelve (12) unoptimized experimental coated substrates within twenty-one (21) days of the effective date of the agreement and the final fifty (50) customized coated substrates no later than June 25, 2004. The agreement specifies a $60,000 payment to Accelr8 within ten (10) business days of the signing of the agreement and an additional $30,000 payment within ten (10) business days after the final fifty customized substrates are delivered. The Company delivered the first twelve (12) substrates on April 19, 2004 and received the $60,000 payment on May 7, 2004. The $60,000 is recorded as deferred revenue at April 30, 2004. It is anticipated that the total contract price of $90,000 will be earned and shown as income in the quarter ended July 31, 2004.

Note 12. Subsequent Event

On May 17, 2004, the Company entered into a letter of intent to sell substantially all of its software migration tools business, as well as its customer support and resale of purchased software business, for an aggregate purchase price of $500,000; payable $100,000, at the time of closing and 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 includes the waiver of any support by the Company to those maintenance customers who have pre-paid their annual maintenance prior to the closing. Since the purchaser will assume the responsibility of providing customer support at the time of closing, all deferred maintenance at that time will become income to Accelr8, and a net gain on the sale transaction will be recorded. The letter of intent is not binding and contemplates a definitive agreement after the potential purchaser has performed its due diligence. The Company is not actively marketing the software migration tools business; however, the Company continues to generate revenues from this segment, and the terms and conditions of the potential sale, other than the general terms, have yet to be determined. Accordingly, the Company is including this segment in continuing operations until such time as a sale of the segment is probable.

Note 13. Deferred Maintenance

Purchase orders of $70,725 and $10,200 from two repeat customers for their annual support fees totaling $80,925, were not included in receivables or deferred maintenance as the support period begins after April 30, 2004, and the related revenue has not been earned. The amounts were billed during April of 2004 when purchase orders were received and were paid in May 2004. The deferred maintenance at April 30, 2004 plus these two additional invoices totals approximately $200,000, which would result in income in the event of the execution of a definitive agreement to sell the software migration business (See Note 12 and Management's Discussion and Analysis of Financial Condition and Result of Operations).

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

Forward Looking Information

Information contained in the following discussion of results of operations and financial condition and in certain of the notes to the financial statements included in this document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, which can be identified by the use of words such as "may," "will," "expect," "anticipate," "estimate," or "continue," or variations thereon or comparable terminology. 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 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, 2003, could affect the Company's actual results and cause actual results to differ materially from those discussed in forward-looking statements.

Overview

Prior to January 2001, Accelr8 was primarily a provider of software tools and consulting services. Since the acquisition of the OpTest suite of technologies, the Company has focused primarily upon research and development relating to the technologies acquired, and the development of revenue-producing products related to that technology. The potential market opportunity in the growing area of biosciences, coupled with unique patented technology that was beyond initial development stage, led the Company to pursue a purchase agreement with DDx, Inc.

On January 18, 2001, Accelr8 purchased the OpTest technology assets from DDx and commenced investment in development and optimization of OpTest's surface chemistry (OptiChem) and quantitation instrument (QuanDx(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. Presently the Company holds for sale advanced microarray slides and specialty microtiter plates coated with its proprietary OptiChem activated surface chemistry for use in academic research, drug discovery and molecular diagnostics. This surface coating has the ability to shed sticky biomolecules that interfere with bio-analytical assays such as microarrays and immunoassays. Management believes that this property substantially improves analytical performance by enabling higher sensitivity, greater reproducibility, and higher throughput by virtue of simplified application methods.

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

In July 2003, the Company introduced its OptiPlate(TM) products, which are 96- and 384-well glass bottom microtiter plates for multiplexed microarraying. These products allow the customers to print a small microarray (as many as 2,000 spots) in each well. As with OptArray slides, the products support both DNA and protein arraying. The glass and chemical coatings are identical to those used in OptArray slides. This high throughput mode is essential in drug discovery and diagnostics where a lab must validate an assay over a large number of individual samples. The Company knows of only one other US company (Apogent Matrix) that is selling a plate for multiplexed microarraying. The Company is exploring high volume manufacturing alternatives at this time and expects to license the manufacture of OptiPlate to Schott Nexterion after its new facility in Jena, Germany comes on line in late 2004.

On October 15, 2003, the Company signed a supply agreement and a letter of intent with SCHOTT Nexterion AG of Mainz, Germany ("Nexterion"). Nexterion is a wholly-owned division of SCHOTT Glas ("SCHOTT"), which is a leading European manufacturer of precision glass. SCHOTT had sales of about 2 billion euros in 2002. SCHOTT formed the Nexterion division in 2002 to enter the microarray market. In 2003, Nexterion acquired the microarray products of Quantifoil (Jena, Germany), which is a market leader in the European microarray slide market. Nexterion also made investments in two development stage companies in the microarray market.

The Company is currently referring sales of its OptArray microarray slides to Schott Nexterion who in turn, under their October 15, 2003 supply agreement are fulfilling orders to university and government labs, pharmaceutical, drug discovery, and diagnostic companies that rely upon customized surface chemistry for their assays. The surface chemistry will be customized to meet the specific requirements of large manufacturers, with the intent of licensing its products to users.

The supply agreement with Nexterion has a term of six months from October 15, 2003, and provides for the purchase of 5,000 slides at $10.50 each. As of April 30, 2004, 2,600 slides have been delivered under the original supply contract. The balance of 2,400 should be shipped by July 31, 2004. Nexterion will purchase and resell Accelr8's OptArray microarray slides under the OptiChem brand, and Accelr8 will continue to manufacture the microarraying products in its Denver facility. Accelr8 will be Nexterion's sole supplier of permeable hydrogel microarraying slides during the term of the supply agreement and will provide sales training and also technical support to SCHOTT's customers as required.

The letter of intent calls for negotiation of an exclusive technology transfer license for Accelr8's OptiChem surface chemistry on microarraying slides. Under the intended technology transfer license, SCHOTT will become the exclusive outsource manufacturer for OptArray products starting in the third calendar quarter of 2004. SCHOTT will manufacture the coated OptArray slides and also negotiate an exclusive global distribution agreement to those products for three years. The two companies will cooperatively market DNA slides coated with OptiChem, while Schott Nexterion focuses exclusively on markets for OptiChem protein slides. Management anticipates that there may be three potential sources of revenue in the technology transfer agreement and exclusive distribution agreement to be entered into with SCHOTT: (i) a one-time payment of an up front licensing fee (upon signing the distribution agreement), (ii) royalties on sales of OptiChem coated slides, and (iii) revenues from the purchase of custom coated OptiChem slides featuring streptavidin and 96-well OptiChem coated plates. The specific terms and conditions of the proposed licensing agreement have been negotiated but not finalized. Though unlikely, it is possible that a definitive agreement will not be reached with SCHOTT.

On April 12, 2004, the Company entered into a Proof of Principal Testing Agreement (the "Testing Agreement") whereby the Company will focus on the development of a customized substrate surface coating. Under the Testing Agreement, Accelr8 will develop a customized surface coating to be applied to blank substrates provided by the customer. The Testing Agreement calls for the

delivery of twelve unoptimized experimental coated substrates within twenty-one days of the effective date of the Testing Agreement and the final fifty customized coated substrates no later than June 25, 2004. The contract specifies a $60,000 payment to Accelr8 within ten business days of the signing of the agreement and an additional $30,000 payment within ten business days after the final fifty customized substrates are delivered. Pursuant to the Testing Agreement, on April 19, 2004, the Company delivered the initial twelve substrates and received the initial $60,000 payment. The Company anticipates that the total contract price of $90,000 will be earned and shown as income in the quarter ended July 31, 2004.

The Company continues to remain a provider of software tools and modernization solutions for VMS Legacy Systems. However, in the past the Company has taken steps to limit the costs associated with the conduct of its software tools and consulting services business. On May 17, 2004, the Company entered into a letter of intent to sell substantially all of its software migration tools business, customer support and resale of purchased software business, for an aggregate purchase price of $500,000; payable $100,000, at the time of Closing and 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 includes the waiver of any support by the Company to those maintenance customers who have pre-paid their annual maintenance prior to the closing. (See Note 12.) Accordingly, the Company is including this segment in continuing operations until such time as a sale of the segment is probable. While management believes that the consummation of the transaction is likely, there can be no assurance that the transaction will close.

Changes in Results of Operations: Nine months ended April 30, 2004 compared to nine months ended April 30, 2003.

The Company had no revenue from consulting fees for the nine months ended April 30, 2004 as compared to $25,000 for the nine months ended April 30, 2003, primarily because the Company is not actively marketing this business segment.

Product license and customer support fees for the nine months ended April 30, 2004, were $67,039 compared with $137,870 during the nine months ended April 30, 2003, a decrease of $70,831 or 51% as compared to the nine months ended April 30, 2003, and represented 16% of net revenues. This decrease was due to lack of any major sales in the current period because the company is not actively marketing this business segment.

Revenues from the resale of purchased software including purchased maintenance for the nine months ended April 30, 2004 were $263,724 compared with $475,940 during the nine months ended April 30, 2003, a decrease of $212,216 or 45%, and represented 64% of net revenues. This decrease largely resulted from the sale of fewer software tool sets and refocusing the corporate resources towards the OptiChem product line.

OptiChem revenues for the nine months ended April 30, 2004 were $85,514 as compared to $36,547 for the nine months ended April 30, 2003, resulting in an increase of $48,967, or 134% and represented 21% of net revenues. The increase in OptiChem revenues is primarily the result of increasing sales to the Company's two major repeat customers.

Provision for returns and allowances for the nine months ended April 30, 2004 was $5,265 and represented 1% of net revenues.

Due to the above factors, net revenues for the nine months ended April

30, 2004, amounted to $411,012, which represented a decrease of $257,940 or 39% as compared to the nine months ended April 30, 2003.

During the nine months ended April 30, 2004, sales to the Company's largest customer was $86,367, representing 21% of the Company's net revenues. During the nine months ended April 30, 2003, sales to the Company's three largest customers were $127,323, $78,035, and $67,200, representing 19%, 11%, and 10% of net revenues. The loss of a major customer could have a significant impact on the Company's financial performance in any given year.

Cost of services for the nine months ended April 30, 2004 was $21,407 compared to $34,840, a decrease of $13,433 or 39% as compared to the nine months ended April 30, 2003. This decrease resulted largely from a net decrease in software support salaries of $3,886, combined with reduced rent of $1,106, reduced engineering consulting fees to support sales in the amount of $4,818 along with other miscellaneous reductions.

Cost of software purchased for resale, including purchased maintenance, for the nine months ended April 30, 2004 was $50,535, a decrease of $32,366 or 39% as compared to the nine months ended April 30, 2003. The decrease is the result of decreased sales of purchased software including purchased maintenance and variations in the product mix of items purchased.

Cost of sales-OptiChem was $38,777 for the nine months ended April 30, 2004 compared with $12,878 for the same period in 2003. The increase of $25,899 or 201% is attributable to the increased revenues associated with this product.

General and administrative expenses for the nine months ended April 30, 2004 were $728,193, an increase of $120,753, or 20% as compared to the nine months ended April 30, 2003. The following summarizes the major components of the changes:

Accounting/Auditing	$ 5,361
Consulting Fees	26,605
Corporate and Shareholder	78,815
Corporate Insurance	(13,789)
Deferred Compensation	2,569
Employee Benefits	19,792
Legal Fees	(42,913)
Payroll Taxes	9,339
Salaries	31,561
Travel	5,376
Miscellaneous other categories	(1,963)
	$ 120,753

The increase in accounting fees is considered a normal fluctuation. The increased consulting fees arose from utilizing the consultants regarding intellectual property for nine months in 2004 compared with four months in the comparable period in 2003. Corporate and shareholder expenses rose principally because of the original listing fee amounting to $55,000 for the American Stock Exchange. Corporate insurance decreased because of a reduction in cost of the directors, officers, and Company reimbursement liability coverage. Legal fees decreased due to a conclusion of the legal action in prior periods. Salaries together with related payroll taxes, employee benefits and travel expenses rose in the normal course of business.

Marketing and sales expenses for the nine months ended April 30, 2004 were $149,628, a decrease of $74,279 or 33% as compared to the nine months ended April 30, 2003. This decrease was mainly due to decreased consulting fees of $9,894, decreased consultant stock option expense of $41,245, and $28,678 in marketing expenses, which include advertising, promotional material, attendance at trade shows, and telecommunications, offset by a increase in of $8,585 in salaries and postage.

Research and development expenses for the nine months ended April 30, 2004 were $408,194, an increase of $63,969 or 19% as compared to the nine months ended April 30, 2003. This increase was due to the continued development of protein micro arrays for use in applications that leveraged the Company's instruments plus an increase in salaried scientific personnel of $88,385 offset by decreases in consulting fees of $6,558 and consultant's option expense of $41,245.

Amortization for the nine months ended April 30, 2004 was $174,384, a decrease of $5,571 or 3% as compared to the nine months ended April 30, 2003.

Depreciation for the nine months ended April 30, 2004 was $34,968, an increase of $14,973 or 75% as compared to the nine months ended April 30, 2003. This increase results from additional laboratory equipment being depreciated.

As a result of these factors, loss from operations for the nine months ended April 30, 2004 was $1,195,074, an increased loss of $357,885 or 43%, as compared to loss from operations for the nine months ended April 30, 2003.

Interest income for the nine months ended April 30, 2004 was $48,084, a decrease of $35,453 or 42% as compared to the nine months ended April 30, 2003. This decrease was primarily due to decreased interest rates in government money market funds.

Realized gain on marketable securities held in the deferred compensation trust for the nine months ended April 30, 2004 was $1,975, as compared to a loss of $2,593 for the nine months ended April 30, 2003. The gain (loss) was the result of selling trust investments plus interest and dividends reinvested. Unrealized gain on marketable securities held in the deferred compensation trust for the nine months ended April 30, 2004 was $15,359, compared to unrealized gain of $18,457 for the nine months ended April 30, 2003. The unrealized income was a result of the appreciation of the underlying assets. The total of the realized gain (loss) and unrealized gain (loss) in marketable securities is reflected as deferred compensation and included in general and administrative expenses.

No income tax provision or benefit was recorded during the nine months ended April 30, 2004, as compared to a tax benefit of $19,431 for the nine months ended April 30, 2003. Deferred income tax assets and liabilities are computed to determine differences between the financial statement basis and the estimated income tax basis of assets and liabilities that will result in taxable or deductible amounts in the future. As of April 30, 2004, a valuation allowance has been recorded for the deferred tax asset, as management has not determined that it is more likely than not that this amount of the deferred tax asset will be realized.

As a result of these factors, net loss for the nine months ended April 30, 2004 was $1,129,656, an increased loss of $411,299 or 57% as compared to the nine months ended April 30, 2003.

Changes in Results of Operations: Three months ended April 30, 2004 compared to three months ended April 30, 2003.

The Company had no revenue from consulting fees for the nine months ended April 30, 2004 as compared to $5,000 which were the result of support provided for a single customer.

Product license and customer support fees for the three months ended April 30, 2004 were $23,062, an increase of $19,526 or 552% as compared to $3,536 during the three months ended April 30, 2003, and represented 17% of net revenue. This increase was largely due to a lack of major sales during 2003.

Revenues from the resale of purchased software for the three months ended April 30, 2004 were $85,354, a decrease of $167,063 or 66% as compared to $252,417 during the three months ended April 30, 2003, and represented 64% of net revenue. This decrease was largely due to fewer license and support sales and reflects the focusing of the Company's resources on the OptiChem product line.

OptiChem revenues for the three months ended April 30, 2004, were $26,262 as compared to $17,945 for the three months ended April 30, 2003 for an increase in sales of $8,317 or 46% and represented 19% of net revenues. The increase is a result of increasing sales to Schott.

Provision for returns and allowances for the three months ended April 30, 2004 was $2,375, and represented 2 % of net revenues.

Due to the factors above, net revenues for the three months ended April 30, 2004 were $132,303, a decrease of $144,145 or 52%, as compared to $ 276,448 during the three months ended April 30, 2003.

During the three months ended April 30, 2004, sales to the Company's two largest customers were $28,025 and $22,615, representing 21% and 17% of the Company's net revenues. During the three months ended April 30, 2003, sales to the Company's three largest customers were $72,450, $43,125, and $36,900, representing 26%, 16%, and 13% of net revenues. The loss of a major customer could have a significant impact on the Company's financial performance in any given year.

Cost of services for the three months ended April 30, 2004 was $7,443, a decrease of $5,726 or 43% as compared to $13,169 during the three months ended April 30, 2003. This decrease resulted largely from a reduction in software support salaries, consulting fees, and depreciation.

Cost of software purchased for resale for the three months ended April 30, 2004 was $14,724, a decrease of $29,413 or 67% as compared to $44,137 during the three months ended April 30, 2003. The decrease is the result of decreased sales of purchased software including purchased maintenance and variations in the product mix of items purchased.

Cost of sales-OptiChem for the three months ended April 30, 2004 was $14,520, an increase of $8,278 or 133% as compared to $6,242 during the three months ended April 30, 2003 and is a direct reflection of the increased sales.

General and administrative expenses for the three months ended April 30, 2004 were $198,276, a decrease of $27,239 or 12% as compared to $225,515 during the three months ended April 30, 2003. The major components of the change are as follows:

Corporate and shareholder	$ 25,807
Corporate insurance	(11,324)
Deferred compensation	(67,560)
Employee benefits	9,654
Legal fees	2,236
Payroll taxes	3,115
Salaries	10,656
Miscellaneous other items	177
	$ (27,239)

Corporate and shareholder expenses rose principally due to cost of retaining a financial and corporate communications company amounting to $13,182, cost of printing the annual report to shareholders and proxy statement which was in the previous quarter in 2003, amounting to $8,813, and the monthly cost of the American Stock Exchange annual listing fee amounting to $4,374. Corporate insurance decreased because of a reduction in cost of the directors, officers, and Company reimbursement liability coverage. Deferred compensation decreased because of a change in market value of investments in the deferred compensation trust. Legal fees, salaries together with related payroll taxes, and employee benefits increased in the normal course of business

Marketing and sales expenses for the three months ended April 30, 2004 were $24,570, a decrease of $55,369 or 69% as compared to $79,939 during the three months ended April 30, 2003. This decrease was largely comprised of a decrease in consultant stock option expense in the amount of $30,407 due to a decreased price of the Company's stock as compared to 2003 together with decreases in consulting fees of $13,300, trade shows/travel expense of $8,100 and communications of $3,100.

Research and development expenses for the three months ended April 30, 2004 were $127,829, an increase of $5,888 or 5% as compared to $121,941 during the three months ended April 30, 2003. The following summarizes the major components of the increase:

Computer Supplies and Expense	$ 1,335
Consulting Fees	1,500
Consultant Option Expense	(30,407)
Laboratory Supplies and Expense	(4,448)
Miscellaneous	1,149
Premises Rent	1,455
Salaries	30,135
Travel and Lodging	(2,228)
Miscellaneous other	7,397
	$ 5,888

The major increase is in salaries devoted to research in the OptiChem line, offset by a decrease in consultant stock option expense due to a decreased price of the Company's stock as compared to 2003. The fluctuations in the other categories are considered normal in the ordinary course of business.

Amortization for the three months ended April 30, 2004 was $58,128, a decrease of $1,947 or 3% as compared to $60,075 during the three months ended April 30, 2003.

Depreciation for the three months ended April 30, 2004 was $14,886, an increase of $7,191 or 93% as compared to $7,695 during the three months ended April 30, 2003.

As a result of these factors, loss from operations for the three months ended April 30, 2004 was $328,073, an increased loss of $45,808 or 16% as compared to a loss from operations of $282,265 for the three months ended April 30, 2003.

Interest income for the three months ended April 30, 2004 was $15,808, a decrease of $6,262 or 28% as compared to $ 22,070 during the three months ended April 30, 2003. This decrease was primarily due to decreased interest rates in government money market funds.

Unrealized gain (loss) on marketable securities held in the deferred compensation trust for the three months ended April 30, 2004 was a loss of $22,270 as compared to unrealized gain of $45,997 for the three months ended April 30, 2003. The unrealized loss was a result of the change in market value of the underlying assets. The unrealized loss in marketable securities is reflected as decreased deferred compensation and included in general and administrative expenses.

The Company has not recorded an income tax provision or benefit in either period. Deferred income tax assets and liabilities are computed to determine differences between the financial statement basis and the estimated income tax basis of assets and liabilities that will result in taxable or deductible amounts in the future. As of April 30, 2004, a valuation allowance has been recorded for the deferred tax asset, as management has not determined that it is more likely than not that this amount of the deferred tax asset will be realized.

As a result of these factors, net loss for the three months ended April 30, 2004 was $334,535, an increased loss of $120,337 or 56% as compared to a net loss of $214,198 during the three months ended April 30, 2003.

Capital Resources and Liquidity

At April 30, 2004, as compared to July 31, 2003, the Company's current assets decreased 12% from $8,773,073 to $7,711,578, the Company's liquidity, as measured by cash and cash equivalents, decreased by 14% from $8,711,951 to $7,510,777, and the Company's working capital decreased by 13% from $8,406,243 to $7,303,077. During the same period, shareholders' equity decreased 9% from $12,729,144 to $11,554,488, largely as a result of a net loss of $1,129,656.

Cash and cash equivalents as of April 30, 2004 decreased by $1,201,174 as compared to fiscal year end, July 31, 2003. This decrease was largely the result of a net loss of $1,129,656, an increase in accounts receivable of $69,450, an increase in inventory of $63,303, and an increase in prepaid expenses of $6,926, offset by depreciation and amortization of $209,352. The Company utilized $1,007,062 in operating activities in the nine months ended April 30, 2004 compared to cash flow provided in the amount of $149,372 in the comparable period in 2003. The principal elements that gave rise to the difference are the increase in net losses of $411,229 and a nonrecurring decrease in accrued settlement losses of $450,000, offset by the nonrecurring insurance recovery in the amount of $825,000 and the tax benefit from the net operating loss carry back in the amount of $311,667.

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

Item 3. Controls and Procedures

An evaluation was conducted under the supervision and with the participation of the Company's management, including Thomas V. Geimer, the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of April 30, 2004. Based on that evaluation, Mr. Geimer concluded that the Company's disclosure controls and procedures were effective as of such date to ensure that information required to be disclosed in the reports that it files or submits under the Exchange Act 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 April 30, 2004 that has materially affected or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

See Note 8 to unaudited financial statements.

Item 2. Changes in Securities and Use of Proceeds

Not applicable.

Item 3. Defaults of Senior Securities

Not applicable.

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

Not applicable.

Item 5. Other Information

The Company intends to issue a press release disclosing its third quarter 2004 results on June 15, 2004. A copy of the press release is attached to the quarterly report as Exhibit 99.1.

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.

4. Exhibit 99.1 Press Release to be filed on June 15, 2004

b) Reports on Form 8-K:

None

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: June 14, 2004

ACCELR8 TECHNOLOGY CORPORATION

/s/ Thomas V. Geimer

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

/s/ James Godkin

James Godkin,
Principal Accounting Officer