

# QUARTERLY UPDATE

## Third Quarter 2006 Financial Results and Business Update

### Snapshot

June 23, 2006

Accelr8 Technology Corporation is developing a system to analyze bacteria in life-threatening infections, with the objective of providing a physician with species identity, bacterial counts, and specific antibiotic resistance by direct bacterial extraction from patient specimens and direct single-cell analysis without culturing. Accelr8's proprietary Quantum Microbiology™ strategy eliminates these long growth cycles, allowing species identification and counting 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. 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. Delay in starting effective therapy increases morbidity and mortality from such infections. Widespread and evolving drug resistance increases the failure rate of initial treatment. 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) for its proprietary BACcelr8r™ Rapid Analytical System; specifically, ventilator-associated pneumonia (VAP) acquired in hospital intensive care units (ICUs). VAP is the leading infectious cause of death in the ICU, affecting approximately 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.

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Technology Corporation

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### Recent Financial Data

Ticker (Exchange)	AXK (AMEX)
Recent Price (06/22/06)	\$2.72
52-Week Range	\$2.56-3.40
Shares Outstanding	9.97 million
Market Capitalization	\$27.1 million
Average 3-month volume	4,626
Insider Owners + 5%	9.90%
Institutional Owners	10.41%
EPS (Quarter ended 04/30/06)	(\$0.08)
Employees	14



### Key Points

- On June 15, 2006, Accelr8 released its financial and operating results for the third quarter 2006, ended April 30. The Company reported net revenues of \$19,800 for the third quarter 2006, versus revenues of \$120,104 for the third quarter 2005. The Company reported a net loss of \$788,865 or (\$0.08) per share versus \$562,838 or (\$0.06) per share for the year-ago period.
- For the nine months ended April 30, 2006, Accelr8 reported net revenues of \$161,678 versus \$382,859 for the same period last year. The Company reported a loss of \$2.3 million or (\$0.24) per share versus a loss of \$1.4 million or (\$0.14) per share for the year ago-period.
- General and administrative (G&A) expenses during the quarter were \$253,467 versus \$205,526 in the year-ago period. Research and development (R&D) expenses were \$490,004 for the third quarter of 2006 compared to \$383,190 for the same period in 2005.
- Accelr8 presented a poster at the 106th General Meeting of the American Society for Microbiology on May 23 in Orlando, FL titled "Direct Observation of Inducible Clindamycin Resistance in *Staphylococcus aureus* Using Single Live Cell Imaging," describing experiments with the Company's novel test for a type of hidden antibiotic resistance mechanism that now requires special methods to be revealed by culturing. The Company's new method obtained test results that agreed with those obtained by the special culturing methods. The new method obtained results in less than 5 hours, while culturing requires at least 18 hours after obtaining strain isolates.
- The Company had approximately \$3.5 million in cash and cash equivalents as of April 30, 2006.

## Financial and Business Update

### Third Quarter Results

On June 15, 2006, Accelr8 released its financial and operating results for the third quarter 2006, ended April 30. The Company reported net revenues of \$19,800 for the third quarter 2006, versus revenues of \$120,104 for the third quarter 2005. The Company reported a loss of \$788,865 or (\$0.08) per share versus \$562,838 or (\$0.06) per share for the year-ago period. General and administrative (G&A) expenses during the quarter were \$253,467 versus \$205,526 in the year-ago period. Research and development (R&D) expenses were \$490,004 for the third quarter of 2006 compared to \$383,190 for the same period in 2005.

The Company also cited progress with its BACcelr8r™ development project. Accelr8 presented a technical poster at the 106th General Meeting of the American Society for Microbiology on May 23 in Orlando, FL. The title of the presentation is “*Direct Observation of Inducible Clindamycin Resistance in Staphylococcus aureus Using Single Live Cell Imaging.*” It describes experiments with the Company's novel test for a type of hidden antibiotic resistance mechanism that now requires special methods to be revealed by culturing. The Company's new method obtained test results that agreed with those obtained by the special culturing methods. The new method obtained results in less than 5 hours, while culturing requires at least 18 hours after obtaining strain isolates.

### Year-to-Date Results

For the nine months ended April 30, 2006, Accelr8 reported net revenues of \$161,678 versus \$382,859 for the same period last year. The Company reported a loss of \$2.3 million or (\$0.24) per share versus a loss of \$1.4 million or (\$0.14) per share for the year ago-period. General and administrative (G&A) expenses during the nine months ended April 30, 2006 were \$699,893 versus \$703,125 for the same period 2005. Research and development (R&D) expenses were \$1.6 million for the nine months ended April 30, 2006, versus \$808,001 for the year-ago period.

The Company had approximately \$3.5 million in cash and cash equivalents as of April 30, 2006.

### Recent Events

During the third quarter 2006 and to date, Accelr8 reported important business updates. An overview of these events is provided below, referring the reader to the Company's website for complete press releases ([www.accelr8.com](http://www.accelr8.com)).

- On May 1, 2006, Accelr8 announced its scientists presented a combined technical poster at the 38th annual Oak Ridge Conference, entitled “Pushing the Technology Envelope III: The Next Generations of Diagnostic Testing” on April 21. The poster title was “*Identification and growth rate quantitation of individual bacterial clones using a novel microfluidic concentration device,*” and summarized methods and results of laboratory work demonstrating the performance of the analyses being designed into the Company's BACcelr8r™ rapid bacterial analysis system. The research used the Company's patent-pending Quantum Microbiology™ methods for analyzing individually identified cells. This research showed that Accelr8's methods produce results comparable to those from standard methods in a shorter time.
- On March 14, 2006, Accelr8 announced results for the second quarter 2006. The Company reported a loss of \$849,726 or (\$0.08) per share on net revenues of \$40,490 for the quarter ended January 31, 2006. In the comparable three-month period of fiscal 2005, Accelr8 reported a net loss of \$359,527 or (\$0.03) per share on net revenues of \$89,196. For the six-month period ending January 31, 2006, the Company reported a loss of \$1,669,073 or (\$0.15) per share on net revenues of \$84,878. For the comparable six-month period in fiscal 2005, the Company reported a net loss of \$897,244 or (\$0.08) per share on net revenues of \$110,005.
- Additionally, recently, articles have been featured addressing the problem of increasingly widespread antibiotic resistance and the parallel decline in new antibiotic development. These articles were featured as the cover story in *Forbes*, on June 19, 2006, and in the *Wall Street Journal*.

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## Company Background

Accelr8 Technology Corporation (“Accelr8” or the “Company”) 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 taken by 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 to arrest 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 happens too late to improve outcomes in most cases. Because of this situation, the physician needs a new diagnostic method that yields specific antibiotic guidance in less than approximately eight hours. Current products and methods are not able to meet this need.

### Antibiotic Resistance

Since their first commercial introduction in the 1940s, antibiotics have revolutionized the treatment of bacterial infections. However, as their usage has become more 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 risen, while the rate of new antibiotic development has declined. As antibiotic resistance continues to become more widespread, physicians remain challenged in their selection of an appropriate and effective antibiotic from a diminishing list of possibilities.

### Technology Portfolio

#### *The BACcelr8™ Rapid Analytical System*

Accelr8 is developing the BACcelr8™ Rapid Analytical System, intended to meet these requirements 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 first 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 specific 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 drug effects during the analysis (“time-kill” studies). The Company believes that this approach is likely to help optimize drug selection, thereby improving quality of care as measured by morbidity, mortality, length of stay in the intensive care unit (ICU), and average cost of care.

### *OptiChem® Surface Chemistry*

Accelr8 employs the use of proprietary OptiChem® surface chemistry inside the fluid channels of the BACcelr8r™'s disposable analytical cartridges (cassettes). In the BACcelr8r™ 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® treatment permits attachment of an agent that binds to bacteria, immobilizing them.

The Company also uses OptiChem® coatings on other types of assay surfaces for use in other products. With microarraying slides and other detector surfaces, OptiChem® 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® thus provides an exceptionally high signal-to-noise ratio to maximize sensitivity. The Company has successfully licensed certain versions of its OptiChem® surface chemistry for coating microarraying slides.

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

The initial target application for the Company's BACcelr8r™ 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 intensive care units (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 with existing technology within the necessary timeframe. 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 the BACcelr8r™ 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 BACcelr8r™ 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 the BACcelr8r™ to complement general-purpose microbiology products rather than displace them.

### **Manufacturing Agreement**

In November 2004, Accelr8 signed an exclusive two year manufacturing and marketing license (with an additional one-year option) with SCHOTT Jenaer Glas GmbH of Jena, Germany (SCHOTT). 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® 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® coating ("Slide H"). This slide is used in research that uses protein or deoxyribonucleic acid (DNA) microarrays.

In June 2005, Accelr8 signed a second supply agreement with SCHOTT for a different type of OptiChem®-coated microarraying slides ("Slide HS"). Accelr8 had been manufacturing the slides for SCHOTT since October 2004. Under the new agreement, Accelr8 extended production through December 2005. SCHOTT also had the right during 2005 to enter into negotiations for an exclusive

manufacturing and distribution license, similar to the Slide H agreement signed November 4, 2004. On September 27, 2005, SCHOTT provided written notification to the Amended Supply Agreement that it intends to exercise its exclusive right to negotiate an exclusive license for the application of the Company's second OptiChem<sup>®</sup> coated microarraying slides.

### **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-analytic 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 identifiable individual 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 2005, Accelr8 employed 14 full-time people, has agreements with five consultants, and contracts with three engineering firms for product development of the BACcelr8r™.

## Key Points to Consider

- Accelr8 is developing a potential new standard of care to more quickly and correctly identify specific bacteria and accurately measure antibiotic resistance in critically ill patients by testing specific pathogens for antibiotic susceptibility. The Company's technology is unique and potentially life saving. 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). Additionally, the Company's new method eliminates 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 takes approximately two days, at which point the window for providing effective treatment has long passed.
- Accelr8 has identified and defined a mission-critical market within the hospital sector. The initial target application for its BACcelr8r™ Rapid Analytical System is for serious hospital acquired infections (HAIs), specifically, ventilator associated pneumonia (VAP) acquired in hospital intensive care units (ICUs). Hospital-acquired pneumonia is the leading cause of death from infections acquired in the hospital setting, affecting approximately 300,000 people annually and causing between 40,000-90,000 deaths annually.
  - For this market, there is limited competition, no need to displace an established base within the hospital, and no standardized technology in place. The application area within medicine, combined with the right technical ingredients, could provide an effective solution for those patients affected by antibiotic resistance.
- Rapid antibiotic susceptibility testing for the bacteria that causes VAP represents an urgent unmet medical need and an attractive market opportunity for Accelr8 via its BACcelr8r™ Rapid Analytical System. Accelr8's vision is to develop and commercialize an integrated system for rapid identification of bacteria and to determine 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 all essential functions needed to support treatment decisions with regard to providing timely, appropriate, and accurate antibiotic therapy.
- Accelr8 possesses a broad portfolio of intellectual property, balanced by an experienced team of scientists seeking to create different commercial applications that can be licensed to other companies, and where the Company can receive royalties.
  - For example, the Company's chemistry could have potential applications in a broad-spectrum of other areas—from the highly scientific and emerging molecular diagnostic platforms (such as protein markers and gene expression) to industrial applications and other areas.
- Accelr8's technology is being positioned away from the commodity world of the clinical laboratory into a mission-critical sale, which is intended to be driven by the ICU physician. The Company's technology offers the potential for significant cost savings, and could bypass the need for separate reimbursement. Additionally, capital requirements are low, where significant value can be added based on existing infrastructure. Furthermore, there is a low technical risk relative to most other device/diagnostic innovations, whereby 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 has an exclusive two year manufacturing and marketing license with SCHOTT Jenaer Glas GmbH of Jena, Germany, the second largest specialty glass manufacturer in the world and the partner company of Carl Zeiss, the makers of advanced optics, microscopes, and other laboratory instrumentation, with an additional one-year option to manufacture and market the licensed products.
- The Company had approximately \$3.5 million in cash and cash equivalents as of April 30, 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)

The risks and uncertainties described below are not the only ones the Company faces. Additional risks and uncertainties not presently known or those it currently considers immaterial may also have an adverse effect on its business. If any of the matters discussed in the accompanying risk factors were to occur, Accelr8's business, financial condition, results of operations, cash flows, or prospects could be materially adversely affected.

### **Dependence on Key Employees**

Accelr8's 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 its results of operations. Accelr8 carries key man life insurance in the amount of \$5 million on Thomas V. Geimer (CEO and chairman of the Board). 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 the Company 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. Accelr8 believes that its continued success will depend in large part upon its ability to attract and retain highly skilled technical, managerial, sales, and marketing personnel. There can be no assurance that Accelr8 will be successful in attracting and retaining the personnel required to develop and market new and enhanced products and to conduct its operations successfully.

### **Need To Develop Market for Products**

Accelr8 has received only nominal revenue from sales based on products using its new OptiChem<sup>®</sup> technology. Accelr8's competitors manufacture and market products that are similar to the Company's. Accelr8's principal competitors and the areas in which they compete with the Company are described more fully in the Competition section of the Executive Informational Overview<sup>®</sup> (EIO<sup>®</sup>) published on March 6, 2006. While Accelr8 has received nominal revenues from sales, there is no assurance that it will be successful in marketing its products.

### **Success Depends Partially on Ability to Successfully Introduce New Products**

In a market primarily driven by the need for innovative products, Accelr8's revenue growth will depend on overcoming various technological challenges to successfully introduce new products into the marketplace in a timely manner. Accelr8's technology requires significant knowledge and experience in biochemistry. In addition, Accelr8 must continue to develop new applications for its existing technologies. Market acceptance of these products will depend on many factors, including, but not limited to, demonstrating that Accelr8's technologies are superior to other technologies and products that are currently available or may become available in the future. If Accelr8 is unable to overcome these technological challenges, or even if it experiences difficulties or delays, the Company may be unable to attract additional customers for its products, which would seriously harm Accelr8's business and future growth prospects.

### **If Unable To Effectively Protect Its Intellectual Property, the Company May Be Unable To Prevent Infringement**

Accelr8's success depends, in part, on its ability to obtain and maintain patent protection for the technology of its underlying products, both in the U.S. and in other countries. Accelr8 cannot assure that any of the presently pending or future patent applications will result in issued patents, or that any patents issued to the Company or licensed by the Company will not be challenged, invalidated, or held unenforceable. Further, Accelr8 cannot guarantee that any patents issued to it will provide the Company with a significant competitive advantage. If Accelr8 fails to successfully enforce its proprietary technology or otherwise maintain the proprietary nature of its intellectual property with respect to significant current and proposed products, Accelr8's competitive position and sales could suffer or the Company may be unable to increase sales.

Notwithstanding Accelr8's efforts to protect its intellectual property, Accelr8's competitors may independently develop similar or alternative technologies or products that are equal to or superior to its technology, and products without infringing on any of Accelr8's intellectual property rights or design around Accelr8's proprietary technologies. If customers prefer these alternative technologies to Accelr8's technology, sales could be adversely affected.

### **Accelr8's 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 Accelr8 operates, Accelr8 believes 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 the Company or the Company's licensees. Accelr8 may have to pay substantial damages, including treble damages, for past infringement if it is ultimately determined that Accelr8's 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 the Company and divert the efforts of its technical and management personnel.

Accelr8 may also be subject to significant damages or injunctions against development and sale of some of its products, which could have a material adverse effect on future revenues. Furthermore, claims of intellectual property infringement may require the Company to enter into royalty or license agreements with third parties, and Accelr8 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 the Company or Claim That Accelr8's Products and Operations Infringe Their Patent or Other Intellectual Property Rights**

In addition to Accelr8's patents, the Company possesses an array of unpatented proprietary technology and know-how and Accelr8 licenses intellectual property rights to and from third parties. The measures that Accelr8 employs 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 Accelr8 fails to meet specified performance targets.

Accelr8 may incur significant expense in any legal proceedings to protect its proprietary rights or to defend infringement claims by third parties. In addition, claims of third parties against the Company could result in awards of substantial damages or court orders that could effectively prevent the Company from manufacturing, using, importing, or selling its products in the United States or abroad.

### **Ability to Respond to Technological Change**

Accelr8's future success will depend significantly on the Company's ability to enhance its 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 Accelr8 will be successful in developing or acquiring product enhancements or new products to address changing technologies and customer requirements adequately, that Accelr8 can introduce such products on a timely basis, or that any such products or enhancements will be successful

in the marketplace. Accelr8's delay or failure to develop or acquire technological improvements, or to adapt Accelr8's products to technological change would have a material adverse effect on Accelr8's business, results of operations, and financial condition.

### **Control by Management**

At October 12, 2005, Accelr8's officers and directors owned or controlled of record approximately 944,950 or 9.48% of the outstanding shares of Accelr8's Common Stock. If they exercise all of the options that they currently hold, they will own 1,629,950 or 15.29% of the then outstanding shares of Accelr8's Common Stock. 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, 2005, Accelr8 had reserved 1,500,000 shares of Common Stock for issuance upon exercise of options which have been or may be granted pursuant to Accelr8's stock option plans. As of July 31, 2005, 477,500 options had been granted pursuant to the Qualified Plan with 2,500 of these options exercised, 250,000 options has been granted pursuant to the Non-Qualified Plan with 75,000 of this options exercised and 320,000 options have been granted pursuant to the 2004 Omnibus Plan with none of these options exercised. Further, as of October 12, 2005, there were 1,103,405 outstanding shares of Accelr8's Common Stock not held by Accelr8's officers or directors that are restricted securities as that term is defined in Rule 144 under the Securities Act. These have become free trading.

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, Accelr8 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.

### **The Loss of One or More of Major Clients Could Significantly Reduce Revenue**

During the fiscal year ended July 31, 2005, total revenues from SCHOTT were \$394,045, 78.5% of revenues. Of this amount \$318,545 was OptiChem<sup>®</sup> revenues, \$50,000 was a license fee, and \$25,500 was for option fees. During the fiscal year ended July 31, 2004, sales to SCHOTT of OptiChem<sup>®</sup> revenues were \$65,166 (54.9%) and to SomaLogic in the amount of \$35,200 (29.7%) representing 84.6% of Accelr8's total revenues. There can be no assurance that revenue from any customer will continue at their historical levels. Loss of one or more of Accelr8's current clients could have a material adverse effect on Accelr8's business, financial condition, and results of operations. If Accelr8 cannot broaden its customer base, the Company will continue to depend on a few clients for the majority of its revenue.

### **Accelr8 Uses Hazardous Materials in Some of Its Research, Development, and Manufacturing Processes**

Accelr8's research activities sometimes involve the controlled use of various hazardous materials. Although the Company believes that its 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. Accelr8 could be held liable for any damages that might result from any accident involving such materials. Any such liability could have a material adverse effect on Accelr8's business, financial condition, and results of operations.

### **Accelr8 Has a Single Manufacturing Facility and May Lose Revenue and Be Unable To Maintain Its Client Relationships if it Loses its Production Facility**

Accelr8 manufactures all of the products it sells in its existing production laboratory in Denver, Colorado. The Company currently can manufacture approximately 4,000 coated slides per month running one shift per five-day work week. If Accelr8's production facility becomes incapable of manufacturing products for any reason, Accelr8 may be unable to meet production requirements; Accelr8 may lose revenue and may

not be able to maintain its relationships with its customers. Without Accelr8's existing production facility, the Company would have no other means of manufacturing products incorporating its coating technologies until it was able to restore the manufacturing capability at its facility or develop an alternative manufacturing facility.

Although Accelr8 carries business interruption insurance to cover lost revenue and profits in an amount it considers adequate, this insurance does not cover all possible situations. In addition, Accelr8's business interruption insurance would not compensate the Company for the loss of opportunity and potential adverse impact on relations with Accelr8's existing licensees resulting from the Company's inability to produce products for them.

### **Changes in Governmental Regulations May Reduce Demand for Accelr8's Products or Increase Accelr8's Expenses**

Accelr8 competes in markets in which it or its customers must comply with federal, state, local, and foreign regulations such as environmental, health, and safety and food and drug regulations. Accelr8 develops, configures, and markets its products to meet customer needs created by these regulations. Any significant change in these regulations could reduce demand for Accelr8's products.

### **Accelr8's Results of Operations Will Be Adversely Affected if the Company Fails to Realize the Full Value of Its Intangible Assets**

As of July 31, 2005, Accelr8's total assets included \$3,878,969 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. Accelr8 continuously evaluates 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. Future impairment testing may result in additional intangible asset write-offs, which could adversely affect Accelr8's financial condition and results of operations.

### **Accelr8's Business Strategy Approach May Be Adversely Affected by Potential Healthcare Reform**

Accelr8's vision is to develop and commercialize an innovative, integrated system for rapid identification of bacterial antibiotic resistance in critically ill patients. Healthcare reform and the growth of managed care organizations have been considerable forces in the diagnostics industry. These forces continue to place constraints on the levels of overall pricing and thus could have a material adverse effect on Accelr8's future profit margins of Accelr8's products. Such continuing changes in the U.S. healthcare market could also force the Company to alter its approach to selling, marketing, distributing, and servicing its customer base. In and outside the U.S., changes to government reimbursement policies could reduce the funding that healthcare service providers have available for diagnostic product expenditures, which could have a material adverse impact on Accelr8's future sales and/or profit margin.

Accelr8 makes significant investments in research and development, but there is no guarantee that any of these investments will ultimately result in a commercial product that will generate revenues. The BACcelr8r™ will integrate many of Accelr8's component systems and processes. For the year ended July 31, 2005, Accelr8 spent \$1,304,888 on research and development expenses. Notwithstanding these investments, there can be no assurance that the BACcelr8r™ will be successful, or even if it is successful, will be accepted in the marketplace. Further, Accelr8 might also encounter substantial delays in getting products to market in a timely fashion.

### **Changes in Accelr8's Business Strategy or Plans May Adversely Affect the Company's Operating Results and Financial Condition**

If Accelr8's business strategy or plans change, whether in response to changes in economic conditions or developments in the diagnostics industry, or otherwise, Accelr8 may be required to expend significantly more resources than it planned to develop for the BACcelr8r™ or other new products. The expense of such change could adversely affect Accelr8's operating results and financial condition. Compliance costs with recently enacted changes in the securities laws and regulations pursuant to the Sarbanes-Oxley Act of 2002 will increase Accelr8's costs. The Sarbanes-Oxley Act of 2002 that became law in July 2002 has required changes in some of Accelr8's corporate governance, securities disclosure, and accounting and compliance practices. In response to the requirements of that act, the Securities and Exchange Commission and the American Stock Exchange have promulgated new rules on a variety of subjects. Compliance with these new rules, as well as the Sarbanes-Oxley Act of 2002, has increased Accelr8's legal, financial, and accounting costs, and Accelr8 expects the cost of compliance with these new rules to continue to increase and to be permanent. Further, the new rules may increase the expenses associated with Accelr8's director and officer liability insurance.

### **Accelr8's Stock Price Has Been Volatile and May Continue to Be Volatile**

The trading price of Accelr8's Common Stock has been, and is likely to continue to be, highly volatile. The market value of investment in Accelr8's Common Stock may rise or fall sharply at any time because of this volatility, and also because of significant short positions taken by investors from time to time in Accelr8's stock. During the fiscal year ended July 31, 2005, the closing sale price for Accelr8's Common Stock ranged from \$3.40 to \$1.97 per share. The market prices for securities of medical technology companies historically have been highly volatile, and the market has experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. Accelr8 does not intend to pay any cash dividends on Accelr8's Common Stock in the foreseeable future.



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Some of the information in this update relates to future events or future business and financial performance. Such statements constitute forward-looking information within the meaning of the Private Securities Litigation Act of 1995. 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 reports 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 Technology Corporation has been compiled primarily from information available to the public released by Accelr8 Technology Corporation. Accelr8 Technology Corporation is solely responsible for the accuracy of that information. Information as to other companies has been prepared from publicly available information and has not been independently verified by Accelr8 Technology Corporation or CRA. Certain summaries of scientific activities and outcomes have been condensed to aid the reader in gaining a general understanding. For more complete information about Accelr8 Technology Corporation, the reader is directed to the Company's website at [www.accelr8.com](http://www.accelr8.com). This update is published solely for information purposes and is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any state. Past performance does not guarantee future performance. Free additional information about Accelr8 Technology Corporation, and its public filings, as well as free copies of this report can be obtained in either a paper or electronic format by calling (303) 863-8088.