ACCELR8 TECHNOLOGY CORP
Form 10QSB
March 16, 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 January 31, 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 March 11, 2004
Common Stock, no par value	9,679,960

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Accelr8 Technology Corporation
Balance Sheets

ASSETS

January 31,
2004

	(Unaudited)	
Current assets:		
Cash and cash equivalents	$ 7,803,285	$
Accounts receivable	115,044	
Inventory (Note 10)	68,555	
Prepaid expenses and other current assets	64,987	
Total current assets	8,051,871	
Property and equipment, net (Note 4)	127,376	
Investments, net	692,361	
Intellectual property, net (Note 5)	4,152,653	
Total assets	$ 13,024,261	$

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accounts payable	$ 160,086	$
Accrued compensation and other liabilities	39,698	
Deferred revenue	5,025	
Deferred maintenance revenue	157,984	
Total current liabilities	362,793	
Long-term liabilities:		
Deferred compensation	729,861	
Total long-term liabilities	729,861	
Total liabilities	1,092,654	
Commitments and Contingencies (Notes 3 and 8)		
Shareholders' equity (Notes 3, 6 and 9)		
Common stock, no par value; 11,000,000 shares authorized; 9,679,960 and 9,586,210 shares issued and outstanding, respectively	12,581,770	
Stock to be issued, 281,250 and 375,000 shares, respectively (Note 3)	281,250	
Contributed capital	541,716	
Accumulated deficit	(1,199,529)	
Shares held for employee benefit (1,129,110 shares at cost)	(273,600)	
Total shareholders' equity	11,931,607	
Total liabilities and shareholders' equity	$ 13,024,261	$

See accompanying notes to unaudited financial statements.

Accelr8 Technology Corporation
Statements of Operations
(Unaudited)

	Three Months Ended		Six Month
	January 31, 2004	January 31, 2003	January 31, 2004
Revenues:			
Consulting fees	$ --	$ 20,000	$ --
Product license and customer support fees	25,350	85,320	43,977
Resale of purchased software and customer support	92,511	85,448	178,370
OptiChem(TM)revenue	36,968	13,227	59,252
Provision for returns & allowances	(2,090)	(1,955)	(2,890)
Net revenues	152,739	202,040	278,709
Costs and Expenses:			
Cost of product license and customer support revenues	6,292	11,851	13,964
Cost of purchased software and customer support for resale	24,337	8,173	35,811
Cost of sales - OptiChem	16,163	4,698	24,257
General and administrative	254,676	214,588	529,917
Marketing and sales	60,082	69,425	125,058
Research and development	137,532	135,649	280,365
Depreciation	10,041	6,150	20,082
Amortization	58,128	59,940	116,256
Total costs and expenses	567,251	510,474	1,145,710
Loss from operations	(414,512)	(308,434)	(867,001)
Other (expense) income			
Interest income	15,988	28,034	32,276
Unrealized holding gain (loss) on investments	26,401	(18,935)	37,630
Realized gain (loss) on sale of investments	--	(1,150)	1,974
Total other income	42,389	7,949	71,880
Loss before income taxes	(372,123)	(300,485)	(795,121)
Income tax benefit	--	19,431	--
Net loss	$ (372,123)	$ (281,054)	$ (795,121)
Basic and diluted net loss per share	$ (.04)	$ (.03)	$ (.08)
Weighted average shares outstanding - basic and diluted	9,961,210	9,411,210	9,961,210

See accompanying notes to unaudited financial statements.

Accelr8 Technology Corporation
Statements Of Cash Flows

For the Six Months Ended January 31, 2004 and 2003
(Unaudited)

	2004	2003
Cash flows from operating activities:		
Net loss	$ (795,121)	$ (504,158)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation	20,082	12,300
Amortization	116,256	119,880
Increase (decrease) in fair value of stock options granted for consulting services	(2,416)	19,260
Unrealized holding (gain) loss on investments	(37,630)	27,539
Realized gain on sale of investments, interest and dividends reinvested	(5,332)	(371)
Net change in assets and liabilities:		
Accounts receivable	(109,235)	(56,140)
Insurance recovery receivable	--	825,000
Inventory	(68,555)	--
Prepaid expenses and other	(9,674)	(34,674)
Income tax receivable and deferred tax asset	--	171,545
Accounts payable	(17,223)	58,028
Accrued liabilities	543	1,263
Deferred revenue	5,025	1,090
Deferred maintenance revenue	7,618	(2,417)
Deferred compensation	80,462	10,332
Net cash (used in) provided by operating activities	(815,200)	648,477
Cash flows from investing activities:		
Purchase of property and equipment	(5,491)	(13,985)
Purchase of intellectual property	(12,975)	(13,950)
Purchase of investments	(75,000)	(75,000)
Net cash used in investing activities	(93,466)	(102,935)
Net (decrease) increase in cash and cash equivalents	(908,666)	545,542
Cash and cash equivalents, beginning of period	8,711,951	8,631,192
Cash and cash equivalents, end of period	$ 7,803,285	$ 9,176,734
Supplemental information:		
Cash received from income tax refunds	$ --	$ 190,977

See accompanying notes to unaudited financial statements.

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Accelr8 Technology Corporation
Notes to Unaudited Financial Statements
For the six months ended January 31, 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 six month and three month periods ended January 31, 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 January 31, 2004, there were 960,000 stock options outstanding at prices ranging from $1.45 to $3.25 with expiration dates between July 30, 2004 and August 1, 2011. There are no additional option shares available for issuance under the Company's stock option plans. For the six months ended January 31, 2004 and 2003, stock options exercisable into 960,000 and 840,000 shares of common stock were not included in the computation of diluted earnings per share because their effect was antidilutive.

Stock to be Issued

In connection with the final settlement of the Consolidated Amended Class Action Complaint, agreed to in principle in October 2002 and finalized by the court in May 2003, the Company agreed to contribute to a Settlement Fund

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$450,000 and 375,000 shares of common stock. The $450,000 was paid on March 2, 2003. 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 of 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, but remain undistributed as of this filing.

Note 4. Property and Equipment

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

	January 31, 2004	July 31, 2003
Computer equipment	$ 30,060	$ 30,060
Laboratory and scientific equipment	182,746	177,255
Furniture and fixtures	11,114	11,114
Total property and equipment	223,920	218,429
Accumulated depreciation	(96,544)	(76,462)
Net property and equipment	$ 127,376	$ 141,967

Note 5. Intellectual Property

Intellectual property consisted of the following:

	January 31, 2004	July 31, 2003
OptiChem technologies	$ 4,454,538	$ 4,454,538
Patents	139,515	134,066
Trademarks	53,331	45,805
Total intellectual property	4,647,384	4,634,409
Accumulated amortization	(494,731)	(378,475)
Net intellectual property	$ 4,152,653	$ 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(TM) technologies. Amortization expense was $116,256 and $119,880, respectively, for the six months ended January 31, 2004 and 2003.

In October 2003, the Company entered into a supply agreement with SCHOTT Nexterion AG of Mainz, Germany ("Nexterion"), a wholly-owned division of SCHOTT Glas ("SCHOTT"), and the Company negotiated a letter of intent for a technology license with SCHOTT. Negotiations for this technology license are ongoing, but have not been concluded. 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. The supply agreement may be extended for 90 days, and an additional 5,000 slides may be purchased at $10.50 each. As of January 31, 2004, 1,000 slides have been delivered under the supply agreement. The Company continues to optimize the OptiChem technology for the SCHOTT supply contract.

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During the remaining months of the fiscal year ending July 31, 2004, the Company intends to continue customizing its technologies to the specific requirements of large licensees. The Company's efforts will be directed towards the creation of revenue from the sale and licensing of its technology and continued research and development.

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 (6 months)	$ 116,256
2005	232,394
2006	232,394
2007	232,394
2008	232,394
Thereafter	3,106,821
Total future amortization	$4,152,653

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.

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	Six Months Ended January 31, 2004	2003
Net loss - as reported	$(795,121)	$(504,158)
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)	(1,950)
Pro forma net loss	$(800,716)	$(506,108)
Earnings per share:		

Basic and diluted - as reported	$ (.08)	$ (.05)
Basic and diluted - pro forma	$ (.08)	$ (.05)

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 six months ended January 31, 2004 and 2003 is presented for the principal business segments as follows:

Three Months Ended January 31, 2004	Software Tools	Biosciences Business	Total
Revenues	$ 115,771	$ 36,968	$ 152,739
Costs and expenses	178,185	389,066	567,251
Interest income	7,994	7,994	15,988
Segment loss	(62,414)	(352,098)	(414,512)
Total assets	8,664,664	4,359,597	13,024,261
Intellectual property, net	--	4,152,653	4,152,653
Depreciation and amortization expense	1,176	66,993	68,169

Three Months Ended January 31, 2003	Software Tools	Biosciences Business	Total
Revenues	$ 188,813	$ 13,227	$ 202,040
Costs and expenses	154,739	355,735	510,474
Interest income	14,017	14,017	28,034
Segment profit (loss)	42,022	(342,507)	(300,485)
Tax benefit	--	19,431	19,431
Total assets	9,759,615	4,822,884	14,582,499
Intellectual property, net	--	4,516,974	4,516,974
Depreciation and amortization expense	1,800	64,290	66,090

Six Months Ended January 31, 2004	Software Tools	Biosciences Business	Total
Revenues	$ 219,457	$ 59,252	$ 278,709
Costs and expenses	356,218	789,492	1,145,710
Interest income	16,138	16,138	32,276
Segment loss	(136,761)	(730,240)	(867,001)
Total assets	8,664,664	4,359,597	13,024,261
Intellectual property, net	--	4,152,653	4,152,653
Depreciation and amortization expense	2,352	133,986	136,338

Six Months Ended January 31, 2003	Software Tools	Biosciences Business	Total
Revenues	$ 373,902	$ 18,601	$ 392,503
Costs and expenses	312,943	634,484	947,427
Interest income	30,734	30,733	61,467
Segment profit (loss)	92,294	(615,883)	(523,589)
Tax benefit	--	19,431	19,431
Total assets	9,759,615	4,822,884	14,582,499
Intellectual property, net	--	4,516,974	4,516,974
Depreciation and amortization expense	3,600	128,580	132,180

Note 8. Legal Proceedings

Pending legal matters

On November 20, 2002, the Company initiated an action against Deloitte & Touche, LLP, ("Deloitte"), the Company's former auditors, captioned Accelr8 Technology Corporation v. Deloitte & Touche, LLP, Case No. 02CV8102, District Court, City and County of Denver, State of Colorado. In that action, the Company seeks damages in excess of $2 million from Deloitte for breach of contract, arising from its resignation from the Company's fiscal year 1999 audit, and the withdrawal of its opinion on the financial statements for fiscal year 1998. On January 13, 2003, Deloitte answered the Complaint and filed a counterclaim against the Company, and third-party claims against Thomas V. Geimer and Harry J. Fleury. The counter-claim asserts claims for breach of contract, deceit based on fraud, and negligent misrepresentation and seeks damages of approximately $350,000. The third-party claims alleged deceit based on fraud and negligent misrepresentation. On May 29, 2003, the Court granted a motion to dismiss the third party claims against Messrs. Geimer and Fleury. While the Company believes it has a valid claim against Deloitte, there is no assurance that the Company will obtain a judgment for all, or any, of the damages it seeks. While the Company believes it has substantial defenses to the counterclaims, and intends to contest those claims vigorously, there can be no assurance that the resolution of the counterclaims will not have a material adverse effect on the Company.

Note 9. Non-Cash Financing And Investing Activity

On October 30, 2002, the Company agreed to issue 375,000 shares of common stock valued at $375,000 under a settlement agreement as discussed in Note 3. 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, but remain undistributed as of this filing.

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 January 31, 2004, as slides currently are made for specific orders and shipped as produced. A raw materials inventory was created during the previous quarter as the Company is moving past the stage of designing and testing pre-production prototypes and offering slides for evaluation. Sales continued to increase as the Company delivered 1,000 slides under a supply contract which provides for a minimum purchase of 5,000 slides by SCHOTT Nexterion AG.

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

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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 contain 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). The Company's proprietary surface chemistry and its quantitation instruments support real-time assessment of medical diagnostics, food-borne pathogens, water-borne pathogens, and bio-warfare assessments. Presently the Company holds for sale advanced microarray slides and specialty microtiter plates coated with its proprietary OptiChem activated surface chemistry for use in academic research, drug discovery and molecular diagnostics. This surface coating has the ability to shed sticky biomolecules that interfere with bio-analytical assays such as microarrays and immunoassays. Management believes that this property substantially improves analytical performance by enabling higher sensitivity, greater reproducibility, and higher throughput by virtue of simplified application methods.

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

The Company believes that the market for DNA/RNA and protein microarrays is growing because of increased demand for gene analysis and molecular diagnostics as measured by industry wide growth in unit sales, i.e., 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.

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 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. The supply agreement may be extended for 90 days, and an additional 5,000 slides may be purchased at $10.50 each. As of January 31, 2004, 1,000 slides have been delivered under the supply contract. Nexterion will purchase and resell Accelr8's OptArray microarray slides under the Nexterion 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 may also negotiate an exclusive global distribution agreement to those products.

The two companies will cooperatively market the products. 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) consulting services relating to the technology transfer process, and (iii) royalties on sales. The specific terms and conditions of the proposed licensing agreement have not yet been negotiated or finalized, and it is possible that a definitive agreement will not be reached with SCHOTT.

The Company continues to remain a provider of software tools and modernization solutions for VMS Legacy Systems. However, the Company has taken steps to limit the costs associated with the conduct of its software tools and consulting services business. The Company intends to operate this business at a level that is sufficient to service the needs of existing customers and to support future sales of software tools. The Company does not expect to continue its consulting activities, although if such opportunities arise, the Company believes that it may be able to subcontract for the performance of the necessary services from third parties or former employees. The Company continues to investigate the possibility of selling these business operations to another party; however, it has no arrangements or understandings with respect to the sale of these assets. The Company also resells software and customer support purchased from third party vendors.

Changes in Results of Operations: Six months ended January 31, 2004 compared to six months ended January 31, 2003.

There were no consulting fees for the six months ended January 31, 2004. This compares to consulting fees of $20,000 for the six months ended January 31, 2003.

Product license and customer support fees for the six months ended January 31, 2004 were $43,977, a decrease of $71,755 or 62.0% as compared to the six months ended January 31, 2003, and represented 15.8% of net revenues. As previously indicated there has been a significant decrease in sales of migration tools and related consulting fees beginning in the fiscal year ended July 31, 2001. This segment of the Company's business is being operated at a level to service the needs of existing customers and to support future sales of software tools. Sales of the migration tools and related consulting fees continued to decrease during the six month period ended January 31, 2004.

Revenues from the resale of purchased software including purchased support for the six months ended January 31, 2004 were $178,370, a decrease of $63,755 or 26.3% as compared to the six months ended January 31, 2003, and represented 64.0% of net revenues. This decrease largely resulted because a major repeat customer delayed a large tool purchase during the six months ended January 31, 2004.

OptiChem revenues for the six months ended January 31, 2004 were $59,252, an increase of $40,651 or 219% as compared to the six months ended January 31, 2003, and represented 21.3% of net revenues. This increase was due to sales to two major repeat customers plus new customers that are evaluating the Company's OptArray slides.

Due to the above factors, and after an approximate 1% allowance for returns and adjustments, net revenues for the six months ended January 31, 2004 were $278,709, a decrease of $113,794 or 29.0% as compared to the six months ended January 31, 2003.

During the six months ended January 31, 2004, sales to the Company's three largest customers were $58,342, $35,150, and $32,650, representing 20.9%, 12.6%, and 11.7% of the Company's net revenues. During the six months ended January 31, 2003, sales to the Company's three largest customers were $140,781, $67,200, and $50,725, representing 35.9%, 17.1%, and 12.9% 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 product license and customer support for the six months ended January 31, 2004 were $13,964, a decrease of $7,707 or 35.6% as compared to the six months ended January 31, 2003. This was largely due to decreased customer support labor and consulting fees.

Cost of software purchased for resale including purchased support for the six months ended January 31, 2004 was $35,811, a decrease of $2,952 or 7.6% as compared to the six months ended January 31, 2003. The decrease resulted from decreased revenue from resale of purchased software including purchased support.

Cost of OptiChem sales for the six months ended January 31, 2004 was $24,257, an increase of $17,621 or 266% as compared to the six months ended January 31, 2003. This increase was the result of increased raw material and labor required to produce a greater number of slides.

General and administrative expenses for the six months ended January 31, 2004 were $529,917, an increase of $147,992 or 38.7% as compared to the six months ended January 31, 2003. This increase was largely due to increased deferred compensation of $70,129 resulting from change in market value of investments held in the deferred compensation trust, consulting fees regarding intellectual property of $26,510, original listing fee for the American Stock Exchange of $53,500, and salaries and related payroll costs of $37,268, offset by a decrease in litigation fees of $45,000 as a result of concluded legal action in prior periods.

Marketing and sales expenses for the six months ended January 31, 2004 were $125,058, a decrease of $18,910 or 13.1% as compared to the six months ended January 31, 2003. This decrease was largely due to a decrease in consultant stock option expense due to a decreased stock price as compared to July 31, 2003 of $10,838, and decreased expense for trade shows, travel and promotional material of $16,687, offset by increased salaries of $7,926.

Research and development expenses for the six months ended January 31, 2004 were $280,365, an increase of $58,081 or 26.1% as compared to the six months ended January 31, 2003. This increase was largely due to two additional employees whose focus was development of protein microarrays for use in applications that leveraged the Company's instruments and salary increases, for a total of $56,725 and travel to assist in marketing of $5,099, offset by a decrease in consulting fees of $8,059 and consultant stock option expense due to a decrease in stock price as compared to July 31, 2003 of $10,838.

Depreciation for the six months ended January 31, 2004 was $20,082, an increase of $7,782 or 63.3% compared to the six months ended January 31, 2003. This increase results from additional laboratory equipment being depreciated.

Amortization for the six months ended January 31, 2004 was $116,256, a decrease of $3,624 or 3.0% as compared to the six months ended January 31, 2003.

As a result of these factors, loss from operations for the six months ended January 31, 2004 was $867,001, an increased loss of $312,077 or 56.2% as compared to loss from operations for the six months ended January 31, 2003.

Interest income for the six months ended January 31, 2004 was $32,276, a decrease of $29,191 or 47.5% as compared to the six months ended January 31, 2003. This decrease was primarily due to decreased interest rates received for the amount of money invested.

Unrealized holding gains on marketable securities held in the deferred compensation trust for the six months ended January 31, 2004 was $37,630, an increase of $65,169 as compared to the six months ended January 31, 2003. This gain was the result of changing market value of securities held by the trust. Realized gain (loss) on marketable securities held in the deferred compensation trust for the six months ended January 31, 2004 was $1,974, an increase of $4,567 as compared to the six months ended January 31, 2003. This gain was the result of selling trust investments plus interest and dividends reinvested. The total of the change in realized gain (loss) and unrealized gain (loss) in marketable securities is reflected as increased deferred compensation and included in general and administrative expenses.

No income tax provision or benefit was recorded during the six months ended January 31, 2004, as compared to a tax benefit of $19,431 for the six months ended January 31, 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 January 31, 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 six months ended January 31, 2004 was $795,121, an increased loss of $290,963 or 57.7% as compared to the six months ended January 31, 2003.

Changes in Results of Operations: Three months ended January 31, 2004 compared to three months ended January 31, 2003.

There were no consulting fees for the three months ended January 31, 2004. This compares to consulting fees of $20,000 for the three months ended January 31, 2003.

Product license and customer support fees for the three months ended January 31, 2004 were $25,350, a decrease of $59,970 or 70.3% as compared to the three months ended January 31, 2003, and represented 16.6% of net revenues. As previously indicated there has been a significant decrease in sales of migration tools and related consulting fees beginning in the fiscal year ended July 31, 2001. This segment of the Company's business is being operated at a level to service the needs of existing customers and to support future sales of software tools. Sales of the migration tools and related consulting fees continued to decrease during the three month period ended January 31, 2004.

Revenues from the resale of purchased software including purchased maintenance for the three months ended January 31, 2004 were $92,511, an increase of $7,063 or 8.3% as compared to the three months ended January 31, 2003, and represented 60.6% of net revenues.

OptiChem revenues for the three months ended January 31, 2004 were $36,968, an increase of $23,741 or 180% as compared to the three months ended January 31, 2003, and represented 24.2% of net revenues. This increase was due to sales to two repeat customers plus new customers that are evaluating the Company's OptArray slides.

Due to the above factors, and after an approximate 1% allowance for returns and allowances, net revenues for the three months ended January 31, 2004 were $152,739, a decrease of $49,301 or 24.4% as compared to the three months ended January 31, 2003.

During the three months ended January 31, 2004, sales to the Company's four largest customers were $58,142, $27,275, $23,099, and $22,350, representing

38.1%, 17.9%, 15.1%, and 14.6% of the Company's net revenues. During the three months ended January 31, 2003, sales to the Company's two largest customers were $59,406 and $50,000, representing 29.4% and 24.7% 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 product license and customer support for the three months ended January 31, 2004 was $6,292, a decrease of $5,559 or 46.9% as compared to the three months ended January 31, 2003. This was largely due to decreased customer support labor and consulting fees.

Cost of software purchased for resale including purchased maintenance for the three months ended January 31, 2004 was $24,337, an increase of $16,164 or 198% as compared to the three months ended January 31, 2003. The increase results from variations in the product mix of items purchased.

Cost of OptiChem sales for the three months ended January 31, 2004 was $16,163, an increase of $11,465 or 245% as compared to the three months ended January 31, 2003. This increase was due to increased raw material and labor required to produce a greater number of slides.

General and administrative expenses for the three months ended January 31, 2004 were $254,676, an increase of $40,088 or 18.7% as compared to the three months ended January 31, 2003. This increase was largely due to increased deferred compensation of $46,919, resulting from change in market value of investments in the deferred compensation trust, consulting fees regarding intellectual property of $9,010, and salaries and related payroll costs of $17,066, offset by a decrease in litigation fees of $25,503 as a result of concluded legal action in prior periods.

Marketing and sales expenses for the three months ended January 31, 2004 were $60,082, a decrease of $9,343 or 13.5% as compared to the three months ended January 31, 2003. This decrease was largely due to a decrease in consultant stock option expense due to a decreased price of the Company's stock as compared to July 31, 2003.

Research and development expenses for the three months ended January 31, 2004 were $137,532, an increase of $1,883 or 1.4% as compared to the three months ended January 31, 2003. This increase was largely due to an increase in salaries due to two additional employees whose focus was development of protein microarrays for use in applications that leveraged the Company's instruments of $19,894, offset by a decrease in consulting fees of $8,059, consultant stock option expense due to a decreased price of the Company's stock as compared to July 31, 2003 of $9,713, and laboratory supplies and expense of $6,830.

Depreciation for the three months ended January 31, 2004 was $10,041, an increase of $3,891 or 63.3% compared to the three months ended January 31, 2003. This increase results from additional laboratory equipment being depreciated.

Amortization for the three months ended January 31, 2004 was $58,128, a decrease of $1,812 or 3.0% as compared to the three months ended January 31, 2003.

As a result of these factors, loss from operations for the three months ended January 31, 2004 was $414,512, an increased loss of $106,078 or 34.4% as compared to loss from operations for the three months ended January 31, 2003.

Interest income for the three months ended January 31, 2004 was $15,988, a decrease of $12,046 or 43.0% as compared to the three months ended January 31,

2003. This decrease was primarily due to decreased interest rates received for the amount of money invested.

Unrealized holding gains on marketable securities held in the deferred compensation trust for the three months ended January 31, 2004 was $26,401, an increase of $45,336 as compared to the three months ended January 31, 2003. This gain was the result of changing market value of securities held by the trust. There was no realized gain on marketable securities held in the deferred compensation trust for the three months ended January 31, 2004. The total of the change in realized gain (loss) and unrealized gain (loss) in marketable securities is reflected as increased deferred compensation and included in general and administrative expenses.

No income tax provision or benefit was recorded during the three months ended January 31, 2004 as compared to a tax benefit of $19,431 for the three months ended January 31, 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 January 31, 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 January 31, 2004 was $372,123, an increased loss of $91,069 or 32.4% as compared to the three months ended January 31, 2003.

Capital Resources and Liquidity

At January 31, 2004, as compared to July 31, 2003, the Company's current assets decreased 8.2% from $8,773,073 to $8,051,871, the Company's liquidity, as measured by cash and cash equivalents, decreased by 10.4% from $8,711,951 to $7,803,285, and the Company's working capital decreased by 8.5% from $8,406,243 to $7,689,078. During the same period, shareholders' equity decreased 6.3% from $12,729,144 to $11,931,607, largely as a result of a net loss of $795,121.

Cash and cash equivalents for the six months ended January 31, 2004 decreased by $908,666. This decrease was largely the result of a net loss of $795,121, an increase in accounts receivable of $109,235, and an increase in inventory of $68,555, offset by amortization of $116,256.

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 January 31, 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 January 31, 2004 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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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

The Annual Meeting of the Company's Shareholders was held on December 16, 2003. The matters considered at the meeting were:

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

b) Ratification of the Selection of Anton Collins Mitchell LLP as the Company's independent public accountants for the fiscal year ending July 31, 2004.

Each of the nominees was elected to the Board of Directors, and Anton Collins Mitchell LLP were ratified as the Company's independent public accountants. The votes cast at the annual meeting upon the matters considered were as follows:

	For	Withhold
Election of Directors		
Thomas V. Geimer	7,640,368	94,755
A. Alexander Arnold III	7,721,968	13,155
Charles E. Gerretson	7,721,968	13,155

	For	Against	Withhold
Ratification			
Anton Collins Mitchell LLP	7,711,078	17,545	6,500

Item 5. Other Information

On March 16, 2004, the Company issued a press release disclosing its second quarter 2004 results. A copy of the press release is attached to this 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 issued March 16, 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: March 16, 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