ACCELR8 TECHNOLOGY CORP
Form 10QSB
December 13, 2002

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 October 31, 2002

[ ] 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 October 31, 2002
Common Stock, no par value	9,411,210

Accelr8 Technology Corporation

INDEX

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Accelr8 Technology Corporation
Balance Sheets

ASSETS	October 31, 2002 (Unaudited)	July 31, 2002
Current Assets:		
Cash and cash equivalents	$ 8,641,482	$ 8,631,192
Accounts receivable, net	48,712	24,767
Prepaid expenses and other current assets	40,615	61,665
Insurance recovery receivable (Note 6)	825,000	825,000
Income tax receivable and deferred tax asset	145,523	336,500
Total current assets	9,701,332	9,879,124
Property and equipment, less accumulated depreciation of $55,485 and $49,335, respectively	70,470	76,620
Investments	511,731	445,286
Intellectual property, less accumulated amortization of $218,741 and $158,801, respectively (Note 4)	4,573,288	4,622,904
Total assets	$ 14,856,821	$ 15,023,934
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 128,511	$ 87,599
Accrued liabilities	24,977	29,489
Accrued settlement loss (Note 6)	450,000	450,000
Deferred maintenance revenue	154,225	164,879
Other deferred revenue	20,000	2,200
Total current liabilities	777,713	734,167
Long-Term Liabilities:		
Deferred tax liabilities	24,833	24,833
Deferred compensation	530,481	520,286
Total long-term liabilities	555,314	545,119
Total liabilities	1,333,027	1,279,286
Shareholders' Equity		
Common stock, no par value; 11,000,000 shares authorized; 9,411,210 shares issued and outstanding	12,342,020	12,342,020
Stock to be issued (Note 6)	375,000	375,000
Contributed capital	332,059	329,809
Retained earnings	748,315	971,419
Shares held for employee benefit (1,129,110 shares at cost)	(273,600)	(273,600)
Total shareholders' equity	13,523,794	13,744,648

Total liabilities and shareholders' equity	$ 14,856,821	$ 15,023,934

See accompanying notes to unaudited financial statements.

Accelr8 Technology Corporation
Statements of Operations
(Unaudited)

	Three Months Ended October 31, 2002	October 31, 2001
Revenues:		
Product license and customer support fees	$ 30,412	$ 29,758
Resale of purchased software and customer support fees	154,677	62,274
Other Revenue	5,374	--
Net revenues	190,463	92,032
Costs and Expenses:		
Cost of services	9,819	51,684
Cost of software purchased for resale	30,590	9,658
General and administrative	167,338	162,372
Marketing and sales	74,542	53,293
Research and development	88,573	69,608
Amortization	59,940	6,345
Depreciation	6,150	5,325
Total costs and expenses	436,952	358,285
Loss from operations	(246,489)	(266,253)
Other income (expense):		
Interest income	33,433	75,015
Unrealized holding loss on investments	(8,605)	(55,701)
Realized loss on sale of investments	(1,443)	(3,034)
Gain on disposal of fixed assets	--	8,419
Abandoned trademark	--	(3,929)
Total other income	23,385	20,770
Net loss	$ (223,104)	$ (245,483)
Basic and diluted net loss per share	$ (.02)	$ (.03)

Weighted average shares outstanding - basic and diluted	9,411,210	7,630,360

See accompanying notes to unaudited financial statements

Accelr8 Technology Corporation
Statements Of Cash Flows
(Unaudited)

	Three Months Ended	
	October 31, 2002	October 31, 2001
Cash flows from operating activities:		
Net loss	$ (223,104)	$ (245,483)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Amortization	59,940	6,345
Depreciation	6,150	5,325
Issuance of stock options for consulting services	2,250	--
Unrealized holding loss on investments	8,605	55,701
Realized (gain) loss on sale of investments, interest and dividends reinvested	(50)	328
Gain from disposal of assets	--	(8,419)
Loss on abandoned trademarks	--	3,929
Net change in assets and liabilities:		
Accounts receivable	(23,945)	40,078
Prepaid expenses and other	21,050	19,366
Income tax receivable and deferred tax asset	190,977	--
Accounts payable	40,912	617
Accrued liabilities	(4,512)	(194,305)
Deferred maintenance revenue	(10,654)	13,223
Other deferred revenue	17,800	(825)
Other long-term liabilities	10,195	(37,279)
Net cash provided by (used in) operating activities	95,614	(341,399)
Cash flows from investing activities:		
Disposal of assets, net of depreciation	--	1,160
Proceeds from disposal of assets	--	8,419
Purchase of intellectual property	(10,324)	(7,197)
Purchase of investments	(75,000)	(75,000)
Net cash used in investing activities	(85,324)	(72,618)
Cash flows from financing activities:		
Repurchase of common stock	--	(15,805)

Employee stock options exercised	--	1,800
Net cash used in financing activities	--	(14,005)
Net increase (decrease) in cash and cash equivalents	10,290	(428,022)
Cash and cash equivalents, beginning of period	8,631,192	9,522,343
Cash and cash equivalents, end of period	$ 8,641,482	$ 9,094,321
Supplemental information:		
Cash received from income tax refunds	$ 190,977	$ --

See accompanying notes to unaudited financial statements.

Accelr8 Technology Corporation
Notes to Unaudited Financial Statements

Note 1. Basis of Presentation

The financial statements included herein have been prepared by Accelr8 Technology Corporation (the "Company") without audit, pursuant to the rules and regulations of the United States Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted as allowed by such rules and regulations. The Company believes that the disclosures are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the Company's annual audited financial statements dated July 31, 2002, included in the Company's annual report on Form 10-KSB as filed with the SEC.

The management of the Company believes that the accompanying unaudited financial statements are prepared in conformity with generally accepted accounting principles, which require the use of management estimates, and contain all adjustments (including normal recurring adjustments) necessary to present fairly the operations and cash flows for the periods presented. The results of operations for the three months ended October 31, 2002 may not be indicative of the results of operations for the year ended July 31, 2003.

Note 2. Reclassification

Certain reclassifications have been made in the 2001 financial statements to conform to the classifications used in 2002.

Note 3. Shareholders' Equity

Repurchase of Common Stock

On July 30, 1998 the Board of Directors authorized the repurchase of up to 500,000 shares of the Company's common stock. The Repurchase of the Company's common stock was based upon the Board of Directors' belief that the Company's common stock was undervalued considering the Company's potential earnings and prospects for future operations. Repurchases may be made periodically in the open market, block purchases or in privately negotiated transactions, depending on market conditions and other factors. The Company has no commitment or obligation to repurchase all or any portion of the shares.

Between August 1, 2002 and October 31, 2002 the Company did not repurchase any shares of its common stock. During the three month period ended October 31, 2001, the Company repurchased a total of 6,500 shares of its common stock at a cost of $15,805.

Common Stock Options

At October 31, 2002, there were 840,000 option shares outstanding at prices ranging from $.36 to $4.00 with expiration dates between July 31, 2003 and August 2, 2011. Included in the 840,000 options are 100,000 options that do not expire as long as the recipient remains an employee of the Company. The remaining number of option shares available for issuance under the Company's stock option plans are 257,500.

Five thousand stock option shares, at a price of $.36 and totaling $1,800 were exercised during the three months ended October 31, 2001.

On May 7, 2002, the Company issued options to purchase 100,000 shares of its common stock to consultants for services to be provided at an exercise price of $2.25 per share, expiring four years from date of issuance. The consultant options vest 50% after one year and 50% after two years. The incremental increase in the fair value of the options of $2,250 during the three months ended October 31, 2002 was recorded as a charge to operations.

Stock to be Issued

See Note 6 to unaudited financial statements for discussion.

Note 4. Intellectual Property

Intellectual property consisted of the following:

	October 31, 2002	July 31, 2002
OpTest Technologies	$4,614,872	$4,614,872
Patents	135,379	128,434
Trademarks	41,778	38,399
	4,792,029	4,781,705
Accumulated amortization	(218,741)	(158,801)
	$4,573,288	$4,622,904

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 patents and trademarks application life of the OpTest Technologies.

Effective August 1, 2001, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets". In accordance with SFAS No. 142, the Company completed an impairment test of its intangible assets and determined that no impairment existed as of August 1, 2001 or July 31, 2002. Intangible assets will be tested annually and whenever events and circumstances occur indicating that the assets may be impaired.

Upon the adoption of SFAS No. 142, the Company evaluated the estimated useful lives of the existing intangible assets and determined that the existing useful lives were appropriate.

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

Years Ending July 31,	
2003 (9 months)	$ 179,450
2004	239,390
2005	239,390
2006	239,390
2007	239,390
Thereafter	3,436,278
	$ 4,573,288

Note 5. Business Segment Information

The Company operates in two business segments: software tools and related consulting services and the general area of biosciences, which includes DNA/RNA assays, protein-based assays and biosensors. Operating results and other financial data for the three months ended October 31, 2002 and 2001 are presented for the principal business segments as follows:

Three Months Ended October 31, 2002	Software Tools and Consulting	Biosciences Business	Total
Revenues	$ 185,089	$ 5,374	$ 190,463
Costs and expenses	205,403	231,549	436,952
Interest income	33,433	--	33,433
Segment gain (loss)	3,071	(226,175)	(223,104)
Total assets	10,220,058	4,636,763	14,856,821

Intellectual property, net	--	4,573,288	4,573,288
Depreciation and amortization expense	1,800	64,290	66,090

Three Months Ended October 31, 2001	Software Tools and Consulting	Biosciences Business	Total
Revenues	$ 92,032	$ --	$ 92,032
Costs and expenses	235,827	122,458	358,285
Interest income	75,015	--	75,015
Segment loss	(119,096)	(126,387)	(245,483)
Total assets	9,713,285	540,402	10,253,687
Intellectual property, net	--	482,117	482,117
Depreciation and amortization expense	1,890	9,780	11,670

-8-

Note 6. Legal Proceedings

The Company is a party to certain legal proceedings, the outcome of which management believes will not have a significant impact upon the financial position of the Company. The Company is not able to predict the outcome of the pending legal matters described below with any degree of certainty, and there can be no assurance that the resolution of one or more of the cases described below may not have a material adverse effect on the Company.

Concluded legal matters

On November 16, 1999, the United States Securities and Exchange Commission ("SEC") filed suit in the United States District Court for the District of Colorado against Accelr8 Technology Corporation, Thomas V. Geimer, Harry J. Fleury, and James Godkin, captioned Securities and Exchange Commission v. Accelr8 Technology Corporation, et al., and Civil Action No. 99-D-2203. The SEC sought an injunction permanently restraining and enjoining each defendant from violating Section 10(b) of the Securities Exchange Act of 1934, and Rule 10b-5 promulgated thereunder; Section 13(a) of the Securities Exchange Act of 1934, and Rules 12b-20, 13a-1, and 13a-13 promulgated thereunder, and, in addition, that Mr. Geimer and Mr. Godkin be enjoined from future violations of Section 13(b)(2) of the Securities Exchange Act of 1934, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder related to securities fraud, Section 13 of the Exchange Act and the rules thereunder relate to reporting and record keeping. The SEC alleged that the Defendants made material misrepresentations of fact regarding the capability of certain of the Company's products, and the Company's financial condition, including its revenues and earnings. The SEC also alleged that Mr. Geimer and Mr. Godkin failed to implement, or circumvented, a system of internal accounting controls, falsified books and records, and made misrepresentations to the Company's accountants. On July 12, 2001, the Defendants, without admitting or denying the allegations of the Third Amended Complaint filed by the SEC, consented to the entry of Final Orders in which the court dismissed the securities fraud claims against all Defendants with prejudice, made no findings that any violation of law occurred, and enjoined the Defendants from future violations of Section 13 of the Exchange Act, and the regulations thereunder referred to above. In addition, Mr. Geimer paid a civil penalty of $65,000, Mr. Fleury paid a civil penalty of $20,000, and Mr. Godkin paid a civil penalty of $20,000. All costs, expenses, civil penalties, and liabilities incurred by the Defendants in defending and settling this matter were borne by the Company. No further action is anticipated in this matter.

On May 24, 2000, William Dews, an alleged shareholder of Accelr8, filed a derivative action on behalf of the Company, against Thomas Geimer, A. Alexander Arnold III and David Wilhelm, captioned John William Dews v. Thomas V. Geimer, et al., Civil Action No. 00-CV-2785 (District Court, City and County of Denver, Colorado). That action alleged various breaches of fiduciary duty arising out of Accelr8's accounting and public reporting during 1997 through 1999. On January 4, 2002, the Court approved a settlement between the parties pursuant to which the complaint was dismissed without prejudice, with no payments to be made by or on behalf of the defendants.

On July 14, 2000, the Agricultural Excess and Surplus Insurance Company ("AESIC"), which is the carrier of Accelr8's director and officer liability policy, filed in the United States District Court for the District of Colorado an action for a declaratory judgment seeking to rescind Accelr8's directors and officers liability policy, captioned Agricultural Excess and Surplus Insurance Company v. Accelr8 Technology Corporation, Civil Action No. 00-B-1417. That policy has a $1 million limit with a $100,000 deductible. The Company and certain individuals made demand for coverage under that policy relating to third party claims involving the Company's accounting and public reporting from 1997 to 1999. AESIC alleged that it was fraudulently induced to enter into the contract of insurance through knowing material misrepresentations made by the Company in its Form 10-KSB filed with the SEC, concerning the capabilities of certain of the Company's products. The defendants answered the Complaint, in which they denied the claim for rescission, and filed a counterclaim seeking damages for the insurer's refusal to provide the benefits of insurance.

Subsequent to July 31, 2002, the parties settled this lawsuit and AESIC paid $825,000 to the Company on November 5, 2002 in full satisfaction of all claims.

Pending legal matters

On May 4, 2000, Harley Meyer filed in the United States District Court for the District of Colorado a putative class action against Accelr8 Technology Corporation, Thomas V. Geimer and Harry J. Fleury. On June 2, 2000, Charles Germer filed in the United States District Court for the District of Colorado a putative class action against Accelr8 Technology Corporation, Thomas V. Geimer and Harry J. Fleury. On June 8, 2000, William Blais filed in the United States District Court for the District of Colorado a putative class action against Accelr8 Technology Corporation, Thomas V. Geimer and Harry J. Fleury. On June 20, 2000, Diana Wright filed in the United States District Court for the District of Colorado a putative class action against Accelr8 Technology Corporation, Thomas V. Geimer and Harry J. Fleury. On August 14, 2000, Derrick

Hongerholt filed in the United States District Court for the District of Colorado a shareholder derivative action against Thomas V. Geimer, David C. Wilhelm, A. Alexander Arnold III, Harry J. Fleury, James Godkin and Accelr8 Technology Corporation as a nominal defendant. These actions have been consolidated under the caption In re Accelr8 Technology Corporation Securities Litigation, Civil Action No. 00-K-938. On October 16, 2000, a Consolidated Amended Class Action Complaint was filed which added James Godkin as a defendant. The Consolidated Amended Complaint alleges violations of Section 10(b) of the Securities Exchange Act of 1934, and Rule 10b-5 thereunder, relating to the Company's accounting and public disclosure from October 1997 to November 1999. The Defendants have answered the Amended Complaint, in which they denied liability and raised affirmative defenses. On January 23, 2001, the Court granted the Plaintiff's Motion for Class Certification. The defendants have answered the Hongerholt derivative complaint, and have denied all claims.

In connection with this proceeding, Accelr8's Board of Directors appointed David G. Palmer, Esquire, as independent counsel to serve as a Special Litigation Committee to investigate the claims and circumstances relating to the derivative action filed by Derrick Hongerholt and to determine whether the derivative action should be terminated. On September 10, 2002, the Special Litigation Counsel determined, after investigation, that the derivative claims were without factual merit, and should be dismissed.

On October 30, 2002, the parties agreed to a settlement of the derivative action, under which that action would be dismissed with prejudice upon an exchange of releases, with no payments made by or on behalf of any of the Defendants. The settlement is subject to Court approval, and while the Company believes that approval is probable, there can be no assurance that the settlement will be approved. A hearing on the approval of the settlement has been set for December 19, 2002. In the event that the settlement is not approved, and the litigation proceeds, the Company is bearing the costs of defense in accordance with indemnification agreements for all Defendants, which costs may be material to the Company. No claims are asserted against the Company in the derivative action.

On October 30, 2002, the parties to the Consolidated Amended Class Action Complaint ("Class Action") executed a Memorandum of Understanding setting out an agreement in principle to settle the Class Action against all parties. Under the contemplated settlement, the Company will contribute to a settlement fund $450,000, and 375,000 shares of common stock in the Company. The settlement fund will be distributed in a manner over which the Company has no control. This agreement in principle is subject to formal documentation and Court approval. Although the Company believes that it is probable that the parties will complete formal documentation of the settlement agreement, and that the settlement will be approved, there can be no assurance that completion of the settlement, and Court approval will occur. In the event that the settlement is not completed, the litigation will continue. While the Company believes it has substantial defenses to the Class Action claims, there is no assurance that the resolution of the Class Action will not have a material adverse effect on the Company.

SFAS No. 5, "Accounting for Contingencies," requires loss contingencies to be accrued if it is probable an asset has been impaired or a liability incurred at the balance sheet date and the amount of loss can be reasonably estimated. Since the settlement terms discussed above satisfy the criteria for accrual of a loss contingency under SFAS No. 5, the $450,000 cash settlement has been accrued as a current liability and the value of the 375,000 shares of stock to be issued have been recorded in the statement of shareholders' equity as of

October 31, 2002 and July 31, 2002. The stock to be issued was valued using the market price of the Company's common stock on the date the parties agreed to the terms of the settlement. If the final settlement terms are amended from those stated above, adjustments to the Company's financial statements would be necessary in the year ended July 31, 2003. Furthermore, the $825,000 settlement receivable from AESIC was recorded as a current receivable in the Company's financial statements as of October 31, 2002 and July 31, 2002. Payment was received on November 5, 2002

Note 7. Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires the fair value of a liability for an asset retirement obligation to be recognized in the period in which it is incurred if a reasonable estimate of

fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The Company adopted this statement on August 1, 2002 and it had no material impact on its financial statements.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 requires that those long-lived assets be measured at the lower of carrying amount or fair value, less cost to sell, whether reported in continuing operations or in discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. The Company adopted this statement August 1, 2002 and it had no material impact on its financial statements.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This statement eliminates the current requirement that gains and losses on debt extinguishment must be classified as extraordinary items in the income statement. Instead, such gains and losses will be classified as extraordinary items only if they are deemed to be unusual and infrequent, in with the current GAAP criteria for extraordinary classification. In addition, SFAS No. 145 eliminates an inconsistency in lease accounting by requiring that modifications of capital leases that result in reclassification as operating leases be accounted for consistent with sale-leaseback accounting rules. The statement also contains other nonsubstantive corrections to authoritative accounting literature. The Company adopted this standard August 1, 2002 and it had no effect on the Company's financial statements.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities", which addresses accounting for restructuring and similar costs. SFAS No. 146 supersedes previous accounting guidance, principally Emerging Issues Task Force ("EITF") Issue No. 94-3. The Company will adopt the provisions of SFAS No. 146 for restructuring activities initiated after December 31, 2002. SFAS No. 146 requires that the liability for costs associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF No. 94-3, a liability for an exit cost was recognized at the date of a company's commitment to an exit plan. SFAS No. 146 also establishes that the liability should initially be measured and recorded at fair value. Accordingly, SFAS No. 146 may affect the timing of recognizing future restructuring costs as well as the amount recognized. Adoption of this standard will not have any effect on the Company's financial statements.

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

Information contained in the following discussion of results of operations and financial condition of the Company 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 that 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, could affect the Company's actual results and cause actual results to differ materially from those discussed in forward-looking statements.

Overview

Accelr8 Technology Corporation ("Accelr8" or the "Company") has been a provider of software tools and consulting services for the modernization of solutions for VMS legacy systems that were developed by Digital Equipment Corporation ("DEC") and which are proprietary to Compaq Computer Corporation ("COMPAQ") as a result of its purchase of DEC. The Company's consulting services and software conversion tools enable the Company's customers to analyze and implement conversions to UNIX, Linux and NT operating systems in a predictable and cost-effective manner. The Company's clients include a number of Fortune 1000 companies and government agencies.

Based upon the significant decline in sales of its software tools and related consulting services, the Company has taken steps to limit the costs associated with the conduct of this business. These steps included the reduction of the number of personnel whose efforts are directed towards this business, not renewing the contracts of several members of management whose primary activities related to this business and reducing the amount of space occupied by the Company. Management 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, management believes that it may be able to subcontract for the performance of the necessary services from third parties or former employees. The Company is also investigating the possibility of selling these business operations to another party although no arrangements or understandings currently exist with respect to the sale of these assets. Management believes that the merger of Hewlett-Packard Company ("HP") and COMPAQ provides an opportunity for the Company to provide a practical strategy for the Digital VMS installed base of customers to adapt their computer software programs to the next generation of HP hardware solutions.

On January 18, 2001 the Company purchased the OpTest technology assets ("OpTest") from DDx, Inc. ("DDx") and commenced investment in rapid delivery of testing and optimization of OpTest's surface chemistry and quantitative instruments. The Company's goal is to compete in the general area of biosciences, including DNA/RNA assays, protein-based assays and biosensors. The Company's proprietary surface chemistry and its quantitative instruments (QuanDx (TM) and Oter(TM)) support real-time assessment of medical diagnostics, food-borne pathogens, water-borne pathogens and bio-warfare assessments. The Company has received minimal revenues to date from these products and there is no assurance that the Company will be successful in marketing the new products.

Results of Operations: October 31, 2002 compared to October 31, 2001

Revenues for the quarter ended October 31, 2002 were $190,463, an increase of $98,431 or 107% as compared to the quarter ended October 31, 2001.

Product license and customer support fees for the quarter ended October 31, 2002, were $30,412, an increase of $654 or 2.2% as compared to the quarter ended October 31, 2001, and represented 16.0% of revenues. Based on the increased number of inquiries that we have received from the Compaq installed base of DEC (VMS) users, we believe that demand for our migration tools and services may increase going into the first half of calendar 2003. This will be influenced by Hewlett Packard's announcement of new operating systems and hardware solutions to be supported in the future.

Revenues from the resale of purchased software and customer support for the quarter ended October 31, 2002 were $154,677, an increase of $92,403 or 148% as compared to the quarter ended October 31, 2001, and represented 81.2% of revenues. This increase largely resulted from $81,375 in sales to a single customer as compared to no sales to that customer in the comparable quarter ended October 31, 2001.

Other revenues for the quarter ended October 31, 2002 were $5,374, as compared to zero revenues for the quarter ended October 31, 2001, and represented 2.8% of revenues. Other revenue represents sales of slides being sold to companies that are evaluating the OpTest technologies.

During the quarter ended October 31, 2002, sales to the Company's two largest customers were $81,375 and $50,625, representing 42.7% and 26.6% of the Company's revenues, respectively. In comparison, sales to the Company's two largest customers were $55,744 and $20,372, representing 60.6% and 22.1% of the Company's revenues, respectively, for the quarter ended October 31, 2001. The loss of a major customer could have a significant impact on the Company's financial performance in any given period.

Cost of services for the quarter ended October 31, 2002, was $9,819, a decrease of $41,865 or 81.0% as compared to the quarter ended October 31, 2001. This decrease resulted from fewer engineering salaries and other related personnel costs.

Cost of software purchased for resale for the quarter ended October 31, 2002, was $30,590, an increase of $20,932 or 217% as compared to the quarter ended October 31, 2001. Software purchased for resale includes cost of maintenance purchased to support previously sold software. The increase in software purchased for resale results from increased revenues from resale of purchased software and customer support and variations in product mix of items sold.

General and administrative expenses for the quarter ended October 31, 2002, were $167,338, an increase of $4,966 or 3.1% as compared to the quarter ended October 31, 2001, primarily due to decreased salaries of $6,400, consulting fees of $15,000, legal fees of $12,700 and employee related costs of $7,900 offset by increased deferred compensation of $47,500 due to change in market values of securities held in the deferred compensation trust.

Marketing and sales expenses for the quarter ended October 31, 2002, were $74,542, an increase of $21,249 or 39.9% as compared to the quarter ended October 31, 2001. This increase was due to increased consulting fees of $9,600, costs of promotional materials of $6,700, and costs of participating in trade shows, including cost of attending of $12,100.

Research and development expenses for the quarter ended October 31, 2002 were $88,573, an increase of $18,965 or 27.3% as compared to the quarter ended October 31, 2001. This increase was largely due to increased salaries of $9,700 and laboratory expense and supplies of $12,000 for the continued development of the OpTest technologies purchased January 18, 2001.

Amortization for the quarter ended October 31, 2002 was $59,940, an increase of $53,595 or 845% as compared to the quarter ended October 31, 2001. During the second and third quarters of the year ended July 31, 2002, the gross asset basis of intellectual properties increased significantly due to the purchase of the OpTestTM technologies (see discussion in the Company's Form 10-KSB for the year ended July 31, 2002). The increase in amortization expense results from the amortization of the OpTestTM technologies.

Depreciation for the quarter ended October 31, 2002 was $6,150, an increase of $825 or 15.5% compared to the quarter ended October 31, 2001.

As a result of these factors, loss from operations for the quarter ended October 31, 2002 was $246,489, a decreased loss of $19,764 or 7.4% as compared to the quarter ended October 31, 2001.

Interest income for the quarter ended October 31, 2002 was $33,433, a decrease of $41,582 or 55.4% as compared to the quarter ended October 31, 2001. This decrease was mainly due to an average interest rate decrease during the current quarter of about 1.6% and approximately $725,000 less cash earning interest.

Realized loss on marketable securities held in the deferred compensation trust for the quarter ended October 31, 2002 was $1,443, as compared to a realized loss of $3,034 during the quarter ended October 31, 2001. This loss was the result of selling marketable securities held in the deferred compensation trust. Unrealized loss on marketable securities held in the deferred compensation trust for the quarter ended October 31, 2002 was $8,605 a decrease of $47,096 as compared to the quarter ended October 31, 2001. This decreased loss was the result of changing market value of securities held in the trust.

There was no gain or loss on asset disposal for the quarter ended October 31, 2002 as compared to a gain on asset disposal of $8,419 for the quarter ended October 31, 2001.

There was no loss on abandoned trademarks for the quarter ended October 31, 2002 as compared to a loss of $3,929 for the quarter ended October 31, 2001.

As a result of these factors net loss for the quarter ended October 31, 2002 was $223,104 a decrease of $22,379 or 9.1% as compared to the quarter ended October 31, 2001.

As of October 31, 2002, a valuation allowance of $196,150 has been recorded on the deferred tax asset. As management has not determined that it is more likely than not that this amount of the deferred tax assets will be realized, no tax benefit was recorded for the quarters ended October 31, 2002 or October 31, 2001.

Capital Resources and Liquidity

At October 31, 2002, as compared to July 31, 2002, the Company's current assets decreased 1.8% from $9,879,124 to $9,701,332 and the Company's liquidity as measured by available cash, increased 0.1% from $8,631,192 to $8,641,482. Working Capital at October 31, 2002, was $8,923,619 compared to working capital of $9,144,957 at July 31, 2002. During the same period, shareholders' equity decreased 1.6% from $13,744,648 to $13,523,794 largely as a result of the Company's net loss for the quarter ended October 31, 2002.

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.

Contractual Obligations

The following tables set forth information with respect to our contractual obligations and commercial commitments as of October 31, 2002.

			Payments due by Period	
	Total	1 to 3 years	4 to 5 years	More than 5 years
Laboratory Lease Payments(1)	$121,208	$121,208	0	0
Thomas V. Geimer Employment Contract(2)	$189,583	$189,583	0	0

(1) We have a three year lease agreement that began on October 1, 2002 for our laboratory located at 7000 Broadway, Denver Colorado 80221.

(2) Calculated as of October 31, 2002. Mr. Geimer's employment agreement expires on November 30, 2003.

Item 3. Controls and Procedures

Within the 90-day period prior to the date of this report our Chief

Executive Officer who is also the Company's Chief Financial Officer evaluated the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, our Chief Executive Officer/Chief

Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in this quarter report on Form 10-QSB. There have been no significant changes in our internal controls or in other factors which could significantly affect internal controls subsequent to the date that the Chief Executive Officer/Chief Financial Officer carried out the evaluation.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

See Note 6 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 12, 2002. The matters considered at the meeting were:

a) The election of Thomas V. Geimer, David C. Wilhelm and A. Alexander Arnold III to the Company's Board of Directors.

b) To approve certain amendments to the Company's 1996 Non-Qualified Stock Option Plan.

c) To approve certain amendments to the Company's 1996 Incentive Stock Option Plan.

d) Ratification of the Election of Anton Collins Mitchell LLP as the Company's independent public accountants for the fiscal year ending July 31, 2003.

Each of the nominees were elected to the Board of Directors; certain amendments to the 1996 Non-Qualified Stock Option Plan and the 1996 Incentive Stock Option Plan were approved; 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	Against	Abstain
Election of Directors			
Thomas V. Geimer	7,786,645	27,120	400
David C. Wilhelm	7,783,845	29,629	700
A. Alexander Arnold III	7,776,844	36,621	700
Approval			
Amendments to 1996 Non-Qualified Stock Option Plan	7,514,123	288,862	11,180
Amendments to 1996 Incentive Stock Option Plan	7,509,23	298,022	7,020
Ratification			
Anton Collins Mitchell LLP	7,759,365	51,041	3,759

Item 5. Other Information

Not applicable.

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits:

1. Exhibit 99.01 Certification of Officers pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

2. Exhibit 99.02 Certification of Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

3. Exhibit 99.03 Certification of Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

b) Reports on Form 8-K: On August 29, 2002 the Company filed a Form 8-K, reporting under Item 4, changes in the Company's certifying accountants.

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.

Date: December 13, 2002 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