

# QUARTERLY UPDATE

## Business Update & First Quarter Fiscal Year 2007 Financial Results

### Snapshot

February 7, 2007

Accelr8 Technology Corporation is developing a system to rapidly analyze bacterial antibiotic resistance in life-threatening infections. The objective of this system is to identify species and specific types of antibiotic resistance without culturing. Accelr8's method eliminates long growth cycles, allowing species identification and counts within two hours and antibiotic resistance testing within eight hours. Conventional culturing typically requires two to three days before providing results. Bacterial infection is still one of the top 10 causes of adult mortality in the U.S. and developed countries. Accelr8 targets the diagnosis of active infections, whereas other technologies typically focus on prevention. Rapid emergence and the global spread of antibiotic resistance, combined with a dramatic decline in the rate of new antibiotic development, has led to a crisis in treating serious infections. Therefore, the Company has identified rapid analysis as a promising and practical route to improving medical outcomes in critically ill patients who have a serious infection. Accelr8 has initially targeted hospital-acquired infections (HAIs)—specifically, ventilator-associated pneumonia (VAP) acquired in hospital intensive care units (ICUs)—for its proprietary BACcelr8™ Rapid Analytical System. VAP is the leading infectious cause of death in the ICU, affecting roughly 250,000 people annually and causing up to 60,000 deaths per year. Accelr8 seeks to penetrate this large market segment, with a goal of licensing its technology to leaders in the diagnostic space. The Company has recently initiated development of a relatively low-complexity system—the BACcel™-1.0. The analytical methods have demonstrated an ability to identify major bacterial resistance categories in less than three hours.

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Technology Corporation

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### Recent Financial Data

Ticker (Exchange)	AXK (AMEX)
Recent Price (02/06/07)	\$2.05
52-week Range	\$1.61 - \$3.60
Shares Outstanding*	9.97 million
Market Capitalization	\$20.4 million
Average 3-month Volume	5,969
Insider Owners + 5%	8.57%
Institutional Owners	9.96%
EPS (Qtr. ended 10/31/06)	(\$0.05)
Employees	13



\* At December 1, 2006.

### Key Points

- Accelr8 achieved several technical objectives during the past year, including completing the design of 8-channel single-use analyzer cassettes for rapid bacterial identification; defining an early release product, the BACcel™-1.0, which is to perform rapid, quantitative pathogen identification; and developing analytical methods to categorize types of antibiotic resistance that are very difficult to identify and treat. The Company is presenting its evidence to the scientific and medical communities to support the BACcelr8™'s operating principles.
- The BACcel™-1.0 performs all of the BACcelr8™'s functions except detailed antibiotic comparisons and susceptibility testing. As such, the BACcel™-1.0 has a less complex cassette and an estimated shorter time to market than the BACcelr8™ System. BACcel™-1.0 is adaptable to the research market, which does not require U.S. Food and Drug Administration (FDA) approval.
- Accelr8 was recently awarded U.S. Patent 7,067,194 for devices that use its OptiChem® surface chemistry (reduces background interference in analytical samples), including those for patient specimen collection and analytical products. The new patent also covers coating variations not specifically included in prior patents.
- Since September 2006, Accelr8 has negotiated two new license agreements with SCHOTT Jenaer Glas GmbH: (1) a one-year, non-exclusive extension of an existing agreement for the manufacture and marketing of an OptiChem®-coated microarraying slide; and (2) a two-year, non-exclusive license for an OptiChem®-coated microarraying slide using streptavidin, thus far representing \$100,000 in payments for Accelr8.
- The Company had approximately \$2.5 million in cash and cash equivalents as of October 31, 2006.

PLEASE REFER TO EXECUTIVE INFORMATIONAL OVERVIEW® (EIO®), MARCH 6, 2006, FOR A FULL COMPANY REPORT.

## Business Update and Company Background

Accelr8 Technology Corporation is developing technology to correctly identify bacterial species, compute bacterial counts in the original specimen, and accurately measure antibiotic resistance in critically ill patients within a fraction of the time required for current standard culturing methods. The goal of the Company's technology is to significantly improve medical outcomes (morbidity and mortality) for patients affected by life-threatening bacterial infections. In critically ill patients, the physician has only a few hours within which to gain control of an infection; however, culturing methods typically require two to three days before providing results. Therefore, in the absence of specific guidance, the physician uses a "blind" empiric regimen, treating patients with a combination therapy of broad-spectrum drugs that are believed to have the best chance of controlling disease progression.

Antibiotic resistance has become widespread and complex, causing failure of the initial empiric treatment in approximately 20% to 40% of cases in most hospitals. Altering the antibiotics after receiving culture results typically occurs too late to improve outcomes in most cases. As a result, physicians need a new diagnostic method that yields specific antibiotic guidance in less than approximately eight hours. Current products and methods are not yet able to meet this need. However, during the first quarter of its fiscal year (FY) 2007 and to date, Accelr8 has reported several important business updates relating to its pilot studies for prototype rapid bacterial identification systems, known as BACcel™-1.0 (detailed below) and BACcelr8r™ (page 5). In addition, the Company has recently announced significant new manufacturing agreements for its technology, as detailed on page 6. Crystal Research Associates' Executive Informational Overview® (EIO®) dated March 6, 2006, provides additional information about Accelr8 and its novel BACcelr8r™ product.

### Antibiotic Resistance

Since their first commercial introduction in the 1940s, antibiotics have revolutionized the treatment of bacterial infections. However, as antibiotic usage has become pervasive throughout the world, many bacterial strains have emerged that express resistance to currently marketed antibiotics. Additionally, the cost and risk of new drug development has increased, while the rate of new antibiotic development has declined. As antibiotic resistance continues to become more widespread, physicians remain challenged in their ability to select an appropriate and effective antibiotic from a diminishing list of possibilities.

### Technology Portfolio

#### BACcel™-1.0

At Accelr8's annual shareholders' meeting on December 13, 2006, the Company highlighted a new product development focus, the BACcel™-1.0. Using BACcel™-1.0, Accelr8 aims to provide treating physicians with rapid information about organisms that cause life-threatening infections in critically ill patients. The BACcel™-1.0 is not designed to identify the best medication to use for de-escalation from broad-spectrum drugs, which is the function of the Company's BACcelr8r™. Instead, the BACcel™-1.0 endeavors to rule out the possible antibiotic choices that are likely to fail, based upon the organism type, in less than six hours from the time the specimen is received.

Table 1  
Accelr8 Technology Corporation  
PLATFORM COMPARISON

Function	BACcel™-1.0	BACcelr8r™
Quantitation	Yes	Yes
Growth Measurement	Yes	Yes
Species Identification	6 to 9	9
Resistance Category Identification	3 categories in under 6 hours	3 categories in under 6 hours
Full Susceptibility	No	Yes: < 8 hours
Drugs per Cassette	8 to 16	64
Cassettes per Instrument	2 to 4	8

Source: Accelr8 Technology Corporation.

Table 1 (page 2) lists a comparison of the capabilities of the Company's BACcel™-1.0 and the BACcelr8r™. The BACcel™-1.0 performs all of the BACcelr8r™'s functions except detailed antibiotic comparisons and susceptibility testing. As such, the BACcel™-1.0 has a less complex cassette and a potentially shorter time to market than the BACcelr8r™ System. It is also adaptable to the research market, which does not require U.S. Food and Drug Administration (FDA) approval.

The BACcel™-1.0 functions by analyzing bacteria extracted directly from patient specimens with computerized microscopy optimized for single-cell analysis. By not culturing and isolating the bacterial strains for testing—which is a lengthy process—the BACcel™-1.0 can eliminate the inherent testing delays. This system is expected to identify organisms according to three major antibiotic resistance categories, as briefly bulleted below. Recent positive results of internal pilot studies with BACcel™-1.0 are detailed following the bullets.

#### Antibiotic Resistance Categories

- Methicillin-resistant *Staphylococcus aureus* (MRSA). This bacterium is a highly resistant form of the common bacteria causing “Staph” infections. It is often referred to as a “super-bug” because of its broad range of antibiotic resistance. MRSA first emerged in the early 1960s and accounts for more than half of all hospital-acquired Staph infections in most cities.
- Beta-lactamase producers, including extended spectrum beta-lactamase enzymes (ESBLs). This category consists of organisms that resist beta-lactam antibiotics and spread quickly, such as *Escherichia coli* (*E. Coli*), *Klebsiella*, and *Enterobacter*. As a result of their rapid proliferation, there are hundreds of known variations and mixtures of these organisms, making this form of resistance difficult to detect accurately.
- Multiple-drug-resistant (MDR) bacilli, such as *Pseudomonas*, *Acinetobacter*, and *Stenotrophomonas*. These organisms pose a significant threat in hospital intensive care units (ICUs) because of their multiple complex forms of antibiotic resistance. Some *Pseudomonas* and *Acinetobacter* strains are only vulnerable to a single antibiotic, and a few, known as pan-resistant, are not susceptible to any available medications.

Typically, this industry focuses on Staph infections, which Accelr8 believes is only approximately 20% to 25% of the ICU problem for ventilator-associated pneumonia (VAP [detailed on page 5]). Species carrying ESBL are estimated to account for approximately 25% to 35% of VAP, and MDR bacilli cause roughly 30% to 40% of VAP infections. Accordingly, Accelr8 believes its first identification panel could cover approximately 75% of VAP-related species and a higher proportion of resistant strains.

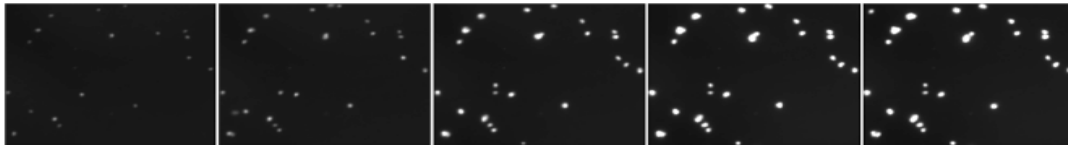
#### Successful Results from Accelr8's Internal Pilot Studies

Accelr8 has presented initial data and microscope images demonstrating successful resistance category identification through its BACcel™-1.0 for both MRSA and ESBL (illustrated in Figures 1 and 2 on page 4)—an accomplishment the Company believes has not yet been achieved elsewhere. The Company's new tests for the MRSA and ESBL strains identified both categories of bacteria in under three hours, exceeding the Company's goal of six hours or less. Conversely, conventional tests for the MRSA strain typically require 24 hours and are thus unable to aid the physician in determining adequate initial therapies. It is generally accepted by the medical community that rapid analysis of antibiotic resistance, such as Accelr8's tests, may lead to lower mortality rates and reduced, less costly hospital stays. Accelr8 is not aware of any alternative methods currently in development that compete with the Company's identification of ESBL bacteria. Upcoming studies are intended to identify organisms from the third resistance category, MDR bacilli. Accelr8's objective for these studies is also to complete the test in under six hours.

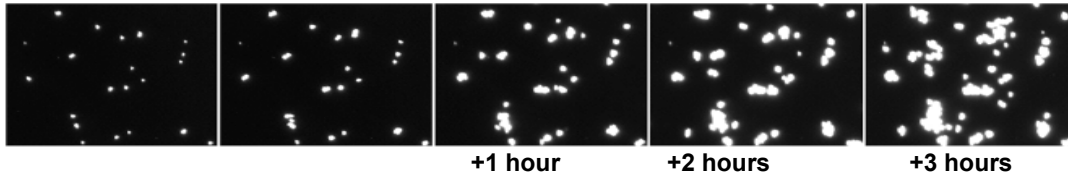
Using the Company's technology, Figure 1 (page 4) demonstrates an MRSA identification test measuring the resistance of MRSA strains to a select antibiotic at a particular concentration. Larger and brighter clusters in the microscope samples represent cell and clone growth of the bacteria. While susceptible strains (visible in the top row of microscope images from Figure 1) stop growing or die altogether after exposure to a select antibiotic, resistant strains (the bottom row of images in Figure 1) continue to grow. Accelr8's computer systems can measure the exact growth rates of the strains, using images taken every 10 minutes. This data is then compared to a fully susceptible reference strain, enabling the Company to positively identify the MRSA organisms based on growth similarities and contrasts.

Figure 1  
Accelr8 Technology Corporation  
BACcel™-1.0: MRSA IDENTIFICATION TEST

**Susceptible Strain**



**Resistant Strain**



Growth

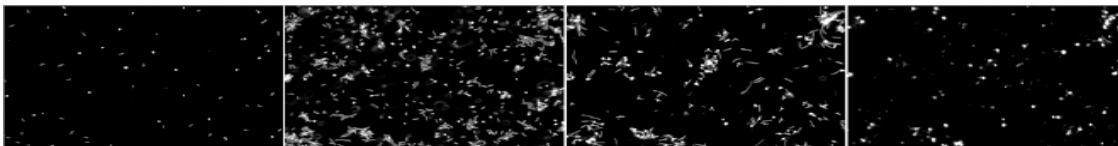
Antibiotic Exposure

Source: Accelr8 Technology Corporation.

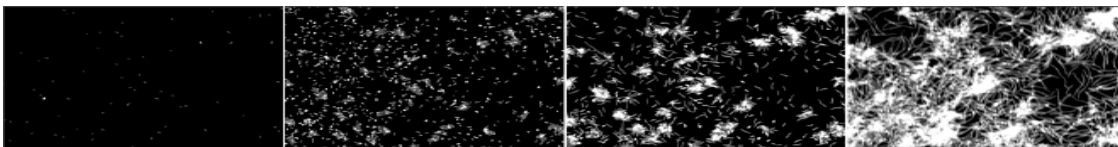
To identify ESBL organisms using BACcel™-1.0, Accelr8 uses a structurally dissimilar process. Illustrated in Figure 2, this test measures the difference in response of the bacteria to an antibiotic alone and an antibiotic in conjunction with a beta-lactamase inhibitor. Rather than only showing microscope images of individual cell clusters, as in Figure 1, Figure 2 provides the microscope's entire field of view. The "antibiotic alone" images highlight the strain's resistance to the antibiotic, as demonstrated by a growth in concentration and intensity of the strain. With an added beta-lactamase inhibitor (the top row of images in Figure 2), the cells are physically destroyed by the antibiotic, representing a positive test for ESBL organisms within three hours from the start of the test.

Figure 2  
Accelr8 Technology Corporation  
BACcel™-1.0: ESBL IDENTIFICATION TEST

**Antibiotic with Inhibitor**



**Antibiotic Alone**



Growth

Antibiotic Exposure

Source: Accelr8 Technology Corporation.

Since announcing the results of the pilot studies, Accelr8 has expanded its MRSA data set. By using more than 50 isolates of both susceptible and resistant strains, the Company has been able to achieve conformity with the standard methods of administering antibiotic susceptibility tests via culturing. The Company is expanding studies to net larger data sets. Accelr8 also anticipates expanding its data sets for ESBL and MDR bacilli. More details are expected to be presented at scientific meetings during 2007.

### *The BACcelr8™ Rapid Analytical System*

Accelr8 is also developing the BACcelr8™ Rapid Analytical System, intended to fulfill the physician's current needs by applying Accelr8's proprietary Quantum Microbiology™ methods, which eliminate the long growth cycles necessary with bacterial culturing methods. Culturing involves initial growth of bacterial colonies, then physical isolation of individual colonies before starting analysis. The BACcelr8™, in contrast, uses an electrical field and an adherent capture surface to extract and immobilize individual bacterial cells from a patient sample within minutes. The System then performs concurrent analyses on the thousands of immobilized individual cells without requiring their isolation. As a result, within the first two hours, the System can report the number of viable cells by type, and within eight hours, is able to report the results of sophisticated antibiotic analyses that are intended to help the physician identify the best drug choices for each patient's case.

#### System Design

The BACcelr8™ System design includes a fixed analytical instrument and disposable, single-use analyzer cartridges. The instrument uses a computerized microscope with proprietary image analysis software, computerized control of microscope stage movements, and computerized fluid delivery to the cartridges. In model experiments, the current laboratory prototype system can provide results for bacterial species identification and viable counts in two hours or less, and antibiotypes in eight hours or less. The antibiotyping method uses sophisticated statistical algorithms based on antibiotic effects during the analysis ("time-kill" studies). The Company believes that this approach is likely to help optimize treatment selection, thereby improving quality of care as measured by morbidity, mortality, length of stay in the ICU, and average cost of care.

#### Target Application: Ventilator-Associated Pneumonia (VAP)

The initial target application for the Company's BACcelr8™ Rapid Analytical System is the rapid diagnosis and determination of antibiotic susceptibility for serious hospital-acquired infections (HAIs), where the infection may progress very quickly. In particular, the Company is focused on ventilator-associated pneumonia (VAP) acquired in hospital ICUs. VAP is the leading infectious cause of death in the ICU, and has received extensive attention by medical researchers, thus creating heightened awareness within the medical community.

VAP is estimated to occur in approximately 250,000 people annually in the U.S., causing as many as 60,000 deaths that may have been avoidable with effective early treatment of the infection. Ideal therapy is believed to consist of the narrowest-spectrum antibiotic (limited range of affected species) that delivers the most rapid and complete kill of the bacteria known to cause the infection. In doing this, however, physicians require a detailed and time-sensitive analysis of the exact antibiotic responsiveness in each individual case, which is not currently available within the necessary timeframe with existing technology. Accelr8 believes that rapid antibiotic susceptibility testing for the various bacteria that cause VAP represents an urgent unmet need and an attractive market opportunity.

Accelr8 is developing BACcelr8™ for the hospital market. The Company intends to sell the System directly or through an alliance with a diagnostics industry leader. Accelr8 does not believe that the BACcelr8™ will become a general-purpose system to test for every type of specimen and organism, but rather a rapid analyzer and monitor for specific medical indications (such as VAP). As such, the Company intends for the BACcelr8™ to complement general-purpose microbiology products rather than displace them.

#### *OptiChem® Surface Chemistry*

Accelr8 employs the use of proprietary OptiChem® surface chemistry inside the fluid channels of the BACcelr8™'s disposable analytical cartridges (cassettes). In the BACcelr8™ cassette fluid channels, OptiChem® is intended to minimize loss of bacteria from the sample prior to it entering the assay region where immobilization takes place. Within the assay region, different OptiChem® treatments permit attachment of an agent that binds to bacteria, immobilizing them.

The Company also uses OptiChem<sup>®</sup> coatings on other types of assay surfaces for use in other products. With microarraying slides and other detector surfaces, OptiChem<sup>®</sup> substantially reduces background interference from sticky molecules, such as those in blood and serum, while providing strong binding and protection for detector probe molecules, such as proteins and nucleic acids. Non-specific binding (also referred to as adsorption or fouling) by interfering materials is a dominant “noise factor” that can limit the sensitivity of bio-analytical assays. OptiChem<sup>®</sup> thus provides an exceptionally high signal-to-noise ratio to maximize sensitivity. The Company has successfully licensed certain versions of its OptiChem<sup>®</sup> surface chemistry for coating microarraying slides.

### **Manufacturing Agreements with SCHOTT Jenaer Glas GmbH**

In November 2004, Accelr8 signed an exclusive, two-year manufacturing and marketing license agreement (with an additional one-year option) with SCHOTT Jenaer Glas GmbH. SCHOTT is the second largest specialty glass manufacturer in the world and the partner company of Carl Zeiss (CZMWF.PK), the makers of advanced optics, microscopes, and laboratory instrumentation. Under the license, SCHOTT manufactures and markets microarraying slides using OptiChem<sup>®</sup> coatings. In 2002, SCHOTT formed a division (Nexterion) to enter the microarray market. SCHOTT licensed Accelr8’s chemistry to put on its advanced glass slides, which are currently sold into research laboratories. The license includes the global right to manufacture and sell standard microarray slides using one particular type of OptiChem<sup>®</sup> coating, known as Slide H, in exchange for a non-refundable fee of \$100,000 and royalties equal to 6% of net sales of licensed products payable to Accelr8. Slide H is used in research that uses protein or deoxyribonucleic acid (DNA) microarrays. On September 27, 2006, SCHOTT elected to exercise an optional, one-year non-exclusive license extension for the continued manufacture and marketing of Slide H. The supplemental term is from November 24, 2006, until November 23, 2007.

In addition, on October 30, 2006, SCHOTT agreed to a second non-exclusive license agreement for another OptiChem<sup>®</sup>-coated microarraying slide using streptavidin, known as Slide HS. The new two-year agreement spans from January 1, 2007, through December 31, 2008. Under the agreement, SCHOTT has paid Accelr8 \$100,000, of which \$50,000 was a license fee and \$50,000 was a prepayment of royalties. SCHOTT also agreed to provide the Company with 7,500 glass substrates at no charge. The slides are valued at \$14,250, and the first shipment of 1,500 glass substrates was received by Accelr8 on November 8, 2006.

### **History, Headquarters, and Employees**

Founded in August 1987, Accelr8 is headquartered in Denver, Colorado. The Company was originally a provider of software tools and consulting services for system modernization solutions for legacy systems. In early 2001, Accelr8 acquired advanced materials and instrumentation platforms for ultra-sensitive bio-analytical assays from DDX, Inc. (a manufacturer of estrus synchronization products) for \$3 million (\$500,000 in cash plus 1.8 million shares of stock valued at \$1.375, while the stock was \$0.40 at the time). In 2003, the Company acquired additional intellectual property for rapid analytical processing. In 2004, Accelr8 originated new analytical methods and intellectual property for the analysis of medical specimens based on sequential analysis of individual identifiable cells and clones (called Quantum Microbiology™). The Company’s BACcelr8r™ Rapid Analytical System employs elements from several of these assets.

Accelr8 currently leases approximately 6,400 square feet of space for its laboratory and administrative offices. Within the laboratory facility, Accelr8 built a cleanroom pilot production operation. As of July 2006, Accelr8 employed 13 full-time individuals, has agreements with five consultants, and contracts with three engineering firms for product development of the BACcelr8r™.

## Financial Update

### Financial Results for First Quarter Fiscal Year 2007

On December 19, 2006, Accelr8 announced its first quarter fiscal year (FY) 2007 financial results for the period ended October 31, 2006. The Company's fiscal year ends July 31. Accelr8 reported total revenues of \$56,219 for the period versus total revenues of \$86,388 for the same period in 2005. Of the total revenues, OptiChem<sup>®</sup> revenues during the three-month period ended October 31, 2006, were \$34,219 versus \$44,388 during the same period ended October 31, 2005, a decrease of \$10,169 or 22.9%. This decrease resulted from diminished slide sales to SCHOTT, as SCHOTT began its own production. OptiChem<sup>®</sup> revenues for the three months ended October 31, 2006, were 60.9% of total revenues for the period and 51.4% of total revenues for the three months ended October 31, 2005. Technical consulting fees during the first quarter FY 2007 were \$22,000 versus \$42,000 for the year-ago period. During the first quarter FY 2007, \$22,000 was recognized from the completion of Phase II of the Feasibility Testing Agreement with Promega Corp. Year-ago technical consulting fees resulted from training provided to SCHOTT for the manufacture of Slide H as well as the Feasibility Testing Agreement with Promega.

Research and development (R&D) expenses for the three months ended October 31, 2006, were \$319,371 versus \$572,911 for the three months ended October 31, 2005. The decrease was due to decreased engineering and consulting fees related to the development of the BACcelr8r<sup>™</sup>. General and administrative expenses for the first quarter FY 2007 increased to \$263,681 from \$212,251 in the first quarter of FY 2006 due to an increase in deferred compensation directly related to interest and unrealized gains from investments. The unrealized gain on investments was \$43,187 for the quarter ended October 31, 2006, versus an unrealized loss of \$8,063 for the quarter ended October 31, 2005. The change resulted from market fluctuations in the price of securities held in the deferred compensation trust.

Loss from operations for the three months ended October 31, 2006, was \$617,281 versus a loss of \$819,347 during the three months ended October 31, 2005. Net loss for the three months ended October 31, 2006, was \$539,330 or \$(0.05) per share versus \$772,038 or \$(0.08) per share during the three months ended October 31, 2005.

At October 31, 2006, cash and cash equivalents were approximately \$2.5 million versus \$3 million at July 31, 2006, and \$4.9 million at October 31, 2005.

### Recent Events

An overview of the Company's recent press releases is provided below, referring the reader to Accelr8's newly redesigned website launched on August 24, 2006, for complete press releases ([www.accelr8.com](http://www.accelr8.com)).

- On December 14, 2006, Accelr8 announced the results of internal pilot studies for the Company's prototype rapid bacterial identification systems at its annual shareholders' meeting in Denver, Colorado. The studies are part of a significant milestone in preparing to work with patient specimens. The Company believes that these pilot studies are the first demonstration of methods that can quickly identify bacterial strains according to major resistance categories. Accelr8's methods eliminate the 6- to 24-hour delay of initial culture and strain isolation. The physician can receive timely information, thereby having a significant impact on adjusting the initial therapy. Accelr8 is preparing to work with new patient specimens that will likely be analyzed in the Company's laboratory using its current research prototypes. These data sets are expected to lay the groundwork for improved instruments to be placed into research labs.
- On November 1, 2006, the Company reported financial results for the fiscal year ended July 31, 2006. Total revenues were \$212,701 versus \$502,110 in 2005. Revenues declined due to the Company's transition from direct product sales to royalty income solely from licensees of OptiChem<sup>®</sup>-coated microarraying slides. Overall performance resulted in a net loss of \$3 million or \$(0.30) per share versus FY 2005, which recorded a net loss of \$2.1 million or \$(0.21) per share.

- On September 21, 2006, Accelr8 announced that it had been awarded U.S. Patent 7,067,194 for devices that use its OptiChem<sup>®</sup> surface chemistry, including those for patient specimen collection and analytical products. The new patent also covers coating variations not specifically included in prior patents. Accelr8 previously licensed certain OptiChem<sup>®</sup> applications to other companies in the biomedical industry.

## Key Points to Consider

- Accelr8 is developing a potential new standard of care to quickly and correctly identify specific bacteria as well as accurately measure antibiotic resistance in critically ill patients by testing specific pathogens for antibiotic susceptibility. The Company's technology is unique, potentially life saving, and eliminates culturing. It has demonstrated in early research to provide accurate results within a fraction of the time taken by the current standard of care (bacterial culturing).
- The BACcelr8r™ rapid bacterial identification and antibiotic resistance detection platform can provide results within less than two hours for bacterial species identification and counts, and within less than eight hours for antibiotic type, where case-specific optimized antibiotic choices can be made. With current technology, specific pathogen antibiotic susceptibility analysis requires approximately two days, at which point the window for providing effective treatment has long passed.
- The Company has identified a new product version of its BACcelr8r™—the BACcel™-1.0—that is believed to have a shorter path to market. By determining the bacterial strain according to select antibiotic resistance categories, the BACcel™-1.0 aims to narrow the physician's treatment choice during empiric therapy by eliminating the medication options that are likely to fail. In early research, the BACcel™-1.0 has shown to positively recognize organisms belonging to both the MRSA and ESBL bacterial strains in under three hours, exceeding the Company's initial goal of six hours.
- Accelr8 has identified and defined a mission-critical market within the hospital sector. The initial target application for BACcelr8r™ is serious hospital-acquired infections (HAIs), specifically, ventilator-associated pneumonia (VAP) acquired in hospital intensive care units (ICUs). VAP is the leading cause of death from infections acquired in the hospital setting, affecting approximately 250,000 people annually and causing up to 60,000 deaths per year.
  - In this market, there is limited competition, no need to displace an established base within the hospital, and no standardized technology in place.
- Rapid antibiotic susceptibility testing for the bacteria that causes VAP represents an urgent unmet medical need and an attractive market opportunity for Accelr8. The Company's vision is to develop and commercialize an integrated system for the rapid identification of bacteria and the determination of their antibiotic resistance in critically ill patients.
  - The BACcelr8r™ has been designed to perform microbiological analysis on a very small scale with high sensitivity and ultra-low interference, providing essential functions needed to support treatment decisions with regard to providing timely, appropriate, and accurate antibiotic therapies.
- Accelr8 possesses a broad portfolio of intellectual property, balanced by an experienced team of scientists seeking to create a range of commercial applications that can be licensed to other companies where Accelr8 can receive royalties. For example, the Company's chemistry could have potential applications in a broad spectrum of areas from the highly scientific and emerging molecular diagnostic platforms (such as protein markers and gene expression) to industrial applications.
- Accelr8's technology is positioned away from the commodity world of the clinical laboratory and into a mission-critical sale, which is intended to be driven by the ICU physician. The Company's technology offers a potential for significant cost savings and could bypass the need for separate reimbursement. Additionally, since capital requirements are low, significant value can be added based on existing infrastructure. There is also a low technical risk relative to most other device/diagnostic innovations, since this technology requires reconfiguration rather than discovery of novel but unproven principles or materials, with no need to displace an installed base of commodities.
- Accelr8 negotiated a two-year, non-exclusive manufacturing and marketing license, as well as a one-year, non-exclusive extension of an existing license, with SCHOTT Jenaer Glas GmbH of Jena, Germany—the second largest specialty glass manufacturer worldwide and a partner company of Carl Zeiss, the makers of advanced optics, microscopes, and other laboratory instrumentation.
- The Company had approximately \$2.5 million in cash and cash equivalents as of October 31, 2006.

## Risks

Some of the information in this Quarterly Update relates to future events or future business and financial performance. Such statements can be only predictions and the actual events or results may differ from those discussed due to, among other things, the risks described in Accelr8 Technology Corporation's Risk section on Forms 10-KSB, 10-QSB, 8-K, and other forms filed with the Securities and Exchange Commission (SEC) from time to time. The content of this update with respect to Accelr8 has been compiled primarily from information available to the public and released by Accelr8 through news releases and SEC filings. Accelr8 is solely responsible for the accuracy of that information. Information about other companies has been prepared from publicly available documents and has not been independently verified by Accelr8. For more complete information about Accelr8, refer to the Company's website at [www.accelr8.com](http://www.accelr8.com). Additionally, please refer to Crystal Research Associates' base report, the Executive Informational Overview<sup>®</sup> (EIO<sup>®</sup>) dated March 6, 2006, and located on Crystal Research Associates' website at [www.crystalra.com](http://www.crystalra.com) for more comprehensive details of Accelr8's risk factors.

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