ACCELR8 TECHNOLOGY CORP
Form 10KSB
October 29, 2004

FORM 10-KSB
U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: July 31, 2004

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from _____ to _____

Commission file number 0-11485

ACCELR8 TECHNOLOGY CORPORATION
(Name of small business issuer in its charter)

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

7000 North Broadway, Building 3-307, Denver, CO 80221
(Address of principal executive offices)

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

Securities registered pursuant to Section 12(b) of the Exchange Act:

Common Stock, no par value
(Title of class)

Securities registered pursuant to Section 12(g) of the Exchange Act: None.

Indicate by check mark whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-B is not contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [ ]

The Registrant's revenues for the fiscal year ended July 31, 2004 were $118,614, adjusted for discontinued operations.

The aggregate market value of the voting stock held by non-affiliates of the

Registrant as of October 15, 2004 was approximately $16,509,167.50 based upon the last reported sale on that date.

For purposes of this disclosure, Common Stock held by persons who hold more than 5% of the outstanding voting shares and Common Stock held by officers and directors of the Registrant have been excluded in that such persons may be deemed to be "affiliates" as that term is defined under the rules and regulations promulgated under the Securities Act of 1933, as amended. This determination is not necessarily conclusive.

The number of shares of the Registrant's Common Stock outstanding as of July 31, 2004, was 9,961,210.

Documents incorporated by reference: None

Transitional Small Business Disclosure Format Yes ___ No X

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FORWARD-LOOKING STATEMENTS.

This Annual Report on Form 10-KSB contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the Company, as defined below, intends that such forward-looking statements be subject to the safe harbors created thereby. These forward-looking statements include the plans and objectives of management for future operations, including plans and objectives relating to the products and future economic performance of the Company. The forward-looking statements included herein are based on current expectations that involve a number of risks and uncertainties. These forward-looking statements are based on assumptions that the Company will retain key management personnel, that the Company's forecasts will accurately anticipate market demand for the Company's products and that there will be no material adverse change in the Company's operations or business. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Company. Although the Company believes that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate and, therefore, there can be no assurance that the results contemplated in forward-looking information will be realized. Although management believes that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate and, therefore, there can be no assurance that the results contemplated in forward-looking information will be realized. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In addition, as disclosed elsewhere in this Annual Report, the business and operation of the Company are subject to substantial risks that increase the uncertainty inherent in such forward-looking statements. In light of the significant uncertainties inherent in the forward-looking information included herein, the inclusion of such information should not be regarded as a representation by the Company or any other person that the objectives or plans of the Company will be achieved.

PART I

Item 1. Description of Business

History And Development Of The Company

Accelr8 Technology Corporation ("Accelr8" or the "Company"), a Colorado corporation was incorporated on May 26, 1982. The Company's office and laboratory are located at 7000 North Broadway, Building 3-307, Denver, Colorado 80221, and our telephone number is 303-863-8088.

On January 18, 2001, we acquired the OpTest portfolio of technologies ("OpTest") from DDx, Inc. ("DDx"). Since the acquisition of the OpTest assets, we have focused primarily upon furthering the research and development of the acquired technologies, and the development of revenue producing products related to that technology. The purchase of OpTest provided us with a proprietary

surface chemistry formulation and quantitative bio-analytical measurement instruments.

Before our acquisition of OpTest, we provided software tools and consulting services for system modernization solutions for VMS legacy systems. On July 30, 2004, we completed the sale of the assets related to the software business, which consisted of tools for legacy-code modernization and the resale of third-party software (the "Software Migration Business") to Transoft Group Ltd (the "Asset Sale"). The aggregate purchase price of the Asset Sale was $500,000; which was payable $100,000 in cash at the closing and the Company received a promissory note from the buyer with principal payable in three equal annual installments of $133,333. Interest is payable quarterly at an annual rate of 4%. In addition, the purchase price included the assumption of support obligations under pre-existing support and maintenance agreements, in the amount of

approximately $200,000. The Company's financial statements included in this Annual Report on Form 10-KSB reflect the financial position, results of operations and cash flows of the Software Migration Business as "discontinued operations." In accordance with Statement of Financial Accounting Standards ("SFAS") No. 144 ("SFAS No. 144"), "Accounting for the Impairment or Disposal of Long-lived Assets," the Company's financial statements for the fiscal year ended July 31, 2003 have been restated in this Annual Report to reflect the financial position, results of operations and cash flows of the Software Migration Business as "discontinued operations."

Our vision is to compete in the general area of biomedical products, including medical diagnostics, DNA/RNA assays, protein-based assays, and biosensors. We expect that our proprietary surface chemistry and quantitative instruments will support rapid analysis of infectious organisms, medical diagnostic markers, food- and water-borne pathogens, and bio-warfare agents.

We manufacture and market OptArray(TM) microarraying slides ("OptArray") and have also developed OptiPlate(TM) arrayable microtiter plates ("OptiPlate"). During the latter half of the fiscal year ended July 31, 2004, our primary focus shifted to a development program to integrate our OptiChem(R) surface chemistry ("OptiChem"), QuanDx(TM) light-scattering quantitative assay instrumentation ("QuanDx"), and YoDx(TM) assay acceleration process ("YoDx") into a novel system for rapid bacterial identification and antibiotic resistance testing, the BACcelr8r(TM) ("BACcelr8r").

We intend to customize our technologies to the specific requirements of large licensees, with the potential of bundling product licensing with an option for the licensee to purchase equity in Accelr8 if deemed appropriate. Management believes that substrate sales will grow markedly in the next fiscal year; however, there can be no assurance that sales will occur or that the anticipated revenues will be generated. OptiChem-related revenues for the year ended July 31, 2004 were $118,614.

The Medical Microbiology Market Opportunity

We are developing an innovative microbiological analysis system, the BACcelr8r, described on page 8, to overcome many of the shortcomings of current methods used to diagnose life-threatening infections. These shortcomings result from the diversity of bacterial species and strains responsible for serious infections and the fact that many such strains have become resistant to one or more antibiotics and even to entire families of related antibiotics.

Since the start of penicillin mass production more than 50 years ago, pharmaceutical companies have developed many types of antimicrobial drugs to fight bacterial infections. Until recently, antibiotics have been highly successful in curing or controlling serious infections.

However as antibiotic usage has become widespread throughout the world, many bacterial strains have emerged that express resistance to currently marketed antibiotics. Once microbes become resistant, infections can become difficult or impossible to treat. According to the FDA, "about 70% of bacteria that cause infections in hospitals are resistant to at least one of the drugs most commonly used to treat infections." The Centers for Disease Control and Prevention has stated that antibiotic resistance is among the organization's top public health concerns. The global spread of drug-resistant microbes has led to prolonged hospitalizations, and increased health care costs. Despite the antibiotic revolution, bacterial infections remain a leading cause of mortality in critically ill patients.

The antibiotic resistance problem continues to worsen as time passes. Over-use and inappropriate use of antibiotics contribute to the problem by creating a selective environment that favors survival of resistant strains. The rapid spread of resistance occurs because bacteria have mechanisms to share resistance genes freely in their surroundings. As a result, the most commonly prescribed antibiotics have the most widespread resistance, and resistance to multiple antibiotic families has already become a global threat.

In the case of life-threatening infections, the physician must prescribe antibiotics before obtaining antibiotic susceptibility data from the laboratory, which typically requires 2-5 days. Because of this delay, the physician most often must choose a combination of "broad spectrum" antibiotics that kill many different bacterial species. In a 2002 study of patients in whom a first episode of ventilator-associated pneumonia ("VAP") was diagnosed, approximately half involved more than one species. To further complicate the problem, the physician has no way of knowing which species cause an individual patient's infection until a lab can test patient specimens.

Management believes that rapidly-progressing infections can cause irreversible damage during the wait for lab results. In the meantime, the physician has no choice but to select the antibiotic combination most likely to kill the species and strains that predominate in a particular region or hospital. Statistics show that in approximately 25% to 50% of such cases the "empiric" antibiotic combination fails to adequately control the infection. Even worse, a study of the BAL (lung fluids) data on the therapy and outcome of VAP showed that changing the therapy later than approximately 24 hours did not significantly improve outcomes for most patients. In the study the mortality rate approached 90%. Based on reported statistics, we believe that substantial improvement in mortality, disease severity, and cost requires specific antibiotic susceptibility testing results in 12 hours or less.

Based on feasibility studies in our own Research and Development program, we believe that the BACcelr8r will be able to provide bacterial species identification and count in approximately one hour, and complete strain antibiotic susceptibility results in less than eight hours. Management believes the hospital Intensive Care Unit ("ICU") and Emergency Department ("ED") are the medical sites of care that have the most urgent need for rapid and detailed microbial testing.

Hospital-acquired pneumonia is the leading cause of death from infections

acquired in the hospital. In the ICU, VAP is the most common life-threatening infection contracted by patients during their hospital stay. Worldwide, over one million patients annually are at risk of developing VAP. Because these patients are critically ill before contracting pneumonia, the infection can have particularly serious consequences. A review of papers in medical journals highlight the fact that no medical "standard of care" now exists for diagnosing VAP and identifying the organisms that cause it. Yet VAP remains a leading cause of ICU mortality and high costs from extended stay in the ICU.

VAP is a direct result of mechanical ventilation (an element of life support), which requires the insertion of a tube deep into the patient's trachea (windpipe) and connects to a sophisticated mechanical air pump. The airway tube renders the patient vulnerable to infection because it facilitates leakage of microbes from the mouth into the airway of the lungs. The longer the tube is in place, the greater the risk that a patient will develop VAP.

Management believes that there are approximately one million patients annually in the United States, Europe, and Japan who are on mechanical ventilation for two or more days and thus are at substantial risk of developing VAP. Approximately 20% of patients who require mechanical ventilation for at least two days develop VAP. In spite of empiric antibiotic therapy, patients who develop VAP spend, on average, six to ten extra days in the ICU, which adds approximately $40,000 in incremental costs. The Joint Commission on Accreditation of Healthcare Organizations has identified VAP prevention as a core ICU performance measure. Performance measurements are used by hospitals to support performance improvements and to demonstrate accountability to external stakeholders - including payors.

Because of these reasons, we believe that rapid antibiotic susceptibility testing for the bacteria that cause VAP represents an urgent unmet medical need and an attractive market opportunity.

In addition, we believe that physicians will use the BACcelr8r microbiology system to help diagnose the causes of several other types of life-threatening bacterial infection. Examples include bacterial meningitis, serious cases of community-acquired pneumonia, wound infections (including those arising after surgery), and abscesses. Within the realm of bacterial analysis, we believe that new product development will typically consist only of modification to the disposable cassette assay content. Many such "panels" of target organism overlap in medical diagnostics, reducing the complexity of new application development.

Finally, we believe that proof of the BACcelr8r's ability to perform rapid, highly sensitive and specific analysis will also prove the commercial value of Accelr8's proprietary technologies to industry leaders.

The Microarray Market Opportunity

OptArray microarraying slides were our first commercial products derived from the OpTest assets. Microarrays typically consist of a microscopic grid of thousands of spots of a test chemistry on a glass slide. Each spot is made of a different variation of a test probe molecule, such as a unique short length of synthetic DNA that has a particular gene sequence. The researcher exposes a sample, such as extracts from a cell culture or serum, to the microarray. After incubation, washing and labeling, a computerized scanner measures the amount of dye or label on each spot. The researcher can then compare the array pattern between two different samples, such as a tumor biopsy against normal tissue.

Microarrays are important because they allow the researcher to determine which genes or biochemical pathways become more or less active during a disease or after exposure to a potential new drug. They allow the scientist to conduct thousands of analytical experiments at one time. This can reveal clues to disease processes or help determine whether a potential new drug has the expected biochemical effects in living tissues.

We decided to enter the microarray market because it has been in existence long enough to prove the value of microarraying, but we believe that it still has most of its growth ahead of it. Although the current research market is attractive in itself, we believe that emerging market segments in drug discovery and molecular diagnostics have much greater potential. In particular, we believe that research trends suggest that new array-based methods for cancer diagnostics may drive market growth. In addition, we believe that microarray technology has reached a crucial juncture, and that our unique technology has the potential to resolve critical issues that now retard the next phase of market evolution. Customer experience with OptArray slides confirms our beliefs about the nature of OptiChem's superiority in bio-analytical assays such as gene arrays and protein arrays.

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 glass manufacturer. SCHOTT formed the Nexterion division in 2002 to enter the microarray market. In 2003, Nexterion acquired the microarray products of Quantifoil based in Jena, Germany, which is a market leader in the European microarray slide market.

The supply agreement with Nexterion had a term of six months from October 15, 2003. The agreement also included an option for extension. The Company received sales revenues of approximately $78,310 from SCHOTT under the agreement through October 15, 2004.

During the term of the supply agreement, SCHOTT purchased and resold Accelr8's OptArray microarray slides, which were manufactured at Accelr8's Denver facility, under the Nexterion brand as "Nexterion Slide H". Accelr8 was SCHOTT's sole supplier of permeable hydrogel microarraying slides during the term of the supply agreement. Accelr8 also provided sales training to SCHOTT'S U.S. salesmen, technical support to SCHOTT's customers, and additional sales prospects to SCHOTT.

The letter of intent called for negotiation of a technology transfer license for Accelr8's OptiChem surface chemistry on microarraying slides. As of the filing of this Annual Report, we are still negotiating a licensing agreement with SCHOTT. Under the terms of the anticipated license agreement, SCHOTT would become the exclusive outsource manufacturer for OptArray products that have a specific designated coating formulation. SCHOTT would then have exclusive global distribution rights to those products for use in protein microarraying, and a non-exclusive license for DNA/RNA microarraying. We expect that the two companies will continue to cooperatively market the products.

As of this filing of this Annual Report, the Company was also negotiating a new supply agreement with SCHOTT for fulfillment of slide orders prior to SCHOTT commencing manufacturing pursuant to the technology transfer license discussed above.

We have also developed multi-well microtiter plates (OptiPlate) for

multiplexed microarraying. With standard slides the user prints large arrays, typically 5,000 to 30,000 elements (but OptArray slides can hold more than 80,000 spots). These provide broad screening for scientists to identify genes or proteins whose level of expression changes with disease or in response to a drug, for example. Large arrays are still too costly (typically several hundred dollars per array) to use for validation studies in which the scientist needs to test a relatively restricted array (typically from fewer then 10 spots to several hundred spots) with many different samples.

OptiPlate provides either 96- or 284-well plates, in which each well can contain a small array of up to 2,000 spots (in the 96-well version). This allows the scientist to validate candidate markers or drugs with a large number of test samples (such as blood samples from many different patients). Large research laboratories already own "high-throughput" robotics that automate fluid dispensing and analysis of microtiter plates. Standard microtiter plates contain one assay (test) per well. OptiPlate multiplexed array plates make it possible for labs to convert to array-based analysis and to multiply total assay throughput. For example, converting a standard immunoassay from a 96-well format to a 100-spot array per well would allow the lab to perform 100 times as many tests in a day. Multiplexing also shortens analysis time and cost per test. We believe that such massively parallel strategies will become important in future applications for drug discovery and diagnostic marker discovery.

During 2004, we also conducted a first-phase research and development feasibility project funded by a major industrial microarray supplier for a custom OptiChem coating. The customer chose OptiChem based on initial feasibility studies that compared OptiChem with other commercial coatings and the customer's own internal coating developments. We delivered final test materials to the customer and are awaiting results of more extensive testing. If successful, we expect that the customer will continue development with the intent of creating a new coating for its manufactured products. Revenues from the project totaled $90,000, and final acceptance of completion terms were acknowledged in a written confirmation on October 18, 2004. Revenues will be recognized in the first quarter of fiscal 2005.

Going forward, we intend to continue to selectively pursue additional high-potential opportunities in the microarray market.

Accelr8's Technology (OptiChem, QuanDx, and YoDx)

The BACcelr8r embodies all three of Accelr8's wholly-owned core technologies: OptiChem surface chemistry, QuanDx optical detection, and YoDx accelerated assay processing. We believe that the same integrated technology combination will provide a platform for molecular analysis, as used in genomics and proteomics, and molecular diagnostics. We also expect that the benefits of such a system would be similar to those we expect from the BACcelr8r - very high sensitivity, rapid results, high reproducibility, and relatively low cost per test.

The product architecture for integrated systems will be based on a fixed instrument and consumable assay substrates ("biochips" or "cassettes"). The instrument will contain computer boards, analyzer optics, electromechanical actuators, power supplies, and other subsystems that do not need to be disposable. The cassettes will contain the assay structure (such as an array), sample introduction ports, and couplings for fluids, electrical circuits, and optical interfaces. Cassettes may also contain reagents in small reservoirs. The disposable cassettes will contain most assay ingredients that cannot be re-used.

In a typical application (such as the BACcelr8r), the operator will use one cassette per test and dispose of the cassette when the test ends.

These high-performance systems depend on high-performance surface chemistry as the base of the assay itself. Conventional surfaces do not reduce background interference and improve the signal-to-noise ration to the extent necessary for high-sensitivity analyses. Therefore, we believe that OptiChem represents a key asset and provides us a strong competitive advantage.

Of our technologies, we commercialized OptiChem first because it is essential to our product strategy. It also provided us with commercial products more quickly than was possible with instrumentation. We intend to continue using this model of licensing individual technology components as we progress toward completion of integrated system development that combines instrumentation with disposable OptiChem-coated assay substrates.

OptiChem has unique properties that improve assay sensitivity by substantially lowering background interference. At the same time, it retains high capacity for immobilized assay components. As a result, OptiChem-coated assay substrates typically yield substantially higher signal-to-noise performance than alternative coatings, providing strong competitive advantages.

Examples of materials that OptiChem sheds and that typically interfere with conventional surfaces include microbes, blood cells, blood and serum proteins, sticky proteins in cell culture lysates, and unbound dyes that remain after labeling test samples. Non-specific binding (also referred to as "adsorption" or "fouling") of such materials is a dominant noise factor that limits the sensitivity of bio-analytical assays. Customer experience demonstrates that OptiChem has superior non-fouling properties as compared with those of competitors.

In creating a bio-analytical assay, the assay designer attaches probe molecules at desired locations on the activated substrate surface in any useful pattern such as a microarray grid. These reactive patches or spots provide "islands" of specific target analyte binding zones surrounded by a "sea" of extremely low non-specific binding surface. This contrast of low noise and high specific binding provides a very high signal-to-noise ratio that improves detection sensitivity.

As the microarray market evolves away from its original research basis that uses purified laboratory materials, we believe that demand will shift increasingly toward new substrate properties. In particular, we believe that it will become essential to use surfaces that provide consistent results despite exposure to blood and tissue extracts.

Management believes that the BACcelr8r substrates provide an excellent example of how OptiChem's unique properties make it possible to obtain unparalleled performance with complex natural samples. This ability reduces complexity of sample preparation, which often represents the most time consuming and error-prone step in laboratory analysis. In the BACcelr8r example, OptiChem coatings allow highly efficient capture of targeted species while substantially rejecting non-specific attachment of contaminant organisms and specimen matrix materials.

QuanDx instrumentation counts individual particles by imaging the light scattered from the particles. This method applies to particles larger than the wavelength of the illuminating light and also to particles much smaller than the

illuminating wavelength ("nano-particles" because their size is measured in nanometers, or billionths of a meter).

The BACcelr8r will use QuanDx detection for part of its analytical input. In this case, the system detects light that scatters directly from the microbes themselves. We believe that QuanDx detection will provide very fast and highly sensitive response in the first BACcelr8r detection steps.

In molecular analyses (such as microarraying), the operator can use nanoparticle detectors instead of conventional fluorescence or chemiluminescence dyes. Light scattered from nanoparticles yields vastly more photons than is possible with dye detection. This very large signal greatly simplifies detection as well as theoretically providing much higher sensitivity than dye-based detection. In addition, nanoparticle scattering does not suffer from degradation over time, which is a significant limitation with dyes.

Particle-based detection also enables quantized or digital detection schemes for background reduction that are not possible with intensity-based measurements as needed with dye-based detection. QuanDx converts each nanoparticle binding event into a discrete identifiable image and then counts only individual light scattering images while ignoring all other images and background. The only noise that enters in is the non-specific binding of the nanoparticle to the assay substrate. Management believes that OptiChem coated substrates reduce non-specific background noise and maximize QuanDx's performance.

Management believes that high sensitivity has become increasingly important for at least two reasons. First, researchers are tending to work more often with rare analyte materials in dilute forms. Second, assays that use very small quantities of reagents and analytes tend to be faster. Management believes that since QuanDx is based on microscopic observation, its ability to work with extremely small spots therefore maximizes the advantages of small scale.

YoDx uses electrical fields to force charged materials - such as microbes or molecules - to move rapidly toward an assay capture or measurement surface. The BACcelr8r will use this technique to quickly drive individual bacteria (which carry a negative charge) from a sample onto an OptiChem-coated capture surface.

For this assay, we coat OptiChem on top of a transparent base material that has a transparent, electrically conductive layer on its surface. We then print a capture agent, such as an antibody specific to a single bacterial species, in a small pattern on the OptiChem. After introducing a sample, we turn on the electrical field. In a typical experiment in our development program, the bacteria from the sample concentrate at the surface and bind to the capture agent in less than 120 seconds. The BACcelr8r then proceeds to analyze the characteristics and behavior of the individual bacteria (which remain captured).

In contrast, conventional microbiological methods usually require one to five days to grow enough organisms to the level required by current standard analytical methods.

Management believes that the BACcelr8r project illustrates the importance of discovering new ways to perform analyses at very small scale with high sensitivity and ultra-low interference. Standard microbiology uses multiple,

long growth cultures to determine an infectious organism's identity, quantity,

and susceptibility to antibiotics. In the best case, these methods require at least 30 hours to provide results, but typically require 2-5 days. In contrast, our goal for the BACcelr8r is to produce an even more complete microbiological analysis in less than eight hours and interim organism identity and quantity in less than one hour.

Similar principles apply to other versions of the integrated platform. We believe that by developing this system we will be in position to offer a customizable platform with short time to market for other companies who are in the business of marker discovery useful for drug discovery, molecular diagnostics, and other important vertical markets.

In addition, our technologies have potential application in other products and markets. Examples include pathogen testing for food and water safety, bio-defense, biosensors, and laboratory analytical tools. In addition, OptiChem coatings may have opportunities in microbial biofilm inhibition, pharmaceutical packaging, and other areas.

Competition

The BACcelr8r will enter a market niche whose constituent hospital laboratories now use automated bacterial culturing, identification, and antibiotic susceptibility testing systems. Leading suppliers of such systems include Becton Dickinson (NYSE: BDX), Dade Behring (NASDAQ: DADE), Trek Diagnostics (private), and bioMerieux (France). These products provide broad-based culturing and analysis of a wide variety of bacteria. In contrast, we intend to position the BACcelr8r as a disease-specific analysis and monitoring system for critically ill patients using small and specific subset of bacterial pathogens.

We believe that we will not need to displace installed culturing systems in order to sell the BACcelr8r. We have identified specific disease indicator (BUGS) where there is an urgent clinical need for rapid detection and an associated financial consideration for cutting unreimbursed hospital costs that we believe can only be met by the BACcelr8r.

Identified potential future competitors include many companies who are attempting to develop diagnostic platforms based on gene-based analyses such as PCR (polymerase chain reaction or gene amplification). However, we believe that the need to determine antibiotic susceptibility presents far too complex a challenge for gene-based products to overcome in the foreseeable future. In addition, we believe that FDA approval will require very long delays for such unprecedented methods. In contrast, the BACcelr8r embodies long-established analytical principles that we believe will not cause the FDA to view them in the same way as unproven methods such as gene analysis, although there can be no assurance that FDA will not change its viewpoints in the future.

Approximately 20 companies around the world sell activated slides for use in microarray printing. However, only a few of these produce high-performance products that we view as competing with OptiChem coated microarraying substrates.

Although Corning (NYSE:GLW) commands market leadership in activated microarray slides, we do not compete directly with Corning. OptArray targets the emerging need for high performance microarraying slides whereas Corning and others produce lower-cost products primarily for first-generation DNA expression arraying. Other companies that have similar products include TeleChem International (private), Erie Scientific (Apogent, acquired by Fisher Scientific in 2003), and SCHOTT Nexterion.

In October 2003, General Electric (NYSE: GE) acquired Amersham PLC. Amersham markets activated slides and manufactured microarrays under the

CodeLink(TM) brand. The coating on CodeLink slides is a hydrogel polymer that competes with our OptArray slides. However, we view GE as a potential customer and their supplier, SurModics Inc. (NASDAQ: SRDX), as a competitor in surface coatings.

A number of particle-based assays are on the market. However, we believe that they do not contain the superior qualities of QuanDx and do not count single particles.

In 2003, Boekel Scientific (private) licensed certain intellectual property from the University of Pennsylvania that is related to certain aspects of YoDx. Boekel produces hybridization ovens that are used in research labs, including microarray labs. The licensed technology might be used in a way that resembles some of the YoDx methods and is intended for microarray DNA hybridization applications.

Accelr8's Business Models

We intend to offer licenses to assay and instrumentation manufacturers. We intend to offer such licenses in return for an up-front licensing fee plus a royalty on the net sales price for finished products that contain our licensed assets, subject to annual minimum royalties.

Before we commit significant development effort to integrate our technologies into a customer's products and processes, we intend to require the customer to fund our non-recurring development costs. This customary joint development phase should enable us to preserve our cash assets and helps to qualify the customer's interest. However, there can be no assurance that we will enter into a joint development agreement with any of our customers.

In addition to our licensing model, we sell certain types of stock OptArray products to end-users such as manufacturers of proprietary microarrays. While some companies would prefer to license OptiChem and integrate it into their production lines, others prefer to purchase OptiChem-coated substrates for application of their proprietary DNA and protein libraries. We intend to serve the needs of both types of customer.

We continue to evaluate the potential to produce fully integrated systems for sale to end users in certain mature market niches. We believe the combination of OptiChem surfaces used with QuanDx and YoDx instrumentation has good potential in these niches. The projected potential consumption for coated substrates makes these niches attractive. Based upon our perception of the high value to customers and low projected production costs, we believe that this type of business model has attractive margin potential. However, there can be no assurance that we will be successful in increasing the demand for any of our products.

Business Strategy

Our business strategy is to specialize in advancing the technology of surface coatings used in bio-analytic substrates and to advance the technology of assay instrumentation by increasing speed and sensitivity while lowering cost. We intend to pursue this goal by conducting our own research and development programs and also by seeking to acquire or license important advances developed outside of the Company.

We intend to offer our industrial customers the highest available

performance in critical materials and subsystems. This will allow our customers to concentrate their resources on their own core competencies and strategic assets.

We believe that our intellectual property portfolio of technologies especially suits opportunities in medical markets for both laboratory diagnostics and point of care diagnostics.

In the future, we may offer various forms of alliances, including potential licensing, with other companies with the intent of jointly developing integrated systems for specific applications. Management believes that certain

applications, such as the diagnosis of infectious disease, are likely to yield products that can also adapt to other applications, such as pathogen testing for bio-defense or food safety.

In order to prove the commercial importance of advanced system designs, we have decided to produce one or more complete analysis products that incorporate QuanDx and YoDx instrumentation and OptiChem-coated substrates. The BACcelr8r provides an example for laboratory diagnostics.

Customers

During the fiscal year ended July 31, 2004, revenues from the sale of OptiChem products to Nexterion in the amount of $65,166 (54.9%) and to SomaLogic in the amount of $35,200 (29.7%) represented 84.6% of our total revenues. We continue to evaluate products and the sale of products used in the internal development of other companies. We are still engaged in research and development with respect to the OptiChem, QuanDx, and YoDx technologies. We believe that the selling cycle (to a customer) for a product such as OptiChem will average about nine to twelve months, because of the need to integrate our products into the customer's production processes.

Marketing and Sales

We currently market our technologies to potential industrial customers through five primary routes:

- Public presentations at scientific symposia attended by key scientific staff and research and development decision makers from targeted companies and institutions.

- Invited presentations at targeted companies by our own scientists or consulting academic scientists.

- Telephone calls, emails, express letters, and personal visits to key executives, business development managers, marketing managers, and research and development managers at targeted companies.

- Our web site (www.accelr8.com), the content of which is technical in nature and targeted at scientists within prospective accounts.

- Exclusive and non-exclusive agreements with well established distributors and manufacturers who have demonstrated effective marketing and have existing sales channels.

We believe that the "executive selling" process helps to assure that

high-quality, effective information is presented directly to individuals who have decision making authority or who have strong influence over decisions to adopt novel technologies in their business's product development programs.

We intend to continue to expand our exposure by means of research papers in technical journals, feature articles in the trade press, and advertising.

Operations

We own all of our laboratory equipment, including a high sensitivity scanner and a high precision microarray printer for microarray manufacturing, in our mid-volume production facility. We lease approximately 6,400 square feet of space for the laboratory and administrative offices. Within the laboratory facility we constructed a cleanroom pilot production operation. We believe the facility has adequate capacity spin coating equipment, and support staff to implement the current product development plan.

We have instituted a program to secure second sources for all materials used in OptiChem formulation, and have succeeded in qualifying multiple sources for the most critical constituent. We have successfully replaced our original vendor for this material with one of these alternative vendors.

We conduct an aggressive research and development program to expand our intellectual property portfolio and to adapt our licensable technologies to specific applications. Research and development programs include new physical coating methods for production of different substrate formats, additional methods for linking coatings to base materials, and additional functionalization for new applications. During the years ended July 31, 2004 and 2003, we spent approximately $554,416 and $554,934, respectively, on research and development activities.

QuanDx and YoDx instrumentation require certain components that are custom-fabricated to our specifications. These components include printed circuit boards for controller electronics, optical components such as custom lenses, injection-molded plastic components, and machined mechanical components. In all applicable cases, we will own the production tooling and will be able to qualify secondary sources. We plan to maintain inventory levels sufficient to bridge any second-source response times and include an adequate safety factor.

We intend to license to an established outsource manufacturer for production of microarray slides in the future. We will continue to use our own cleanroom pilot operation for ongoing product development and process engineering. As we approach commercialization for instrumentation, we plan to engage experienced instrumentation outsources to produce finished goods.

Intellectual Property

We rely on a combination of patent, copyright, trademark and trade secret laws, employee and third party non-disclosure agreements, license agreements and other intellectual property protection methods to protect our proprietary rights. We are committed to aggressively develop a continuing stream of intellectual property and to defend our position in key technologies.

We have two patents that cover certain aspects of OTER technology. Most recently, we received notice from the U.S. Patent and Trademark Office for the issuance of patent number 6,274,384 for a "method for specific substance and molecule detection." The patent claims the analytic methods associated with an

apparatus in previously issued U.S. patent 5,958,704 for a "sensing system for specific substance and molecule detection." We are also processing additional divisional OTER patent applications (U.S. and international). While we believe the OTER technology could be a viable technology with additional development, we have opted to discontinue development at this time to concentrate our resources on the technologies that currently have a larger market with greater demand. During the year ended July 31, 2003, the Company recorded an impairment loss of $188,359, representing the unamortized cost of the OTER technology purchased from DDx. During the year ended July 31, 2004 there was a loss on abandoned trademarks of $10,316 as the QuanDx trademark was abandoned as it became part of BACcelr8r.

We have United States and PCT patents pending on QuanDx instrumentation, and believe that the patent application covers areas that are critical for QuanDx protection.

In June, 2001, we filed our first provisional patent application for OptiChem surface chemistry and later converted that provisional application into a series of non-provisional applications. The full application is now being prosecuted. We believe the application has the potential to provide relatively broad protection for the unique surface chemistry. We plan to file a series of new provisional applications and continuations to expand protection over a broad base related to surface chemistry.

In July 2003, we acquired the rights to YoDx. Provisional United States and PCT patent application were filed in July 2003. They were converted to non-provisional applications in 2004. The applications cover a broad area of novel methods and device designs for assay incubation and detection of nanoparticles.

In addition to our own inventions, we review patent filings, commercial venues, and scientific publications for new opportunities. Where appropriate, we may acquire or license significant new intellectual property that complements our proprietary positions or that enables us to enter significant new market niches.

Late in 2002, Oxford Gene Technology ("OGT," Oxford, England) launched an aggressive, industry-wide patent litigation campaign. Although OGT filed suit against six companies, they appear to also have sent letters to a great many more companies in an attempt to force licensing. Accelr8 had several communications with OGT and a meeting during fiscal 2004. The meeting between senior executives of both companies resulted in amicable relations. In addition, SCHOTT (our global distributor) states that they obtained a license from OGT that covers all products sold by SCHOTT for microarraying. However there can be no assurance that OGT may not change its position in the future.

There can be no assurance that third parties will not assert infringement or other claims against us with respect to any existing or future products. We cannot assure you that licenses would be available if any of our technology was successfully challenged by a third party, or if it became desirable to use any third-party technology to enhance the Company's products. Litigation to protect our proprietary information or to determine the validity of any third-party claims could result in a significant expense to us and divert the efforts of our technical and management personnel, whether or not such litigation is determined in our favor.

While we have no knowledge that we are infringing upon the proprietary

rights of any third party, there can be no assurance that such claims will not be asserted in the future with respect to existing or future products. Any such assertion by a third party could require us to pay royalties, to participate in costly litigation and defend licensees in any such suit pursuant to indemnification agreements, or to refrain from selling an alleged infringing product or service.

The Company has secured trademarks for:

- Baccelr8r(TM);
- OptArray(TM);
- OptiChem(R);
- OptiPlate(TM);
- QuanDx(TM); and
- YoDx(TM).

Employees and Consultants

We have twelve full-time employees and contracts with five consultants. We have not entered into any collective bargaining agreements.

Factors That May Affect Future Results

Dependence On Key Employees. Our success depends to a significant extent upon a number of key management and technical personnel, the loss of one or more of whom could have a material adverse effect on our results of operations. We carry key man life insurance in the amount of $5 million on Thomas V. Geimer.

The Board of Directors has adopted resolutions under which one-half of the proceeds of any such insurance will be dedicated to a beneficiary designated by the insured. There can be no assurance that the proceeds from such life insurance would be sufficient to compensate us for the loss of Mr. Geimer, and these policies do not provide any benefits to the Company if Mr. Geimer becomes disabled or is otherwise unable to render services to the Company. Further, the loss of David Howson as President of the Company may have a significant adverse effect upon the Company and its business. We believe that our continued success will depend in large part upon our ability to attract and retain highly skilled technical, managerial, sales and marketing personnel. There can be no assurance that we will be successful in attracting and retaining the personnel we require to develop and market new and enhanced products and to conduct our operations successfully.

Need To Develop Market For Products. We have received only nominal revenue from sales based on products using the new OptiChem, QuanDx, and YoDx technology. Our competitors manufacture and market products that are similar to ours. Our principal competitors and the areas in which they compete with us are described more fully in "Competition." While we have received nominal revenues from sales, there is no assurance that we will be successful in marketing our products.

Our Success Depends Partly On Our Ability To Successfully Introduce New Products. In a market primarily driven by the need for innovative products, our revenue growth will depend on overcoming various technological challenges to successfully introduce new products into the marketplace in a timely manner. Our technology requires significant knowledge and experience in biochemistry. In addition, we must continue to develop new applications for our existing technologies. Market acceptance of these products will depend on many factors,

including, but not limited to, demonstrating that our technologies are superior to other technologies and products that are currently available or may become available in the future.

If we are unable to overcome these technological challenges, or even if we experience difficulties or delays, we may be unable to attract additional customers for our products, which would seriously harm our business and future growth prospects.

If We Are Unable To Effectively Protect Our Intellectual Property, We May Be Unable To Prevent Infringement. Our success depends in part on our ability to obtain and maintain patent protection for the technology underlying our products, both in the United States and in other countries. We cannot assure you that any of the presently pending or future patent applications will result in issued patents, or that any patents issued to us or licensed by us will not be challenged, invalidated or held unenforceable. Further, we cannot guarantee that any patents issued to us will provide us with a significant competitive advantage.

If we fail to successfully enforce our proprietary technology or otherwise maintain the proprietary nature of our intellectual property with respect to our significant current and proposed products, our competitive position and sales could suffer.

Notwithstanding our efforts to protect our intellectual property, our competitors may independently develop similar or alternative technologies or products that are equal to or superior to our technology and products without infringing on any of our intellectual property rights or design around our proprietary technologies. If customers prefer these alternative technologies to our technology, sales could be adversely affected.

Our Products Could Infringe On The Intellectual Property Rights Of Others. Due to the very significant number of U.S. and foreign patents issued to, and other intellectual property rights owned by entities operating in the industry in which we operate, we believe that there is a significant risk of litigation arising from infringement of these patents and other rights. Third parties may assert infringement or other intellectual property claims against us or our

licensees. We may have to pay substantial damages, including treble damages, for past infringement if it is ultimately determined that our products infringe on a third party's proprietary rights. In addition, even if such claims are without merit, defending a lawsuit may result in substantial expense to us and divert the efforts of our technical and management personnel.

We may also be subject to significant damages or injunctions against development and sale of some of our products, which could have a material adverse effect on our future revenues. Furthermore, claims of intellectual property infringement may require us to enter into royalty or license agreements with third parties, and we may be unable to obtain royalty or license agreements on commercially acceptable terms, if at all.

Third Parties May Seek To Challenge, Invalidate Or Circumvent Issued Patents Owned By Or Licensed To Us Or Claim That Our Products And Operations Infringe Their Patent Or Other Intellectual Property Rights. In addition to our patents, we possess an array of unpatented proprietary technology and know-how and we license intellectual property rights to and from third parties. The measures that we employ to protect this technology and these rights may not be

adequate. Moreover, in some cases, the licensor can terminate a license or convert it to a non-exclusive arrangement if we fail to meet specified performance targets.

We may incur significant expense in any legal proceedings to protect our proprietary rights or to defend infringement claims by third parties. In addition, claims of third parties against us could result in awards of substantial damages or court orders that could effectively prevent us from manufacturing, using, importing or selling our products in the United States or abroad.

Competition. Many of our competitors have greater financial, manufacturing, marketing and sales resources than we do. In addition, some of our competitors may, individually or together with companies affiliated with them, have greater human and scientific resources than we do. Our competitors could develop technologies and methods for materials that render our technologies and methodologies less competitive. Accordingly, if new competitors introduce new materials that are more cost effective than our technologies, we could experience poor sales, revenues and operating results.

Ability To Respond To Technological Change. Our future success will depend significantly on our ability to enhance our current products and develop or acquire and market new products that keep pace with technological developments and evolving industry standards as well as respond to changes in customer needs. There can be no assurance that we will be successful in developing or acquiring product enhancements or new products to address changing technologies and customer requirements adequately, that we can introduce such products on a timely basis or that any such products or enhancements will be successful in the marketplace. Our delay or failure to develop or acquire technological improvements or to adapt our products to technological change would have a material adverse effect on our business, results of operations and financial condition.

Possible Volatility Of Stock Price And Dividend Policy. The market price of our Common Stock could be subject to significant fluctuations in response to variations in actual and anticipated quarterly operating results, changes in earnings estimates by analysts, announcements of new products or technological innovations by us or our competitors, and other events or factors. In addition, the stocks of many technology companies have experienced extreme price and volume fluctuations that have often been unrelated to the companies' operating performance. We do not intend to pay any cash dividends on our Common Stock in the foreseeable future.

Control By Management. At October 15, 2004, our officers and directors owned of record approximately 1,007,850 or 10.12% of the outstanding shares of Common Stock of Accelr8. If they exercise all of the options that they currently hold, they will own 1,432,850, shares of our Common Stock or 13.80% of the then

outstanding shares of Common Stock of Accelr8. Due to their stock ownership, the officers, directors and key employees may be in a position to elect the Board of Directors and to control the business and affairs of the Company, including certain significant corporate actions such as acquisitions, the sale or purchase of assets and the issuance and sale of the Company's securities.

Shares Eligible For Future Sale. As of July 31, 2004, we had reserved 1,000,000 shares of Common Stock for issuance upon exercise of options which have been or may be granted pursuant to our stock option plans, of which options

to purchase 712,500 shares were outstanding as of July 31, 2004 ("Plan Options"). The 1,129,110 warrants exercised by Mr. Geimer ("Geimer Warrants") were exercised at $0.24 per share on October 14, 1997, and contributed to a Rabbi Trust. Under the terms of the Rabbi Trust, we will hold the shares in the trust, and carry them as treasury stock. The Rabbi Trust provides that upon Mr. Geimer's death, disability or termination of his employment, the shares will be released ratably over the subsequent ten (10) years, unless the Board of Directors determines otherwise. See Note 12 to the Financial Statements for further information. Additionally, DDx owns 1,606,793 shares of our common stock or 16.13% of the number of outstanding shares of Accelr8 which may be sold pursuant to Rule 144. Sales of Common Stock underlying Plan Options or by DDx may adversely affect the price of the Common Stock.

The Loss Of One Or More Of Our Major Clients Could Significantly Reduce Our Revenue. During the fiscal year ended July 31, 2004, revenues from the sale of OptiChem products to Nexterion in the amount of $65,166 (54.9%) and to SomaLogic in the amount of $35,200 (29.7%) represented 84.6% of our total revenues. During the fiscal year ended July 31, 2003, sales to SomaLogic represented 72.5% of revenues. There can be no assurance that revenue from any customer will continue at their historical levels. Loss of one or more of our current clients, particularly the clients listed above, could have a material adverse effect on our business, financial condition and results of operations. If we cannot broaden our customer base, we will continue to depend on a few clients for the majority of our revenue.

We Use Hazardous Materials In Some Of Our Research, Development And Manufacturing Processes. Our research activities sometimes involve the controlled use of various hazardous materials. Although we believe that our safety procedures for handling and disposing of such materials comply with the standards prescribed by state and federal regulations, the risk of accidental contamination or injury from these materials cannot be completely eliminated. While we currently maintain insurance in amounts which we believe are appropriate in light of the risk of accident, we could be held liable for any damages that might result from any such event. Any such liability could exceed our insurance and available resources and could have a material adverse effect on our business, financial condition and results of operations.

We Have A Single Manufacturing Facility And We May Lose Revenue And Be Unable To Maintain Our Client Relationships If We Lose Our Production Facility. We manufacture all of the products we sell in our existing production lab in Denver, Colorado. We currently can manufacture approximately 4,000 coated slides per month running one shift per five-day work week. If our production facility becomes incapable of manufacturing products for any reason, we may be unable to meet production requirements, we may lose revenue and we may not be able to maintain our relationships with our customers. Without our existing production facility, we would have no other means of manufacturing products incorporating our coating technologies until we were able to restore the manufacturing capability at our facility or develop an alternative manufacturing facility. Although we carry business interruption insurance to cover lost revenue and profits in an amount we consider adequate, this insurance does not cover all possible situations. In addition, our business interruption insurance would not compensate us for the loss of opportunity and potential adverse impact on relations with our existing licensees resulting from our inability to produce products for them.

Changes In Governmental Regulations May Reduce Demand For Our Products Or Increase Our Expenses. We compete in markets in which we or our customers must comply with federal, state, local and foreign regulations, such as

environmental, health and safety and food and drug regulations. We develop, configure and market our products to meet customer needs created by these regulations. Any significant change in these regulations could reduce demand for our products.

Our Results Of Operations Will Be Adversely Affected If We Fail To Realize The Full Value Of Our Intangible Assets. As of July 31, 2004, our total assets included $4,070,832 of net intangible assets. Net intangible assets consist principally of costs associated with securing patent rights, trademark rights and technology licenses, net of accumulated amortization. These assets have historically been amortized on a straight-line basis over their estimated useful lives. Intangible assets to be held and used by the Company are reviewed for impairment whenever events or circumstances indicate that the carrying amount of the asset may not be recoverable. We continuously evaluate the recoverability of these items based on estimated future cash flows from and estimated fair value of such assets, and provide for impairment if such undiscounted cash flows are insufficient to recover the carrying amount of the asset. During the fiscal year ended July 31, 2004, the Company recorded an impairment of $10,316 for trademark abandonment.

During the fiscal year ended July 31, 2003, we completed our impairment testing, which resulted in an impairment loss of $188,359 representing the unamortized cost of the OTER technology purchased from DDx. While we believe the OTER technology could be a viable technology with additional development, we opted to discontinue its development to concentrate our resources on the technologies that currently have a larger market with greater demand.

Future impairment testing may result in additional intangible asset write-offs, which could adversely affect our financial condition and results of operations.

Glossary

Analyte: the target material that an analysis or assay is intended to measure or detect.

Antibody: a specialized protein (immunoglobulin) produced by the immune response that binds to a particular molecular surface that has previously been presented to certain cells in the organism's blood. The end-product of the "humoral" component of the immune response. Key component of immunoassays detecting as the analyte-specific detection agent.

Antigen: the material used to stimulate immune antibody production in an organism.

Assay, Qualitative: a chemical test in which the result is expressed as the presence or absence of an analyte. Also referred to as "detection," as opposed to measuring the amount of material.

Assay, Quantitative: a chemical test in which the result is expressed as the quantity of analyte in a sample. Quantitative assays may be used to determine whether the amount of analyte is above or below a "cut-point" that distinguishes an acceptable level of the analyte, such as a food pathogen, from an unacceptable level.

Binding, Affinity: relatively strong attachment of one molecule or reactive site to another by means of forces other than direct chemical bonding and with high selectivity such that molecules that are very similar to the analyte are not attached. Examples include the attachment of an antibody to an antigen,

complementary strands of nucleic acid to each other, and an enzyme to its substrates, streptavidin with biotin and lectin with sugar. The degree of binding strength and selectivity may vary from one type of affinity pair to another (high affinity to low affinity).

Binding Event: the occurrence of affinity or covalent (chemical) binding between two molecules or entities. If a conjugated assay component is very large relative to molecular dimensions (as is a nanoparticle), the capture of a single reporter entity may actually represent multiple analyte binding events but will be counted as a single binding event since it is the minimum measurable unit.

Binding, Non-Specific: attachment (typically by physical adsorption) of one material to another in a way that does not require a specific molecular fit between the two materials. Typically observed when a scientist attempts to wash away the un-reacted material from a sample mixture applied to an assay surface. Residual, adsorbed material that is not the analyte then interferes with accurate measurement of the amount of attached analyte.

Binding Site Density: the areal density of reactive binding sites, typically expressed as the number of molecular reactive sites (or moles) per square centimeter.

Binding, Specific: the ability or capacity of an immobilizing surface or molecule to attach to a single desired analyte molecule and not to very similar molecules.

Biomolecule: a natural organic molecule found in biological organisms.

Bio-Defense (or Bio-Terrorism or Bio-Warfare): the defense from deliberate use of human pathogens to infect enemy troops or civilian populations in order to kill or incapacitate them. The use of infectious diseases as weapons. "Bio-Defense" is the use of biosciences to devise strategies and materials to defend against bio-warfare agents.

Chemiluminescence: reaction of certain chemicals that emit light as a result of the reaction. Used in assays to react in proportion to the amount of analyte present in a sample.

Confocal Scanning Microscope: a complex automated microscope used to scan analytic slides in a very thin optical section in order to reduce background interference. Typically used with fluorescent dyes conjugated to a sample's analyte molecules. The workhorse for microarray analysis in genomics and proteomics.

Conjugate: (Verb) to link or bind one chemical or assay component to another. (Noun) The combined entity created by conjugation of substances. For example, conjugating a nanoparticle to an antibody. Distinguished from a chemical reaction in which a single component results that differs chemically from the starting constituents. Conjugation does not result in a product that has chemically changed, but one that has two or more components linked together without having induced a chemical change to either of them.

DNA: the nucleic acid biomolecules that carry an organism's genetic code. The famous "double helix" molecular model of Watson and Crick.

ELISA: "Enzyme-Linked Immuno-Sorption Assay;" an assay architecture in which a substrate-immobilized antibody (immunoglobulin) is used as a specific

affinity binding agent to attach to a desired analyte molecule, and then certain enzymes are linked to the affinity-bound pair in a way that amplifies and reports the analyte capture through some means of physical detection such as optical density of a dye or brightness from chemiluminescence or fluorescence.

Enzyme: a protein that catalyzes a biochemical reaction. As a catalyst, the enzyme induces the reaction to occur but does not itself change as a result of the reaction. Enzymes catalyze all of the biochemical reactions responsible for a cell's life processes.

Fluorescence: emission of light by a molecule in response to illumination by light of certain wavelengths. The emitted light has a longer wavelength (red-shifted) than that of the illumination source. Used to react in an assay in proportion to the amount of analyte present in a sample.

Functionalization: the incorporation of a chemically reactive group at the surface of a material such as an assay substrate. This group provides an attachment site for specific types of chemical binding reaction.

Gene: a sequence of DNA or RNA that produces a functional protein product when translated by the normal biosynthetic route.

Genomics: the study, including sequencing, of molecules that carry an organism's genetic code (nucleic acids, DNA and RNA).

High-Throughput Screening (HTS): parallel processing of very large numbers of assays in order to identify interactions between a target substance and a probe. The most important example is the use of microarrays, combinatorial libraries, and other materials to discover drug candidates.

Hybridization: the specific affinity linkage between two complementary nucleic acid strands over a relatively long polymeric sequence. The binding strength is a function of the degree of complementary homology between the strands.

Immunoassay: any type of biochemical assay that uses antigen-antibody affinity as the assay basis of selection and detection.

Lab-On-A-Chip ("LOC"): a very small-scale sequence of mechanized laboratory processes to capture, clean, separate, and measure one or more defined analytes in a sample. Practical LOC devices range from relatively large, a few inches in their longest dimension, to microscopic. They allow relatively complete laboratory analyses to be performed in a single mass-produced integrated fluidic component. Typically, LOC uses physical principles that would not be practical on a larger physical scale but that replace "macro" components that do not work well on a small scale (such as mechanical valves).

Macromolecule: a large molecule. The size cutoff is arbitrary and depends on context.

Microarray: a regular geometric array (matrix or grid pattern) of individual reactive chemical probes affixed to a physical substrate such as a microscope slide. Used in assays to conduct thousands of analyses at one time on sample materials presented to the microarray. The high-density evolution of the microtiter plate.

Microtiter Plate: a multi-well plate (typically 96 wells) of standard

dimensions in which individual reactions occur near-simultaneously with different reagents. Analyzed visually or by automated optical plate readers. Currently the most widely-used standard laboratory assay format.

Nanoparticle: a very small particle whose diameter is (typically) smaller than the wavelength of light used to illuminate it in an assay system. Designated "nano" because its dimensions are expressed in nanometers (a billionth of a meter). Visible light has wavelengths between about 350 and 650 nanometers.

Nucleic Acid: DNA (deoxyribo-nucleic acid) or RNA (ribo-nucleic acid). Polymeric chains of nucleotides whose particular sequence constitutes an organism's genetic code (DNA and genomic RNA) or that participate in the biosynthesis of new protein molecules (other types of RNA such as messenger RNA, transfer RNA, and ribosomal RNA).

Oligonucleotide, Oligomer, Oligo: a short section of DNA or RNA. A small nucleic acid polymer.

Pathogen: an infectious organism (bacteria, viruses, prions) that when infecting a host causes a medical pathology (disease). Pathogens may be transmitted through food, water, air, and/or contact with infected individuals or their biological fluids.

Probe (molecular): by convention, the reactive component of an assay that is immobilized onto a surface and to which its complementary "target" is presented.

Protein: biological polymeric macromolecules formed by long chains of amino acids (twenty in humans) and which provide the mechanism for cellular physiology and metabolism. All life functions are carried out through the mediation of proteins (typically enzymes).

Peptide: small proteins or protein fragments. There is not a rigid demarcation since some small whole "proteins" are much smaller than "peptide" fragments of large proteins.

Proteomics: the study of proteins in a way that measures the degree of expression and/or degree of variation, or to identify the proteins created by an organism's genome. Also referred to as "functional genomics" since it examines the protein products encoded by genes.

RNA: a nucleic acid biomolecule category if single-stranded (as opposed to the double helix of DNA) that are essential in making protein products from the master DNA genetic code. Certain micro-organisms have RNA as their genetic material rather than DNA.

Sandwich Assay: an assay structure that builds up layers of successive binding reactions from a fixed mechanical base. A sequence of steps creates the layers such that the final layer provides the reporting mechanism. Intermediate layers may amplify the fundamental analyte capture or stabilize it to permit detection that would not otherwise be reliable or sufficiently sensitive.

Sensitivity: the smallest quantity of analyte that the assay can detect. Same as "Limit Of Detection." Statistically, the proportion of false negatives reported for a population sample.

Signal-To-Noise Ratio (SNR or S/N): the ratio of a desired "signal" such as analyte quantity to background "noise" such as interference by unwanted substances or detectors or detection circuitry. The higher the SNR, the higher the possible assay sensitivity.

Specificity: the degree to which an assay measures only the specific analyte of interest and not chemically similar materials. Statistically, the proportion of false positives reported for a population sample.

Surface Chemistry: the chemistry of materials that provide a barrier or contact surface. In the context of biochemical assays, the chemistry of all exposed surface area that may come into contact with assay reagents.

Target (molecular): by convention, the reactive component of an assay that is not immobilized, but which is presented to its complementary immobilized "probe."

Tissue Culture: artificial growth of living cells from multi-cellular organisms (including humans) in a laboratory medium.

Item 2. Description of Property.

We lease approximately 6,400 square feet of office and laboratory space at 7000 North Broadway, Building 3-307, Denver, Colorado 80221. The monthly rent is $4,550 per month.

Item 3. Legal Proceedings

Not Applicable.

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

No matters were submitted by the Company to a vote of our security holders through the solicitation of proxies or otherwise, during the fourth quarter of the fiscal year covered by this Annual Report.

PART II

Item 5. Market For Common Equity and Related Stockholder Matters

From November 21, 2000 to October 8, 2003, the Company's common stock traded on the NASDAQ Electronic Bulletin Board. On October 9, 2003, the Company's common stock began trading on the American Stock Exchange under the trading symbol AXK.

The table set forth below presents the range, of the high and the low sales price per share of Common Stock on a quarterly basis.

Quarter Ended	High	Low
Fiscal 2004		
October 31, 2003	$4.80	$2.25
January 31, 2004	3.66	2.10
April 30, 2004	3.30	2.35
July 31, 2004	3.17	2.10
Fiscal 2003		

October 31, 2002	$1.19	$0.60
January 31, 2003	1.69	1.01
April 30, 2003	1.22	0.97
July 31, 2003	6.95	1.07

On October 15, 2004, the Company had approximately 170 shareholders of record, which does not include shareholders whose shares are held in street or nominee names. The Company believe that there are approximately 1,525 beneficial owners of its Common Stock.

Holders of Common Stock are entitled to receive dividends as may be declared by the Board of Directors out of funds legally available therefore. To date, no dividends have been declared by the Board of Directors, nor does the Board of Directors anticipate declaring and paying cash dividends in the foreseeable future.

Securities Authorized For Issuance Under Compensation Plans

The table set forth below presents the securities authorized for issuance with respect to compensation plans under which equity securities are authorized for issuance as of July 31, 2004:

Equity Compensation Plan Information			
Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securiti remaining available future issuance under compensation plan (excluding securiti reflected in the 1st column
Equity Compensation Plans approved by security holders	712,500	$1.85	210,000
Equity Compensation Plans not approved by security holders	200,000(1)	$2.25	N/A
Total	912,500	$1.94	210,000

(1) In connection with the purchase of the YoDx technology, the Company agreed to issue an additional 200,000 stock options with the same terms as the Company's Non-Qualified Stock Option Plan upon the earlier of (a) the Company achieving certain accumulated revenue levels associated with the YoDx(TM) technology or (b) a change in control of the Company prior to the expiration date of the options. As of October 15, 2004, the contingent provisions have not been met and the options have not been granted.

Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations

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, we have 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 us to pursue a purchase agreement with DDx.

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 quantitative instrument (QuanDx). Our proprietary surface chemistry and its quantitative instruments support rapid assessment of medical diagnostics, food-borne pathogens, water-borne pathogens and bio-warfare assessments. Presently the Company sells advanced microarray slides 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. This property substantially improves analytical performance by enabling higher sensitivity, greater reproducibility, and higher throughput by virtue of simplified application methods.

On October 15, 2003 we entered into a supply agreement with SCHOTT Nexterion of Jena, Germany, which included a right to distribute during the term. Under the terms of the supply agreement, Nexterion purchased and resold Accelr8's OptArray microarray slides under the Nexterion brand and Accelr8 manufactured the microarraying products in its Denver facility.

In fiscal 2005 we intend to complete technical studies on materials and processes to be used in the BACcelr8r system. We also intend to begin BACcelr8r product design and development in fiscal 2005. With microarraying products, we plan to continue manufacturing hydrogel slides for resale to distributors and end users. In addition, we expect to conduct further custom OptiChem coating development in projects funded by industrial customers.

On July 30, 2004, we completed the sale of the assets related to the Software Migration Business, which consisted of tools for legacy-code modernization and the resale of third-party software to Transoft Group Ltd (the "Asset Sale"). The aggregate purchase price of the Asset Sale was $500,000; which was payable $100,000 in cash and the Company was issued 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 included the assumption of support obligations under pre-existing support and maintenance agreements. The assets, liabilities, results of operations and cash flows for the Software Migration Business have been classified as Discontinued Operations in the financial statements.

Selected Financial Data

The following selected financial data should be read in conjunction with the financial statements and related notes thereto appearing elsewhere in this Form 10-KSB. The selected financial data as of July 31, 2004 and 2003 and for each of the two years in the period ended July 31, 2004 have been derived from

our financial statements which have been audited by our independent auditors and included elsewhere in this Form 10-KSB. The selected financial data provided below is not necessarily indicative of our future results of operations or financial performance.

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Statement of Operations Data:	Year Ended July 31, 2004	2003
	(In thousands, except per share data)	
OptiChem Revenue	$119	$53
Loss from continuing operations	(1699)	(1,757)
Gain on sale of discontinued operations	621	--
Income from discontinued operations	168	381
Net loss	(909)	(1,376)
Weighted average shares outstanding	9,961,210	9,510,594
Basic and diluted net loss per share		
Continuing Operations	$ (.17)	$ (.18)
Discontinued Operations	$ .08	$ .04
	$ (.09)	$ (.14)

Balance Sheet Data:	2004	2003
Working capital	$ 7,257	$ 8,410
Current assets	7,504	8,777
Current liabilities	247	367
Total assets	12,725	13,745
Total liabilities	988	1,016
Shareholders' equity	11,737	12,729

Results of Operations

The following table sets forth, for the periods indicated, the percentage of net sales represented by certain items included in the Company's Statements of Operations:

Fiscal year ended July 31,	2004	2003

Total revenues from continuing operations	100%	100%
Cost of sales	(55)	(34)
General and administrative	(758)	(1,279)
Marketing and sales	(67)	(473)
Research and development	(467)	(1,051)
Depreciation	(41)	(53)
Amortization	(198)	(488)
Loss (gain) on disposal of fixed assets	-	(16)
Impairment loss	-	(357)
Abandoned trademark	(9)	-
Other (expense) income, net	62	287
Income tax benefit	-	37
Loss from continuing operations	(1,432)	(3,328)
Gain on sale of discontinued operations	524	-
Income from discontinued operations	142	722
Net loss	(767)%	(2,606)%

Changes in Results of Operations: Year ended July 31, 2004 compared to year ended July 31, 2003.

On July 30, 2004, the Company completed the sale of the assets related to the Software Migration Business. See Note 9 to the financial statements for details. As a result, the following revenues, costs, and expenses relate only to the continuing operations of the Company.

OptiChem revenues for the year ended July 31, 2004 were $118,614 as compared to $52,794 for the year ended July 31, 2003, resulting in an increase of $65,820, or 124.67%. The increase in OptiChem revenues is primarily the result of increasing number of slides sold to Schott Nexterion AG.

During the year ended July 31, 2004, sales to the Company's two largest customers were $65,116 and $35,200, representing 55% and 30% of the Company's revenues. During the year ended July 31, 2003, sales to the Company's largest customer was $38,295, or 73% of revenues. The loss of a major customer could have a significant impact on the Company's financial performance in any given year.

Cost of sales for the year ended July 31, 2004 was $65,630 compared to $18,100 as compared to the year ended July 31, 2003, an increase of $47,530 or 263%. This increase was primarily the result of the increase in sales and price changes in new material and labor.

General and administrative expenses for the year ended July 31, 2004 was $899,098 as compared to $675,358 during the year ended July 31, 2003, an increase of $223,740, or 33.13%. The following summarizes the major components of the changes:

	2004	2003	Increase (Decrease)
Consulting Fees	$65,348	$ 35,990	$29,358
Corporate and Shareholder	145,183	45,223	99,960

Corporate Insurance	73,745	96,448	(22,703)
Deferred Compensation	91,906	129,114	(37,208)
Employee Benefits and Payroll Taxes	118,637	69,683	48,954
Salaries	268,973	208,536	60,437
Travel	12,075	3,758	8,317
Legal	58,078	31,987	26,091
Miscellaneous Other Categories	65,153	54,619	10,534
	$899,098	$675,358	$223,740

The increased consulting fees were largely due to the Company's intellectual property consultant working twelve months in the year ended July 31, 2004 as compared to seven months during the year ended July 31, 2003. Corporate and shareholder expenses rose primarily because (i) of the payment of the original listing fee for the American Stock Exchange in the amount of $55,000 plus ten months of the annual fee during the fiscal year ended July 31, 2004, (ii) retention of an investor relations firm for six months during the fiscal year ended July 31, 2004, and (iii) the ongoing expense of travel to shows and other related expenses in an effort to increase the Company's profile within the scientific and investment communities. Corporate insurance decreased because of a reduction in cost of the directors, officers, and Company reimbursement liability coverage. Deferred compensation decreased due to the change in market value of the securities held in the deferred compensation trust at July 31, 2004. Salaries increased due to a former consultant becoming employed as president of the Company, with the result that his salary is now charged to general and administrative expense plus salary increases paid to other full time scientific employees. Legal, payroll taxes, employee benefits and travel expenses also rose in the normal course of business.

Marketing and sales expenses for the year ended July 31, 2004 were $79,269 as compared to $249,720 during the year ended July 31, 2003, a decrease of $170,451 or 68.26%. This decrease was primarily the result of a decrease in the marketing and sales allocation of consultant stock option expense, accounted for using variable accounting whereby the option value was decreased as a credit to expense due to the decrease in the Company's common stock value. Additionally, consulting fees decreased $40,000, as a previous consultant is now President of the Company and is no longer charged to marketing and sales but to general and administrative salaries.

Research and development expenses for the year ended July 31, 2004, were $554,416 as compared to $554,934 during the year ended July 31, 2003, a decrease of $518. Major changes within the totals were a decrease in the research and development allocation of consultant stock option expense, accounted for using variable accounting whereby the option value was decreased as a credit to expense due to a decrease in the Company's stock value which was offset by an increase in number of scientific personnel salaries in the amount of $105,000.

Depreciation for the year ended July 31, 2004 was $48,298 as compared to $28,078 during the year ended July 31, 2003, an increase of $20,220 or 72.02%. The increased depreciation was primarily the result of additional laboratory equipment being placed into service and depreciated.

Amortization for the year ended July 31, 2004 was $234,495 as compared to $257,846 during the year ended July 31, 2003, a decrease of $23,351 or 9.06%.

During the year ended July 31, 2004 there was no loss on asset disposal as compared to a loss of $8,345 for the year ended July 31, 2003.

For the year ended July 31, 2004 there was no loss on impairment as compared to a loss of $188,359 for the year ended July 31, 2003. The impairment loss during the year ended July 31, 2003 represents the unamortized cost of the OTER technology purchased from DDx.

During the year ended July 31, 2004 there was a loss on abandoned trademarks of $10,316 as compared to no loss on abandoned trademarks for the year ended July 31, 2003. The product that was protected by the QuanDx trademark has become part of BACcelr8r.

As a result of these factors, loss from operations for the year ended July 31, 2004 was $1,772,908 as compared to a loss of $1,927,946 during the year ended July 31, 2003, a decrease of $155,038 or 8.04%, as compared to loss from operations for the year ended July 31, 2003.

Interest income for the year ended July 31, 2004 was $64,259 as compared to $103,052 during the year ended July 31, 2003, a decrease of $38,793 or 37.64% as compared to the year ended July 31, 2003. This decrease was primarily due to decreased interest rates (85%) and decreased amount of investment (15%).

Unrealized gain on marketable securities held in the deferred compensation trust for the year ended July 31, 2004 was $7,852, compared to unrealized gain of $86,631 for the year ended July 31, 2003. The unrealized gain was a result of the appreciation of the underlying securities. The total of the realized gain and unrealized gain in marketable securities is reflected as deferred compensation and included in general and administrative expenses.

Realized gain on marketable securities held in the deferred compensation trust for the year ended July 31, 2004 was $1,975, as compared to a loss of $38,343 for the year ended July 31, 2003. The gain was the result of selling trust investments the reinvestment of interest and dividends.

For the year ended July 31, 2004, gain on sale of discontinued operations was $621,191. See Note 9 to the financial statements.

For the year ended July 31, 2004 income from discontinued operations was $168,210 as compared to income of $381,348 for the year ended July 31, 2003. See Note 9 to the financial statements.

As a result of these factors, net loss for the year ended July 31, 2004 was $909,421 as compared to $1,375,827 during the year ended July 31, 2003, a decreased loss of $466,406 or 33.90%.

Impairment of Intangible Assets

The Company routinely evaluates the recoverability of its long-lived assets based upon estimated future cash flows from and 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. At fiscal year end, management obtained an independent fair value determination of the Company's intellectual property which indicated no impairment of these assets. During the

fiscal year ended July 31, 2003, the Company determined that the carrying amount of $188,359 for the OTER technology was impaired, and wrote down the fair value of the asset with a charge to operations.

Capital Resources and Liquidity

As of July 31, 2004, the Company had $7,233,430 in cash and cash equivalents, a decrease of $1,478,521 from $8,711,951 at July 31, 2003. The primary reasons for change in cash and cash equivalents were cash used by operating activities of $1,428,038 and investment in new scientific equipment, patents, and trademarks of $188,178, and funding of the deferred compensation plan of $75,000, net of $50,000 in cash received on the sale of the software business and $162,695 in cash provided from the software business.

Operating Activities

The Company believes that its existing cash balances of cash and cash equivalents will be sufficient to satisfy its working capital needs, capital expenditures and other liquidity requirements with its existing operations over the next twelve to twenty four months. Net cash used in operating activities was $1,428,038 for the fiscal year ended July 31, 2004.

The major reasons for cash used by operations are detailed below:

Net loss from continuing operations	$(1,698,822)
Less	
Depreciation and amortization	282,793
Plus	
Change in value of consultants stock options due to decrease in value of the Company's stock	(83,083)
Change in assets and liabilities	77,664
Other	(6,590)

As compared to the fiscal year ended July 31, 2003, the Company's current assets decreased 15% from $8,777,273 to $7,504,195 and the Company's liquidity during the same period, as measured by cash and cash equivalents, decreased by 17.0% from $8,711,951 to $7,233,430. The Company's working capital decreased by 14% from $8,410,443 to $7,257,408 and shareholders' equity decreased 8.0% from $12,729,144 to $11,736,640 as a result of a net loss of $909,421 and decrease in value of stock options issued to independent consultants totaling $83,083.

Investing Activities

Net cash used in investing activities was $263,178, for the fiscal year ended July 31, 2004, due to capital expenditures of $128,469 purchases of intellectual property of $59,709 and contribution to the deferred compensation trust of $75,000.

Capital Commitments

As of July 31, 2004, the Company had one outstanding lease commitment in the amount of $168,628 over the next three years and an employment agreement with our Chairman and Chief Executive Officer which calls for the aggregate payments of approximately $863,750 over the next 41 months. See Note 12 to

financial statements "Operating Leases" and "Employment Agreement." Other than the items mentioned above, management currently expects minimal capital expenditures for the next 12 months.

Recent Accounting Pronouncements

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 will continue to account for its stock-based employee compensation plan under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees" and related Interpretations. See Note 6 for further discussion.

In December 2003, the FASB issued FASB Interpretation No. 46R ("FIN 46R"), "Consolidation of Variable Interest Entities". FIN 46R expands upon existing accounting guidance that addresses when a company should include in its financial statements the assets, liabilities and activities of another entity. A variable interest entity is a corporation, partnership, trust or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN 46R requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or is entitled to receive a majority of the entity's residual returns or both. The adoption of this interpretation did not have any impact on our financial position or results of operations.

Application of Critical Accounting Policies

Use of Estimates

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

Revenue Recognition

We generate revenue as follows:

- |X| Consulting revenue is recognized as services are performed.
- |X| OptiChem revenue is recognized upon shipping of the product to the customer.
- |X| Deferred revenue represents amounts billed but not yet earned

under consulting agreements.

Deferred Taxes

We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities. We regularly review our deferred tax assets for recoverability and establish a valuation allowance based on historical taxable income, projected future taxable income, and the expected timing of the reversals of existing temporary differences. As of July 31, 2004, we have established a valuation allowance equal to our net deferred tax asset, as we have not been able to determine that we will generate sufficient future taxable income to allow us to realize the deferred tax asset.

Intangible Assets

We amortize our intangible assets over the period the asset is expected to contribute directly or indirectly to our future cash flows. We evaluate the remaining useful life of each intangible asset that is being amortized each reporting period to determine whether events and circumstances warrant a revision to the remaining period of amortization.

We review our intangible assets for impairment each reporting period as discussed below under "Impairment of long-lived and intangible assets." An impairment loss will be recognized if the carrying amount of an intangible asset is not recoverable and its carrying amount exceeds its fair value.

Impairment of Long-Lived and Intangible Assets

We assess the impairment of identifiable intangibles and long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important which could trigger an impairment review include the following:

- |X| significant underperformance relative to expected historical or projected future operating results;
- |X| significant changes in the manner of our use of the acquired assets or the strategy for our overall business;
- |X| significant negative industry or economic trends;
- |X| significant decline in our stock price for a sustained period; and
- |X| our market capitalization relative to net book value.

When we determine that the carrying value of intangibles and long-lived assets may not be recoverable based upon the existence of one or more of the above indicators of impairment, we measure any impairment based on a projected discounted cash flow method using a discount rate determined by our management

to be commensurate with the risk inherent in our current business model. Our judgments regarding the existence of impairment indicators are also based on legal factors, market conditions and expected future operational performance of

related product lines of the identifiable intangible. Future events could cause us to conclude that impairment indicators exist and that our identifiable assets are impaired. Management believes that the amounts carried on our balance sheet are recoverable, and that our intangible assets are not impaired at this time. Management's belief is based upon an independent valuation of our intangibles that was obtained from a third party valuation firm and management's assessment of the fair value of our intangibles. Our intangibles constitute a significant portion of our assets, and as a result, any resulting impairment loss could have a material adverse impact on our financial condition and results of operations in the future. We also evaluate the remaining estimated useful lives of each asset each reporting period and determine whether events or circumstances require revised useful lives.

Research and Development

Research and development expenses are expensed as incurred. Research and development expenses include salaries and related expenses associated with the development of our technology and include compensation paid to engineering personnel and fees to consultants.

Contractual Obligations

The following table sets forth information with respect to our contractual obligations and commercial commitments as of July 31, 2004. Lease amounts based on renegotiated lease as of October 01, 2004.

Contractual Obligations(3)

Payments Due By Period

	Total	1 to 3 years	4 to 5 years	More than 5 years
Office and Laboratory Lease Payments(1)	$168,628	$168,628	$0	$0
Thomas V. Geimer Employment Contract(2)	$863,750	$720,000	$143,750	$0

(1) Includes monthly deposits for taxes and assessments, landlords liability insurance and common facilities charges. We have a three-year lease agreement that began on October 1, 2004 for our office and laboratory located at 7000 North Broadway, Building 3-307, Denver, Colorado 80221.

(2) Calculated as of July 31, 2004. Mr. Geimer's employment agreement expires on December 31, 2007. See "Item 10-Executive Compensation."

(3) Excludes accounts payable and accrued liabilities.

Item 7. Financial Statements

The response to this item is submitted as a separate section of this report beginning on page F-1.

Item 8 . Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

Not Applicable.

Item 8A. 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 July 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 year ended July 31, 2004 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 8B. Other Information.

Not Applicable.

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance With Section 16(a) of the Exchange Act

Set forth below is certain information concerning the directors, executive officers and key employees and consultants of the Company as of the date hereof.

Directors, Executive Officers, and Key Employees and Key Consultants

Thomas V. Geimer	57	Secretary, Chief Executive Officer, Chief Financial Officer, Chairman of the Board
David C. Howson	61	President
Charles E. Gerretson (1)	58	Director
A. Alexander Arnold III (1)	64	Director
Michael J. Lochhead, Ph.D.	39	Senior Scientist
Charles Greef, Ph.D.	46	Senior Scientist
Steven W. Metzger	30	Senior Scientist
David W. Grainger, Ph.D.	43	Chairman, Scientific Advisory Board, Consultant
David Goldberg, Ph.D.	49	Consultant
S. Scott Saavedra, Ph.D.	44	Consultant
Henry White, Ph.D.	51	Consultant

(1) Members of the Audit and Compensation Committees

Officers are appointed by and serve at the discretion of the Board of Directors. Each director holds office until the next annual meeting of shareholders or until a successor has been duly elected and qualified. All of our officers devote their full-time to our business and affairs. There are no family relationships between any directors, executive officers or key employees or consultants.

Thomas V. Geimer has been the Chairman of the Board of Directors and a director of Accelr8 since 1987. He currently serves as the Chief Executive Officer, Chief Financial Officer and Secretary of the Company. Mr. Geimer is responsible for development of our business strategy, day-to-day operations, accounting and finance functions. Before assuming full-time responsibilities at

the Company, Mr. Geimer founded and operated an investment banking firm.

David Howson became the President of the Company in April 2004. Previously Mr. Howson was a consultant to the Company and had acted as the Director for Business Development since January 2001. Mr. Howson is responsible for coordinating business plan development and execution. Before assuming responsibilities at the Company, Mr. Howson founded and operated the Altro Group, LLC, a medical technology consulting firm. His clients at Altro included medical industry leaders such as Pfizer, Boston Scientific, and Becton Dickinson. Mr. Howson had previously founded and managed three companies for advanced medical devices. From 1966 through 1970, Mr. Howson was enrolled in the Neurobiology Doctoral Program at Cornell University and received a Bachelor of Science degree from Hobart College in 1966.

A. Alexander Arnold III has served as a director of the Company since September 1992. For the past 25 years Mr. Arnold has served as a Managing Director of Trainer, Wortham & Co., Inc., a New York City-based investment counseling firm. Mr. Arnold received a Bachelor of Arts degree from Rollins College in 1964 and a Masters of Business Administration from Boston University in 1966.

Charles E. Gerretson was appointed a director of the Company on July 19, 2003. For the past 28 years, Mr. Gerretson has served as the President of Gerretson Realty, Inc., a Denver Colorado based real estate firm, which Mr. Gerretson founded. Mr. Gerretson received a Bachelor of Science degree in Business Administration from the University of Minnesota in 1968. Mr. Gerretson was formerly a CPA with Arthur Andersen and Company and currently heads the Company's Audit Committee.

Employees and Consultants

Michael J. Lochhead, Ph.D. has been a Senior Scientist with Accelr8 since April 2001. Dr. Lochhead is responsible for product design and development. From 1998 through 2001, Dr. Lochhead was an Assistant Professor of Chemical Engineering at the University of New Hampshire. Dr. Lochhead received a Bachelor of Arts and Science degree from the University of Notre Dame and a Ph.D. in Chemical Engineering from the University of Wisconsin in 1995. He is a surface chemist responsible for coating formulations and scalable manufacturing processes.

Steven W. Metzger has been a research scientist with the Company since April 2001, and is now a Senior Scientist. From 2000 through 2001, Mr. Metzger was responsible for the implementation of merging core technologies at Heska Corporation. He was previously employed by Geo-Centers, Inc. under contract at the Naval Research Laboratory in Washington, D.C. where he focused on bio-warfare pathogen detection. Mr. Metzger received a Bachelor of Arts degree in Chemistry from Colorado College in 1996.

Charles Greef, Ph.D. has been a Senior Scientist with the Company since May 2003. Dr. Greef received his Doctorate in Chemistry from the University of Colorado at Boulder under the direction of Professor Marvin Caruthers, studying synthesis and biochemical properties of oligonucleotide analogs. He has held the position of Research Scientist at Nanogen, Genicon Sciences Corporation, and SomaLogic, all emphasizing research and product development of microarray related technologies. He is a specialist in proteins and microarraying.

David W. Grainger, Ph.D. has been a consultant to the Company since January

2001. Since 1994, Dr. Grainger has taught as a Professor and Assistant Professor of Chemistry at Colorado State University. From 1998 through 1999, Dr. Grainger was the President and Chief Scientific Officer for Gamma-A Technologies, Inc. Dr. Grainger received a Bachelor of Arts degree in Engineering from Dartmouth College in 1983 and a Ph.D. in Pharmaceutical Chemistry from the University of Utah in 1987. Dr. Grainger chaired the prestigious Gordon Conference on Tissue Engineering and Biomaterials in 2001. He has been a consultant to companies such as Novartis, Johnson & Johnson, 3M, Ciba-Geigy, and others.

David Goldberg, Ph.D. has been a consultant to the Company since October 2002. Dr. Goldberg received his Doctorate in Biology from the California Institute of Technology. He did postdoctoral studies at Harvard and at the Molecular Biology Laboratory of the MRC, Cambridge. Dr. Goldberg has wide-ranging expertise in analytical systems and engineering as well as molecular biology. He is the inventor of YoDx and has been an officer / founder of various startup technology companies that have focused on areas that apply to our business, i.e. vapor deposition sputtering and tunable thin film filter technologies.

S. Scott Saavedra, Ph.D. has been a consultant to the Company since February 2002. Dr. Saavedra received his Doctorate in Analytical Chemistry from Duke University. Since 2003 he has been a Professor in the Department of Chemistry at the University of Arizona. Dr. Saavedra has expertise in analytical sensing devices based on biological thin films. His expertise on photonics enhanced our intellectual property for detection technology, particularly as it applies to optical imaging techniques.

Henry White, Ph.D. has been a consultant to the Company since March 1, 2004. Dr. White received his Doctorate in Chemistry from the University of Texas in 1983. He is now a professor of chemistry at the University of Utah. Dr. White has expertise in "Electrochemistry in Nanoscale Domains" as well as "Magnetic Field Effects on Electrochemical Reactions": and plays an active role in our YoDx technology development. He currently consults to various agencies of the U.S. government.

Scientific Advisory Board

The Company established a Scientific Advisory Board in 2003. Dr. David Grainger is Chairman. Additional members include Dr. David Goldberg, Dr. S. Scott Saavedra and Dr. Henry White.

Involvement in Certain Legal Proceedings

On July 12, 2001, without admitting or denying any liability, Thomas V. Geimer consented to the entry of a final judgment in the United States District Court for the District of Colorado, Civil Action No. 99-D-2203. The final judgement enjoined Mr. Geimer from future violations of Section 13 of the Exchange Act, and Rules 12b-20, 13a-1, and 13a-13 promulgated thereunder. In connection with the settlement, Mr. Geimer paid a civil penalty of $65,000. The costs of Mr. Geimer's defense plus the civil penalties were borne by the Company.

Board Committees

The Board of Directors maintains a Compensation Committee and an Audit Committee. The members of the Compensation Committee and the Audit Committee are Messrs. Arnold and Gerretson, the Company's independent directors. The

Compensation Committee did not meet during the last fiscal year. The Audit Committee held five meetings during the last fiscal year. The Audit Committee's financial expert is Charles E. Gerretson.

Audit Committee Report

The Audit Committee has reviewed and discussed with management the Company's audited financial statements as of and for the year ended July 31, 2004.

The Audit Committee has also discussed with Anton Collins Mitchell LLP the matters required to be discussed by Statement on Auditing Standards No. 61, Communication with Audit Committees, as amended, by the Auditing Standards Board of the American Institute of Certified Public Accountants.

The Audit Committee has received and reviewed the written disclosures and the letter from Anton Collins Mitchell LLP required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees, as amended, and has discussed with Anton Collins Mitchell LLP their independence.

Based on the reviews and discussions referred to above, the Audit Committee has recommended to the Board of Directors that the audited financial statements referred to above be included in the Company's Annual Report on Form 10-KSB for the year ended July 31, 2004 filed with the Securities and Exchange Commission.

Audit Committee of The Board of Directors

A. Alexander Arnold III
Charles E. Gerretson

Compliance With Section 16(a) of The Exchange Act

Section 16(a) of the Exchange Act, generally requires the Company's directors and executive officers and persons who own more than 10% of a registered class of the Company's equity securities ("10% owners") to file with the SEC initial reports of ownership and reports of changes in ownership of Common Stock and other equity securities of the Company. Directors and executive officers and 10% owners are required by Securities and Exchange Commission regulation to furnish the Company with copies of all Section 16(a) forms they file. To the Company's knowledge, based solely on review of copies of such reports furnished to us and verbal representations that no other reports were required to be filed during the fiscal year ended July 31, 2004, all Section 16(a) filing requirements applicable to its directors, executive officers and 10% owners were met, except that David Howson, President of the Company failed to timely file a Form 3 in April, 2004 and filed the Form 3 in May, 2004.

Code of Ethics

At this time, the Company has not adopted a formal Code of Ethics that applies to the Chief Executive Officer and Chief Financial Officer. The Company expects to adopt a formal Code of Ethics during the current fiscal year.

The Company has followed an informal Code of Ethics requiring Board of Directors' approval of any material transaction involving the Company's Chief Executive Officer and the Chief Financial Officer. The Company believes this procedure reasonably deters material wrongdoing and promotes honest and ethical conduct.

Item 10. Executive Compensation

Summary Compensation Table. The following table sets forth the annual and long-term compensation for services in all capacities to the Company in the three fiscal years ended July 31, 2004, 2003 and 2002, of Thomas V. Geimer and David C. Howson, the Company's most highly compensated executive officers.

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		Annual Compensation		Long Term Compensatio	
Name and Principal Position	Fiscal Year	Salary	Other	Other Annual Compensation	Securi Underl Opti
Thomas V. Geimer	2004	$165,000	$75,000(1)	$ --	-
Chief Executive	2003	$142,500	$75,000(1)	$ --	-
Officer and Chief	2002	$100,507	$75,000(1)	$125,000(2)	200,
Financial Officer					