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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

☑ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended June 30, 2023

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission File Number 001-34426

Astrotech Corporation

(Exact name of registrant as specified in its charter)

Delaware	**91-1273737**
(State or other jurisdiction of corporation or organization)	(I.R.S. Employer Identification No.)
2105 Donley Drive, 100, Austin, Texas	**78758**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(512) 485-9530**

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock $0.001 per share	**ASTC**	**The Nasdaq Capital Market**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☑

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities 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 ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☑	Smaller reporting company ☑
Emerging growth company ☐	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to § 240.10D-1(b). ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☑

The aggregate market value of the registrants voting and non-voting common equity held by non-affiliates of the registrant as of December 31, 2022, based upon the closing price of such stock on The Nasdaq Capital Market on such date of $9.99, was approximately $16,887,595.50. This calculation excludes shares held by the registrant's current directors and executive officers and stockholders that the registrant has concluded are affiliates of the registrant.

As of September 26, 2023, 1,682,286 shares of the registrant's common stock, par value $0.001 per share, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The registrant's definitive proxy statement to be used in connection with its 2023 Annual Meeting of Stockholders (the "Proxy Statement") is incorporated by reference in Part III of this Form 10-K to the extent stated herein. The Proxy Statement will be filed with the SEC within 120 days after June 30, 2023. Except with respect to information specifically incorporated by reference in this Form 10-K, the Proxy Statement is not deemed to be filed as a part hereof.

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FORWARD-LOOKING STATEMENTS

This Form 10-K contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). All statements other than statements of historical fact are "forward-looking statements" for purposes of federal and state securities laws. Forward-looking statements may include the words "may," "will," "plans," "believes," "estimates," "expects," "intends" and other similar expressions. Such statements are subject to risks and uncertainties that could cause our actual results to differ materially from those projected in the statements. Such risks and uncertainties include, but are not limited to:

- The adverse impact of recent inflationary pressures, including significant increases in fuel costs, global economic conditions and events related to these conditions, including the ongoing war in Ukraine and the COVID-19 pandemic;
- Our ability to successfully pursue our business plan and execute our strategy, including our collaboration with Cleveland Clinic;
- The effect of economic and political conditions in the United States or other nations that could impact our ability to sell our products and services or gain customers;
- Product demand and market acceptance risks, including our ability to develop and sell products and services to be used by governmental or commercial customers;
- The impact of trade barriers imposed by the U.S. government, such as import/export duties and restrictions, tariffs and quotas, and potential corresponding actions by other countries in which we conduct our business;
- Technological difficulties and potential legal claims arising from any technological difficulties;
- The risks related to the availability of, and cost inflation in, supply chain inputs, including labor, raw materials, commodities, packaging, and transportation;
- Uncertainty in government funding and support for key programs, grant opportunities, or procurements;
- The impact of competition on our ability to win new contracts;
- Our ability to meet technological development milestones and overcome development challenges; and
- Our ability to successfully identify, complete, and integrate acquisitions.

While we do not intend to directly harvest, manufacture, distribute or sell cannabis or cannabis products, we may be detrimentally affected by a change in enforcement by federal or state governments and we may be subject to additional risks in connection with the evolving regulatory area and associated uncertainties. Any such effects may give rise to risks and uncertainties that are currently unknown or amplify others identified herein.

These forward-looking statements are based on management's current expectations. These statements are neither promises nor guarantees, but involve known and unknown risks, uncertainties, and other important factors that may cause our actual results, performance, or achievements to be materially different from any future results, performance, or achievements expressed or implied by the forward-looking statements. Factors that may cause actual results to differ materially from current expectations include, among other things, those listed under Part I, Item 1A. "Risk Factors," Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations," and elsewhere in this Annual Report on Form 10-K. Given these uncertainties, you should not rely on these forward-looking statements as predictions of future events.

Although we believe that the assumptions underlying our forward-looking statements are reasonable, any of the assumptions could be inaccurate. Therefore, we cannot assure you that the forward-looking statements included in this Form 10-K will prove to be accurate. In light of the significant uncertainties inherent in our forward-looking statements, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved. Some of these and other risks and uncertainties that could cause actual results to differ materially from such forward-looking statements are more fully described elsewhere in this Form 10-K, or in the documents incorporated by reference herein. Except as may be required by applicable law, we undertake no obligation to publicly update or advise of any change in any forward-looking statement, whether as a result of new information, future events, or otherwise. In making these statements, we disclaim any obligation to address or update each factor in future filings with the Securities and Exchange Commission ("SEC") or communications regarding our business or results, and we do not undertake to address

how any of these factors may have caused changes to discussions or information contained in previous filings or communications. In addition, any of the matters discussed above may have affected our past results and may affect future results, so that our actual results may differ materially from those expressed in this Form 10-K and in prior or subsequent communications.

PART I

Item 1. Business

Our Company

Astrotech Corporation (Nasdaq: ASTC) ("Astrotech," the "Company," "we," "us," or "our"), a Delaware corporation organized in 1984, is a mass spectrometry company that launches, manages, and commercializes scalable companies based on its innovative core technology.

Our efforts are focused on commercializing our platform mass spectrometry technology through our wholly-owned subsidiaries:

- Astrotech Technologies, Inc. ("ATI") owns and licenses the intellectual property related to the Astrotech Mass Spectrometer Technology™ (the "AMS Technology").

- 1st Detect Corporation ("1st Detect") is a manufacturer of explosives trace detectors capable of also detecting narcotics. It was developed for use at airports, cargo and other secured facilities, and borders worldwide. 1st Detect holds an exclusive AMS Technology license from ATI for air passenger and cargo security applications.

- AgLAB, Inc. ("AgLAB") is developing a series of mass spectrometers for use in the hemp and cannabis market with initial focus on optimizing yields in the distillation processes. AgLAB holds an exclusive AMS Technology license from ATI for agriculture applications.

- BreathTech Corporation ("BreathTech") is developing a breath analysis tool to screen for volatile organic compound ("VOC") metabolites found in a person's breath that could indicate a compromised condition including but not limited to a bacterial or viral infection. BreathTech holds an exclusive AMS Technology license from ATI for breath analysis applications.

Business and Recent Developments

On November 23, 2022, the Company announced a Reverse Stock Split. The Board approved the Reverse Stock Split at a ratio of 1-for-30. Each 30 shares of the Company's issued and outstanding common stock was automatically combined into one validly issued, fully paid and non-assessable share of common stock. The split brought the Company into compliance with the minimum bid price requirements for maintaining its listing in The Nasdaq Capital Market.

On December 21, 2022, the Company announced the adoption of a Rights Agreement with American Stock Transfer & Trust Company, LLC. The Rights Plan is intended to protect the interests of all stockholders and enable all Company stockholders to realize the long-term value of their investment. Stockholder interests are protected by reducing the likelihood that any person or group could gain control of the Company through rapid open-market purchases of the Company's shares without paying an appropriate premium.

On February 1, 2023, the Company announced the appointment of Bob McFarland to the Board of Directors. Mr. McFarland brings extensive domestic and international executive management experience, with a focus on information technology. He brings experience working with and for the federal government, as well as leading companies in the industry.

On February 6, 2023, the Company announced the appointment of Thomas B. Pickens III as Chief Technology Officer of the Company. Mr. Pickens has been a valued team member in the discovery and development of the method to detect the compounds associated with COVID-19 lung infections. Mr. Pickens also leads the team that is developing applications for the AMS Technology in the distillation of essential oils using molecular distillation systems, including the manufacturing of hemp and cannabis oils. Mr. Pickens has been instrumental in the Company's process to accurately qualify and quantify chemical compounds using our technology.

On May 8, 2023, the Company announced that it has accepted a purchase order from a Romanian based company focused on research and innovation in the security and telecommunications space. The Company is required to deliver 17 TRACER 1000 explosive trace detectors over the remainder of the calendar year 2023. As of the date of this filing, the TRACER 1000 is deployed in 29 locations across 14 countries throughout Europe and Asia.

On May 9, 2023, the Company confirmed the results from field trials using the AgLAB 1000-D2™ mass spectrometer and the Maximum Value Process™ testing method ("AgLAB MVP"). AgLAB MVP is designed to improve yields and bottom-line profits for hemp (CBD) and cannabis (THC) producers of distilled oils.

Our Business Units

Astrotech Technologies, Inc.

ATI owns and licenses the AMS Technology, the platform mass spectrometry technology originally developed by 1st Detect. The AMS Technology has been designed to be inexpensive, smaller, and easier to use when compared to traditional mass spectrometers. Unlike other technologies, the AMS Technology works under ultra-high vacuum, which eliminates competing molecules, yielding higher resolution and fewer false alarms. The intellectual property includes 18 patents granted along with extensive trade secrets. With a number of diverse market opportunities for the core technology, ATI is structured to license the intellectual property for different fields of use. ATI currently licenses the AMS Technology to three wholly-owned subsidiaries of Astrotech on an exclusive basis, including to 1st Detect for use in the security and detection market, to AgLAB for use in the agriculture market, and to BreathTech for use in breath analysis applications.

ATI has contracted with various vendors to assist with the further development of our mass spectrometer products including the manufacturability and reliability of our systems.

1st Detect Corporation

1st Detect, a licensee of ATI for the security and detection market, has developed the TRACER 1000™, the world's first mass spectrometry ("MS") based explosives trace detector ("ETD") certified by the European Civil Aviation Conference ("ECAC"). The TRACER 1000 was designed to outperform the ETDs currently used at airports, cargo and other secured facilities, and borders worldwide. The Company believes that ETD customers are unsatisfied with the currently deployed ETD technology, which is driven by ion mobility spectrometry ("IMS"). The Company further believes that some IMS-based ETDs have issues with false positives, as they often misidentify personal care products and other common household chemicals as explosives, causing facility shutdowns, unnecessary delays, frustration, and significant wasted security resources. In addition, there are hundreds of different types of explosives, but IMS-based ETDs have a very limited threat detection library reserved only for those few explosives of largest concern. Adding additional compounds to the detection library of an IMS-based ETD fundamentally reduces the instrument's performance, further increasing the likelihood of false alarms. In contrast, adding additional compounds to the TRACER 1000's detection library does not degrade its detection capabilities, as it has a virtually unlimited and easily expandable threat library.

In order to sell the TRACER 1000 to airport and cargo security customers in the European Union and certain other countries, we obtained ECAC certification. The Company is currently selling the TRACER 1000 to customers who accept ECAC certification. As of June 30, 2023, the Company has deployed the TRACER 1000 in approximately 29 locations in 14 countries throughout Europe and Asia.

In the United States, the Company is working with the U.S. Transportation Security Administration ("TSA") towards air cargo certification. On March 27, 2018, the Company announced that the TRACER 1000 was accepted into TSA's Air Cargo Screening Technology Qualification Test ("ACSQT") and, on April 4, 2018, the Company announced that the TRACER 1000 entered into testing with the TSA for passenger screening at airports. On November 14, 2019, the Company announced that the TRACER 1000 had been selected by the TSA's Innovation Task Force to conduct live checkpoint screening at Miami International Airport. With similar protocols as ECAC testing, the Company has received valuable feedback from all programs. Following ECAC certification and the Company's early traction within the cargo market, testing for cargo security continued with the TSA. With the COVID-19 pandemic, all testing within the TSA was put on hold; however, cargo testing resumed during the summer of 2020, and the Company subsequently announced on September 9, 2020 that the TRACER 1000 passed the non-detection testing portion of the TSA's ACSQT. Due to delays caused by COVID-19, TSA cargo detection testing is ongoing, but has proceeded much more slowly than originally anticipated. As a result, efforts are primarily focused on our other opportunities. TSA cargo detection testing is the final step to be listed on the Air Cargo Screening Technology List as an "approved" device. If approved, the TRACER 1000 will be approved for cargo sales in the United States.

AgLAB Inc.

AgLAB, an exclusive licensee of ATI for the agriculture market, has developed the AgLAB 1000™ series of mass spectrometers for use in the hemp and cannabis markets with initial focus on optimizing yields in the distillation process. The AgLAB product line is a derivative of the Company's core AMS Technology. AgLAB has continued to conduct field trials to demonstrate that the AgLAB 1000-D2™ can be used in the distillation process to significantly improve the processing yields of tetrahydrocannabinol ("THC") and cannabidiol ("CBD") oil during distillation. The AgLAB 1000-D2™ uses the Maximum Value Process solution ("MVP") to analyze samples in real-time and assist the equipment operator determining the ideal settings required to maximize yields. As part of our growth plan, we also plan to launch a family of "process control" methods and solutions that we believe could be valuable additions to many nutraceutical and pharmaceutical distillation processing plants.

Production and processing of hemp and cannabis is a huge, worldwide industry. In the U.S., for example, the wholesale value of the cannabis crop from just the 11 states permitting adult-use and medical cannabis exceeds $6 billion annually. Growth in the U.S. and in the worldwide market is likely fed in part by the growing acceptance of medicinal cannabis products and anticipated legislative changes in various jurisdictions worldwide. This growth is also due in part to the passage of the 2018 Farm Bill, which legalized hemp production in the United States. According to a report by BDS Analytics and Arcview Market Research, the U.S. CBD market is estimated to reach $20 billion by 2024, with a CAGR of 49% from 2019 to 2024. The market is segmented into various categories of products, including oils, tinctures, capsules, topicals, edibles, and pet products. The largest category is oils and tinctures, accounting for 44% of the market share in 2020, followed by topicals (26%) and edibles (19%). CBD-infused pet products are also growing in popularity, with sales estimated to reach $1.7 billion by 2025, despite the FDA's current position that such products may not be lawfully sold under the federal Food, Drug & Cosmetic Act (FD&C Act).

One factor driving the growth of the market is the increasing consumer interest in natural and alternative health remedies. According to a survey conducted by the National Center for Complementary and Integrative Health, nearly one-third of Americans use natural products, including CBD, for their health and wellness needs. Another survey by Consumer Reports found that 64% of Americans who have tried CBD reported benefits in connection with various health conditions, including pain, anxiety, and sleep disorders. Despite the regulatory uncertainty surrounding the use of CBD in food and dietary supplements, as the FDA has consistently held that such products are unlawful under the FD&C Act, the market has continued to expand. A survey conducted by the Grocery Manufacturers Association found that 71% of US consumers are open to using CBD-infused food and beverage products, and the market for CBD-infused beverages is projected to reach $1.4 billion by 2023.

As the market continues to grow, there has been an influx of new companies entering the space, ranging from large corporations to small startups. The competition is fierce, with companies investing heavily in research and development to create innovative products and differentiate themselves from their competitors. However, the market remains highly fragmented, with many products of varying quality and efficacy, making it challenging for consumers to navigate. Overall, the CBD and hemp market in the US is a rapidly growing industry with significant potential for continued expansion. As more research is conducted and regulations are established, we believe it is likely that the market will become more standardized and regulated, leading to increased consumer confidence and demand. However, the industry is also likely to face challenges as it matures, including increased competition and potential regulatory hurdles.

Management believes the AgLAB 1000-D2™ will deliver a compelling combination of cost and time savings while enhancing product quality and quantity for distillation processors of hemp and cannabis. The use of the AgLAB 1000-D2™ should reduce waste from current distillation practices and result in a significantly improved product. Due in large part to the Company's proprietary technology, the Company believes it is the only provider of a mass spectrometry system that gives it a distinct advantage in the industry.

Our competition consists of high performance liquid chromatography technology which analyzes THC and CBD derived from hemp. . While we believe our technology has competitive advantages over the incumbent technology, there are no assurances competing in this market segment.

The hemp extraction market is a broad market and encompasses many startup companies and well-established companies. There is no assurance this industry will remain profitable, given the evolving regulatory landscape and applicable state and federal restrictions.

During the first quarter of fiscal year 2023, AgLab began the first production run of the AgLAB 1000-D2 and sales efforts are currently underway. On May 9, 2023, AgLab announced the confirmed results from field trials using the AgLAB 1000-D2TM mass spectrometer and the Maximum Value ProcessTM testing method ("AgLAB MVP"). AgLAB MVP is designed to improve yields and bottom-line profits for hemp (CBD) and cannabis (THC) producers of distilled oils. While we currently market primarily to distillers within the hemp industry, our AgLAB products also have the potential to serve distillers within the broader cannabis industry in the future, in which case our risk exposure would likely increase and could have a detrimental effect on our business.

BreathTech Corporation

BreathTech, an exclusive licensee of ATI for use in breath analysis applications, is developing the BreathTest-1000™, a breath analysis tool to screen for VOC metabolites found in a person's breath that could indicate they may have compromised condition including but not limited to a bacterial or viral infection. The Company believes that new tools to aid in the battle against COVID-19 and other diseases remain of the utmost importance to help more quickly identify that an infection may be present.

In June 2022, the Company expanded its existing study that initially focused on COVID-19 with Cleveland Clinic to use the BreathTest-1000 to screen for a variety of diseases spanning the entire body. The project will focus on detecting bloodstream infections, respiratory infections such as influenza types A and B and respiratory syncytial virus ("RSV"), carriage of Staphylococcus aureus, and Clostridioides difficile ("C. diff") infections.

In November 2022, BreathTech announced that, based on analysis of data from testing of breath samples procured during library development, the BreathTest-1000™ lung disease screening instrument can clearly distinguish between infected and healthy breath samples. This analysis and conclusion marks a significant milestone in the development of the BreathTest-1000™ lung disease screening instrument.

Trends and Uncertainties

To date, we have seen delays with respect to the TSA certification process and parts of our supply chain, particularly the impact of the global semiconductor and electronics shortage, which has now resulted in product pricing inflation. In addition, although passenger demand for air travel has rebounded, the overall recovery of the airline industry and ancillary services remains uncertain.

We continue to manage production, to secure alternative supplies, and to take other proactive actions. We believe that we will be able to pass the inflation caused by raw materials shortages and increased shipping costs to our customers by increasing the price of our instruments. If supply chain shortages become more severe or longer term in nature, our business and results of operations could be adversely impacted; however, we do not expect this issue to materially adversely affect our liquidity position. In addition, the long-term impact of the COVID-19 pandemic on our business may not be fully reflected until future periods.

Business Strategy

1st Detect Corporation

There are tens of thousands of IMS instruments deployed in the field today, with many nearing their end of life. As the current generation of IMS technology is replaced, we are working to position the Company as the next-generation solution for the ETD market with the introduction of the world's first ECAC certified ETD driven by a mass spectrometer. With mass spectrometry being the gold standard of chemical detection, an MS-ETD significantly improves detection capabilities, dramatically reduces the number of false positives, decreases delays and the associated costs, and allows for a much more expansive library of compounds of interest, yielding an instrument that we believe is far superior to the currently deployed IMS instruments, at a similar price point and a lower operating cost.

We currently market the TRACER 1000 to countries that accept ECAC certification. If we obtain TSA certification and are listed on the ACSTL as an "approved" device, we plan to also market and sell the TRACER 1000 to those countries that accept TSA certification.

AgLAB Inc.

Initial interest for the AgLAB-1000 series has come from the hemp and cannabis industry. Many derivative hemp and cannabis products are being manufactured using cannabinoids present in the plant, primarily THC for cannabis and CBD for hemp. Extraction and distillation equipment is used to remove the cannabinoids from the raw plant matter to create an oil that is used in many manufactured products. AgLAB has launched the first of several planned products that have been designed to assist in the distillation processes by maximizing the final product quality and yield.

Current efforts are focused on the U.S. market, but international markets present attractive future growth opportunities as the number of countries with legal recreational or medicinal use continues to expand.

BreathTech Corporation

The BreathTest-1000 product that is currently under development is being designed to provide an inexpensive, non-invasive screening device for compromised conditions including a bacterial or viral infection that can offer results on-site in a very short period of time. We believe there is strong value for this easy to use screener in high density and critical locations, especially with additional COVID-19 variants and other diseases continuing to pose new or reemerging threats. Most currently available tests either take too long or are invasive and painful. The market need for a quick and painless test is considered significant in the following target markets:

- Hospitals
- Nursing homes
- Airlines
- Hotels
- Cruise lines
- Military
- Sporting events
- Performing arts venues
- Convention and conference centers
- Schools

Products and Services

1st Detect Corporation

The TRACER 1000 is the first MS-ETD certified by ECAC. We believe the TRACER 1000 significantly outperforms currently deployed competitive trace detection solutions based on IMS technology, specifically related to false alarm rate, probability of detection, and unit up-time. Many of our sales to-date have come from the cargo security industry where false alarms can cause expensive delays and facility shutdowns as the false alarms are cleared, preventing the mission critical continuous flow of time sensitive packages. We have also expanded into the airport passenger screening market with sales to a distributor who services a major international airport in Asia and another who services airports in Romania. We also continue to garner much interest in the narcotics capabilities of our system and plan to expand sales efforts in this area.

AgLAB Inc.

Leveraging the platform AMS Technology, AgLAB has designed its product line to serve distillers in the hemp and cannabis industry. AgLAB has launched the AgLAB-1000-D2 which is designed to be used to determine the optimal settings to increase yield and potency during the distillation process. With the AgLAB-1000-D2, a sample is manually introduced into the system for analysis. Currently under development is the AgLAB-1000-D1. When completed, this instrument will be an inline process control unit.

BreathTech Corporation

The BreathTest-1000 is being developed, in conjunction with Cleveland Clinic, to provide an inexpensive, non-invasive screening device for a variety of diseases, including highly contagious diseases like COVID-19 as well as other compromising conditions. The BreathTest-1000 is being designed to detect infectious VOC metabolites in a person’s breath.

Customers, Sales, and Marketing

1st Detect Corporation

Marketing efforts at 1st Detect are currently focused on foreign airports and commercial companies in aviation and cargo security. We employ both direct sales and channel sales through distributors. We now have units deployed in 29 locations in 14 countries. While we have had some degree of success with sales, the sales cycles are normally long and much of the pipeline has seen delays caused by the COVID-19 pandemic.

AgLAB Inc.

Currently, AgLAB uses only direct sales. We do plan to engage with various channel partners, largely companies with existing distribution channels in the hemp and cannabis market, to help sell our products to target customers.

BreathTech Corporation

Efforts are currently focused on the development of the BreathTest-1000. We plan to increase marketing activities as the product approaches commercial viability.

Competition

1st Detect Corporation

Competition for the TRACER 1000 comes primarily from IMS-based ETDs. We have several competitors that sell IMS-based ETDs whose Company's are much larger than us, with well-established sales forces and offering a wider range of security products; however, we believe the TRACER 1000 has a number of attributes that are superior to competing products.

IMS-ETD

- False alarms caused by confusants
- Lower probability of detection
- Numerous unscheduled bake-outs and calibrations
- Limited library of compounds of interest
- Addition of new compounds may require hardware changes
- Causes delays or shutdowns at security facilities/inspection checkpoints
- Low price chemical detector

1st Detect's TRACER 1000

- Near-zero false alarm rate
- Higher probability of detection
- Near 100% up-time
- Unlimited library of compounds of interest
- Library updates that do not require hardware changes
- Improves throughput at security facilities and checkpoints
- Competitive price to IMS in a throughput sensitive environment

These claims have been confirmed in numerous discussions with industry experts and verified in our many field trials.

AgLAB Inc.

The currently available technology that we believe to be the only direct competition to our MS-based system is high performance liquid chromatography ("HPLC"). We believe the AgLAB-1000 series of products offers a more customer-friendly interface, quicker results, and, once the AgLAB-1000-D1 is launched, the ability to provide closed loop process control, ensuring maximum yield and product quality.

BreathTech Corporation

The BreathTest-1000 product that is currently under development is being designed to screen for VOC metabolites. The VOC metabolites are found in a person's breath and could indicate they may have a compromised condition including but not limited to a bacterial or viral infection. Given that breath samples are quick, inexpensive, and painless, we anticipate that the BreathTest-1000 will help screen for signs of disease. We do not see this as competing with traditional tests but supplementing and improving medical care.

Research and Development

Astrotech Technologies, Inc.

We invest considerable resources into our internal research and development ("R&D") functions. Much of our R&D investment is devoted to the cross-platform AMS Technology as the R&D team continually works to develop new derivative products, improve system functionality and reliability, optimize design, reduce cost, and streamline and simplify the software and user experience. Each market, however, typically requires unique sample introduction technology, library development, and customized adjustments to the user interface.

1st Detect Corporation

While 1st Detect's TRACER 1000 is fully commercialized, we continue to invest in cross-platform improvements that benefit all of our products, including those that improve system functionality and reliability, optimize design, reduce cost, and streamline and simplify the software and user experience.

AgLAB Inc.

The AgLAB-1000 series uses the core AMS Technology and is continuing its development of its product line to include other valuable products specific to the hemp and cannabis industry.

BreathTech Corporation

The BreathTest-1000 employs the core AMS Technology. BreathTech R&D activities are being devoted to sample introduction and library development, which is needed to identify the specific compounds present in the breath that are indicative of the presence a compromised condition including infections.

We have been in correspondence with the U.S. Food and Drug Administration ("FDA") regarding how the FDA will classify the BreathTest-1000 and the classification has not yet been determined. The classification will inform the required FDA premarket submission and review process that will follow. If premarket notification (510(k) submission) is required, we intend to submit a pre-submission request to the FDA. The pre-submission is a formal mechanism for requesting feedback from the FDA prior to submitting a medical device application. The timeframe for receiving feedback from a pre-submission request is approximately 70 calendar days but may be shorter or longer.

Simultaneously, we are exploring how to potentially accelerate our time to market for the BreathTest-1000 via the Emergency Use Authorization ("EUA") process, pursuant to the EUA declaration for in vitro diagnostic tests ("IVDs") that became effective on February 4, 2020, in connection with the public health emergency related to COVID-19. In relevant part, an EUA declaration allows the FDA to temporarily authorize the use of unapproved and uncleared medical countermeasures, such as, IVD tests that have not gone through the FDA's review process in anticipation of a potential emergency or during an actual emergency involving a chemical, biological, radiological, or nuclear agent, or an emerging infectious disease where the U.S. Secretary of Health and Human Services ("HHS") determines that circumstances exist to justify such authorization. Several COVID-19 diagnostic tests have been authorized through the EUA process, and such authorizations generally remain in effect until HHS declares the public health emergency is terminated or the conditions of the given EUA are not fulfilled. We have not submitted a request for an EUA but are hopeful that we will be able to obtain authorization under the EUA to get the BreathTest-1000 to market as quickly as possible. The timeframe for authorization of an EUA is highly variable and depends on, among other things, the complexity of the product, completeness of the submission, and technical requirements of the FDA. Authorization, if granted, may take as little as one month or as long as several months, and there is no guarantee that an EUA will be granted for the BreathTest-1000.

Certain Regulatory Matters

We are subject to United States federal, state, and local laws and regulations designed to protect the environment and to regulate the discharge of materials into the environment. We are also beholden to certain regulations designed to protect our domestic technology from unintended foreign exploitation and regulate certain business practices. We believe that our policies, practices, and procedures are properly designed to prevent unreasonable risk of environmental damage and consequential financial liability. Our operations are also subject to various regulations under federal laws regarding the international transfer of technology, as well as to various federal and state laws related to business operations. In addition, we are subject to federal contracting procedures, audit, and oversight. Compliance with environmental laws and regulations and technology export requirements has not had and, we believe, will not have in the future, material effects on our capital expenditures, earnings, or competitive position.

Federal regulations that impact our operations include, but are not limited to, the following:

Foreign Corrupt Practices Act. The Foreign Corrupt Practices Act establishes rules for U.S. companies doing business internationally. Compliance with these rules is achieved through established and enforced corporate policies, documented internal procedures, and financial controls.

Iran Nonproliferation Act of 2000. This act authorizes the President of the United States to take punitive action against individuals or organizations known to be providing material aid to weapons of mass destruction programs in Iran.

Federal Acquisition Regulations. Goods and services provided by us to U.S. Government agencies are subject to Federal Acquisition Regulations ("FAR"). These regulations provide rules and procedures for invoicing, documenting, and conducting business under contract with such entities. The FAR also subjects us to audit by federal auditors to confirm such compliance.

Truth in Negotiations Act. The Truth in Negotiations Act was enacted for the purpose of providing full and fair disclosure by contractors in the conduct of negotiations with the U.S. Government. The most significant provision included in the Truth in Negotiations Act is the requirement that contractors submit certified cost and pricing data for negotiated procurements above a defined threshold.

Export Administration Act. This act provides authority to regulate exports, to improve the efficiency of export regulation, and to minimize interference with the ability to engage in commerce.

Export Administration Regulations. The Export Administration Regulations govern whether a person or company may export goods from the U.S., re-export goods from a foreign country, or transfer goods from one person or company to another in a foreign country.

Medical Device Regulation

FDA Premarket Clearance and Approval Requirements. Unless an exemption applies, each medical device, to be lawfully commercially distributed in the U.S., requires either FDA clearance of a 510(k) premarket notification submission, granting of a *de novo* request, or premarket application ("PMA") approval. Under the Federal Food Drug and Cosmetic Act ("FDCA"), administered by the FDA, medical devices are classified into one of three classes, Class I, Class II, or Class III, depending on the degree of risk associated with each medical device and the extent of manufacturer and regulatory controls needed to ensure its safety and effectiveness. Class I includes devices with the lowest risk to the patient and are those for which safety and effectiveness can be assured by adherence to the FDA's general controls for medical devices, which include compliance with the applicable portions of the Quality System Regulation ("QSR"), facility registration and product listing, reporting of adverse medical events, and truthful and non-misleading labeling, advertising, and promotional materials. Some Class I devices may require premarket notification to the FDA.

Class II devices are moderate risk devices and are subject to the FDA's general controls, and certain special controls as deemed necessary by the FDA to ensure the safety and effectiveness of the device. These special controls can include performance standards, post-market surveillance, patient registries, and FDA guidance documents. While most Class I devices are exempt from the 510(k) premarket notification requirement, manufacturers of most Class II devices are required to submit to the FDA a premarket notification under Section 510(k) of the FDCA requesting permission to commercially distribute the device. The FDA's permission to commercially distribute a device subject to a 510(k) premarket notification is generally known as 510(k) clearance. Under the 510(k) process, the manufacturer must submit to the FDA a premarket notification demonstrating that the device is "substantially equivalent" to either a device that was legally marketed prior to May 28, 1976, the date upon which the Medical Device Amendments of 1976 were enacted, or another commercially available device that was cleared to through the 510(k) or *de novo* process.

Devices deemed by the FDA to pose the greatest risks, such as life-sustaining, life-supporting or some implantable devices, or devices that have a new intended use, or use advanced technology that is not substantially equivalent to that of a legally marketed device, are placed in Class III, requiring approval of a PMA. For a device that is Class III by default (because it is a novel device that was not previously classified and has no predicate), the device manufacturer may request that FDA reclassify the device into Class II or Class I via a *de novo* request.

510(k) Marketing Clearance. To obtain 510(k) clearance, a premarket notification submission must be submitted to the FDA demonstrating that the proposed device is "substantially equivalent" to a predicate device. A predicate device is a legally marketed device that is not subject to premarket approval, i.e., a device that was legally marketed prior to May 28, 1976 (pre-amendments device) and for which a PMA is not required, a device that has been reclassified from Class III to Class II or I (e.g., via the *de novo* classification process), or a device that was previously cleared through the 510(k) process. The FDA's 510(k) review process usually takes from three to six months but may take longer. The FDA may require additional information, including clinical data, to make a determination regarding substantial equivalence. If the FDA agrees that the device is substantially equivalent to a predicate device, it will grant 510(k) clearance to market the device.

After a device receives 510(k) marketing clearance, any modification that could significantly affect its safety or effectiveness, or that would constitute a major change or modification in its intended use, will require a new 510(k) marketing clearance or, depending on the modification, a *de novo* request or PMA approval. The FDA requires each manufacturer to determine whether the proposed change requires submission of a 510(k), *de novo* or a PMA in the first instance, but the FDA can review that decision and disagree with a manufacturer's determination. If the FDA disagrees with a manufacturer's determination, the FDA may take a wide range of enforcement actions, including, but not limited to, issuing a warning letter, withdrawing existing 510(k) clearance(s), and/or requesting a recall of the modified device. In addition, the manufacturer must cease marketing of the modified device until FDA has cleared or approved a new 510(k), *de novo* or PMA for the change, if ever. Also, in these circumstances, the manufacturer may be subject to significant regulatory fines or penalties.

De Novo Process. If a previously unclassified new medical device does not qualify for the 510(k) pre-market notification process because no predicate device to which it is substantially equivalent can be identified, the device is automatically classified into Class III. The Food and Drug Administration Modernization Act of 1997 established a new route to market for low to moderate risk medical devices that are automatically placed into Class III due to the absence of a predicate device, called the "Request for Evaluation of Automatic Class III Designation," or the de novo classification procedure. This procedure allows a manufacturer whose novel device is automatically classified into Class III to request down-classification of its medical device into Class I or Class II on the basis that the device presents low or moderate risk, rather than requiring the submission and approval of a PMA. Prior to the enactment of the Food and Drug Administration Safety and Innovation Act ("FDASIA") in July 2012, a medical device could only be eligible for de novo classification if the manufacturer first submitted a 510(k) pre-market notification and received a determination from the FDA that the device was not substantially equivalent. FDASIA streamlined the de novo classification pathway by permitting (under Section 513(f)(2) of the FDCA) manufacturers to request de novo classification directly without first submitting a 510(k) pre-market notification to the FDA and receiving a not substantially equivalent determination. FDASIA sets a review time for FDA of 120 days following receipt of the de novo application, but FDA does not always meet this timeline and has publicly only committed to a review of 150 days for 50% of applications. If the manufacturer seeks reclassification into Class II, the manufacturer must include a draft proposal for special controls that are necessary to provide a reasonable assurance of the safety and effectiveness of the medical device. The FDA may reject the reclassification petition if it identifies a legally marketed predicate device that would be appropriate for a 510(k) or determines that the device is not low to moderate risk or that general controls would be inadequate to control the risks and special controls cannot be developed. If the FDA agrees with the down-classification, the *de novo* applicant will then receive authorization to market the device, and a classification regulation will be established for the device type. The device can then be used as a predicate device for future 510(k) submissions by the manufacturer or a competitor. In October 2021, FDA enacted regulations implementing the above-referenced FDCA provisions governing the *de novo* reclassification process.

Premarket Approval Process. Class III devices require submission through the PMA process before they can be marketed. The PMA process is more demanding than the 510(k) premarket notification process. Under the PMA pathway, the manufacturer must demonstrate that the investigational device is safe and effective for the target indication(s) for use, and the PMA must be supported by extensive data, including data from preclinical studies and human clinical trials conducted under a valid investigational device exemption ("IDE"). The PMA must also contain, among other things, a full description of the device and its components, a full description of the methods, facilities and controls used for manufacturing, and proposed labeling. Following receipt of a PMA submission, the FDA determines whether the application is sufficiently complete to permit a substantive review. If the FDA accepts the application for review, it has 180 days under the FDCA to complete its review of a PMA, although in practice, the FDA's review often takes significantly longer, and can take up to several years. An advisory panel of experts from outside the FDA may be convened to review and evaluate the application and provide recommendations to the FDA as to the approvability of the device. The FDA may or may not accept the panel's recommendation. In addition, the FDA will generally conduct a preapproval inspection of the applicant or its third-party manufacturers' or suppliers' manufacturing facility or facilities to ensure compliance with the QSR.

The FDA will approve the new device for commercial distribution if it determines that the data and information in the PMA application constitute valid scientific evidence and that there is reasonable assurance that the device is safe and effective for its intended use(s). The FDA may approve a PMA application with post-approval conditions intended to ensure the safety and effectiveness of the device, including, among other things, restrictions on labeling, promotion, sale and distribution, and collection of long-term follow-up data from patients in the clinical study that supported PMA approval or requirements to conduct additional clinical studies post-approval. The FDA may condition PMA approval on some form of post-market surveillance when deemed necessary to protect the public health or to provide additional safety and efficacy data for the device in a larger population or for a longer period of use. In such cases, the manufacturer might be required to follow certain patient groups for a number of years and to make periodic reports to FDA on the clinical status of those patients. Failure to comply with the conditions of approval can result in material adverse enforcement action, including withdrawal of the approval.

Certain changes to an approved device, such as changes in manufacturing facilities, methods, or quality control procedures, or changes in the design performance specifications, which affect the safety or effectiveness of the device, require submission of a PMA supplement. PMA supplements often require submission of the same type of information as a PMA, except that the supplement is limited to information needed to support any changes from the device covered by the original PMA and may not require as extensive clinical data or the convening of an advisory panel. Certain other changes to an approved device require the submission of a new PMA, such as when the design change causes a different intended use, mode of operation, and technical basis of operation, or when the design change is so significant that a new generation of the device will be developed, and the data that were submitted with the original PMA are not applicable for the change in demonstrating a reasonable assurance of safety and effectiveness.

Emergency Use Authorization. The Commissioner of the FDA, under delegated authority from HHS may, under certain circumstances, issue an EUA, that would temporarily permit the use of an unapproved medical device or unapproved use of an approved medical device. Before an EUA may be issued, the HHS Secretary must declare that circumstances exist to justify the authorization (referred to as an "EUA declaration") based on one of the following grounds:

- a determination by the Secretary of the Department of Homeland Security ("DHS") that there is a domestic emergency, or a significant potential for a domestic emergency, involving a heightened risk of attack with a specified biological, chemical, radiological or nuclear agent or agents;

- a determination by the Secretary of Defense that there is a military emergency, or a significant potential for a military emergency, involving a heightened risk to U.S. military forces of attack with a specified biological, chemical, radiological, or nuclear agent or agents;

- a determination by the Secretary of HHS of a public health emergency that affects or has the significant potential to affect, national security or the health and security of U.S. citizens living abroad, and that involves a specified biological, chemical, radiological, or nuclear agent or agents, or a specified disease or condition that may be attributable to such agent or agents; or

- the identification of a material threat, by the DHS Secretary pursuant to section 319F-2 of the Public Health Service ("PHS") Act, that is sufficient to affect national security or the health and security of U.S. citizens living abroad.

In order for a medical countermeasure, such as an IVD (among others), to be the subject of an EUA, the FDA Commissioner must conclude that, based on the totality of scientific evidence available, it is reasonable to believe that the product may be effective in diagnosing, treating, or preventing a disease attributable to the agents described above, that the product's potential benefits outweigh its potential risks and that there is no adequate, approved alternative to the product.

Clinical Trials. Clinical trials are almost always required to support *de novo* or a PMA and are sometimes required to support a 510(k) submission. All clinical investigations of investigational devices to determine safety and effectiveness must be conducted in accordance with the FDA's IDE regulations which govern investigational device labeling, prohibit promotion of the investigational device, and specify an array of recordkeeping, reporting and monitoring responsibilities of study sponsors and study investigators. If the device presents a "significant risk" to human health, as defined by the FDA, the FDA requires the device sponsor to submit an IDE application to the FDA, which must become effective prior to commencing human clinical trials. A significant risk device is one that presents a potential for serious risk to the health, safety or welfare of a patient and either is implanted, used in supporting or sustaining human life, substantially important in diagnosing, curing, mitigating or treating disease or otherwise preventing impairment of human health, or otherwise presents a potential for serious risk to a subject. An IDE application must be supported by appropriate data, such as animal and laboratory test results, showing that it is safe to test the device in humans and that the testing protocol is scientifically sound. The IDE will automatically become effective 30 days after receipt by the FDA, unless the FDA notifies the manufacturer that the investigation may not begin or is subject to a clinical hold. If the FDA determines that there are deficiencies or other concerns with an IDE for which it requires modification, the FDA may permit a clinical trial to proceed under a conditional approval.

In addition, clinical studies must be approved by, and conducted under the oversight of, an Institutional Review Board ("IRB") for each clinical site. The IRB is responsible for the initial and continuing review of the IDE and may pose additional requirements for the conduct of the trial. If an IDE application is approved by the FDA and one or more IRBs, human clinical trials may begin at a specific number of investigational sites with a specific number of patients, as approved by the FDA. If the device presents a non-significant risk to the patient, a sponsor may begin the clinical trial after obtaining approval for the trial by one or more IRBs without separate approval from the FDA, but must still follow abbreviated IDE requirements, such as monitoring the investigation, ensuring that the investigators obtain informed consent, and labeling and record-keeping requirements. An IDE supplement must be submitted to and approved by the FDA before a sponsor or investigator may make a change to the investigational plan.

During a clinical trial, the sponsor is required to comply with the applicable FDA requirements, including, for example, trial monitoring, selecting clinical investigators and providing them with the investigational plan, ensuring IRB review, adverse event reporting, record keeping, and prohibitions on the promotion of investigational devices or on making safety or effectiveness claims for them. The clinical investigators in the clinical study are also subject to FDA regulations and must obtain patient informed consent, rigorously follow the investigational plan and study protocol, control the disposition of the investigational device, and comply with all reporting and recordkeeping requirements. Additionally, after a trial begins, we, the FDA, or the IRB could suspend or terminate a clinical trial at any time for various reasons, including a belief that the risks to study subjects outweigh the anticipated benefits.

Post-market Regulation. After a device is cleared or approved for marketing, numerous and pervasive regulatory requirements continue to apply. These include (among others):

- establishment registration and device listing with the FDA;
- state licensure requirements for the manufacturing and distribution of medical devices;
- FDA's QSR requirements, which require manufacturers, including third-party manufacturers, to follow stringent design, testing, control, documentation, and other quality assurance procedures during all aspects of the design and manufacturing process;
- FDA labeling and marketing regulations, which require that promotion is truthful, not misleading, fairly balanced, provide adequate directions for use, and that all claims are substantiated, and also prohibit the promotion of products for unapproved or "off-label" uses and impose other restrictions on labeling;
- FDA regulations and guidance pertaining to clearance or approval of product modifications to 510(k)-cleared devices that could significantly affect safety or effectiveness or that would constitute a major change in intended use of one of our cleared devices, or approval of a supplement for certain modifications to PMA devices;
- FDA's medical device reporting ("MDR") regulations, which require that a manufacturer report to the FDA if a device it markets may have caused or contributed to a death or serious injury, or has malfunctioned and the device or a similar device that it markets would be likely to cause or contribute to a death or serious injury, if the malfunction were to recur;
- FDA's correction, removal, and recall reporting regulations, which require that manufacturers report to the FDA field corrections and product recalls or removals if undertaken to reduce a risk to health posed by the device or to remedy a violation of the FDCA that may present a risk to health;
- FDA regulations requiring Unique Device Identifiers on devices and also requiring the submission of certain information about each device to the FDA's Global Unique Device Identification Database;
- the FDA's recall authority, whereby the agency can order device manufacturers to recall from the market a product that is in violation of governing laws and regulations;
- FDA post-market surveillance activities and regulations, which apply when deemed by the FDA to be necessary to protect the public health or to provide additional safety and effectiveness data for the device;
- the federal Physician Sunshine Act and various state and foreign laws on reporting remunerative relationships with health care professionals, teaching hospitals, and other applicable entities;
- the federal Anti-Kickback Statute (and similar state laws) prohibiting, among other things, soliciting, receiving, offering or providing remuneration intended to induce the purchase or recommendation of an item or service reimbursable under a federal healthcare program, such as Medicare or Medicaid. A person or entity does not have to have actual knowledge of this statute or specific intent to violate it to have committed a violation; and
- the federal False Claims Act (and similar state laws) prohibiting, among other things, knowingly presenting, or causing to be presented, claims for payment or approval to the federal government that are false or fraudulent, knowingly making a false statement material to an obligation to pay or transmit money or property to the federal government or knowingly concealing, or knowingly and improperly avoiding or decreasing, an obligation to pay or transmit money to the federal government. The government may assert that claim includes items or services resulting from a violation of the federal Anti-Kickback Statute constitutes a false or fraudulent claim for purposes of the false claims statute.

We may be subject to similar foreign laws that may include applicable post-marketing requirements such as safety surveillance. With respect to any medical devices that we may commercialize in the U.S. in the future, our manufacturing processes, or those of any contract manufacturer that we engage, will be required to comply with the applicable portions of the QSR, which cover the methods and the facilities, controls for the design, manufacture, testing, production, processes, controls, quality assurance, labeling, packaging, distribution, installation, and servicing of finished devices intended for human use. The QSR also requires, among other things, maintenance of a device master file, device history file, and complaint files. The discovery of previously unknown problems with any of our products, including unanticipated adverse events or adverse events of increasing severity or frequency, whether resulting from the use of the device within the scope of its clearance or off-label by a physician in the practice of medicine, could result in restrictions on the device, including the removal of the product from the market or voluntary or mandatory device recalls.

The FDA has broad regulatory compliance and enforcement powers. If the FDA determines that we failed to comply with applicable regulatory requirements, it can take a variety of compliance or enforcement actions, which may result in any of the following sanctions:

- warning letters, untitled letters, fines, injunctions, consent decrees, and civil penalties;
- recalls, withdrawals, or administrative detention or seizure of our products;
- operating restrictions or partial suspension or total shutdown of production (due to violations of the QSR or other applicable regulations) refusing or delaying requests for 510(k) marketing clearance or PMA approvals of new products or modified products;
- withdrawing 510(k) clearances or PMA approvals that have already been granted;
- refusal to grant export or import approvals for our products; or
- criminal prosecution.

Regulation of Medical Devices in the EEA

Medical devices placed on the market in the European Economic Area ("EEA") must meet the relevant essential requirements laid down in Annex I of Directive 93/42/EEC concerning medical devices ("the Medical Devices Directive"). The most fundamental essential requirement is that a medical device must be designed and manufactured in such a way that it will not compromise the clinical condition or safety of patients, or the safety and health of users and others. In addition, the device must achieve the performances intended by the manufacturer and be designed, manufactured, and packaged in a suitable manner. The European Commission has adopted various standards applicable to medical devices. These include standards governing common requirements, such as sterilization and safety of medical electrical equipment and product standards for certain types of medical devices. There are also harmonized standards relating to design and manufacture. While not mandatory, compliance with these standards is viewed as the easiest way to satisfy the essential requirements as a practical matter. Compliance with a standard developed to implement an essential requirement also creates a rebuttable presumption that the device satisfies that essential requirement.

To demonstrate compliance with the essential requirements laid down in Annex I to the Medical Devices Directive, medical device manufacturers must undergo a conformity assessment procedure, which varies according to the type of medical device and its classification. Conformity assessment procedures require an assessment of available clinical evidence, literature data for the product, and post-market experience in respect of similar products already marketed. Except for low-risk medical devices (Class I non-sterile, non-measuring devices), where the manufacturer can self-declare the conformity of its products with the essential requirements (except for any parts which relate to sterility or metrology), a conformity assessment procedure requires the intervention of a Notified Body. Notified bodies are often separate entities and are authorized or licensed to perform such assessments by government authorities. The notified body would typically audit and examine a product’s technical dossiers and the manufacturers’ quality system. If satisfied that the relevant product conforms to the relevant essential requirements, the notified body issues a certificate of conformity, which the manufacturer uses as a basis for its own declaration of conformity. The manufacturer may then apply the CE Mark to the device, which allows the device to be placed on the market throughout the EEA. Once the product has been placed on the market in the EEA, the manufacturer must comply with requirements for reporting incidents and field safety corrective actions associated with the medical device.

In order to demonstrate safety and efficacy for their medical devices, manufacturers must conduct clinical investigations in accordance with the requirements of Annex X to the Medical Devices Directive ("MDD"), Annex 7 of the Active Implantable Medical Devices Directive ("AIMDD"), and applicable European and International Organization for Standardization standards, as implemented or adopted in the EEA member states. Clinical trials for medical devices usually require the approval of an ethics review board and approval by or notification to the national regulatory authorities. Both regulators and ethics committees also require the submission of serious adverse event reports during a study and may request a copy of the final study report.

On April 5, 2017, the European Parliament passed the Medical Devices Regulation (Regulation 2017/745), which repeals and replaces the E.U. Medical Devices Directive and the Active Implantable Medical Devices Directive. Unlike directives, which must be implemented into the national laws of the EEA member States, the regulations would be directly applicable, i.e., without the need for adoption of EEA member State laws implementing them, in all EEA member States and are intended to eliminate current differences in the regulation of medical devices among EEA member States. The Medical Devices Regulation, among other things, is intended to establish a uniform, transparent, predictable, and sustainable regulatory framework across the EEA for medical devices and ensure a high level of safety and health while supporting innovation. The Medical Device Regulation will become applicable in May 2021. The new regulations:

- strengthen the rules on placing devices on the market and reinforce surveillance once they are available;
- establish explicit provisions on manufacturers' responsibilities for the follow-up of the quality, performance, and safety of devices placed on the market;
- improve the traceability of medical devices throughout the supply chain to the end-user or patient through a unique identification number;
- set up a central database to provide patients, healthcare professionals, and the public with comprehensive information on products available in the E.U.;
- strengthened rules for the assessment of certain high-risk devices, such as implants, which may have to undergo an additional check by experts before they are placed on the market.

In the European Union, member states are responsible for enforcing the EU's medical device rules and for ensuring that only compliant medical devices are placed on the market or put into service in their jurisdictions. They have powers to suspend the marketing and use, or demand the recall, of unsafe or non-compliant devices. They also have the power to bring enforcement action against companies or individuals for breaches of the device rules. Non-compliance may also result in Notified Bodies revoking any certificate of conformity that they have issued for a device or the manufacturer's quality system.

We are subject to regulations and product registration requirements in many foreign countries in which we may sell our products, including in the areas of:

- design, development, and manufacturing;
- product standards;
- product safety;
- product safety reporting;
- marketing, sales, and distribution;
- packaging and storage requirements;
- labeling requirements;
- content and language of instructions for use;
- clinical trials;

- record keeping procedures;
- advertising and promotion;
- recalls and field corrective actions;
- post-market surveillance, including reporting of deaths or serious injuries and malfunctions that, if they were to recur, could lead to death or serious injury;
- import and export restrictions;
- tariff regulations, duties, and tax requirements;
- registration for reimbursement; and
- necessity of testing performed in country by distributors for licensees.

The time required to obtain clearance required by foreign countries may be longer or shorter than that required for FDA clearance, and requirements for licensing a product in a foreign country may differ significantly from FDA requirements.

Federal, State, and Foreign Fraud and Abuse and Physician Payment Transparency Laws. In addition to FDA restrictions on marketing and promotion of drugs and devices, other federal and state laws may restrict our business practices if our products will be reimbursable under federal or state healthcare programs. These laws include, without limitation, foreign, federal, and state anti-kickback and false claims laws, as well as transparency laws regarding payments or other items of value provided to healthcare providers.

The federal Anti-Kickback Statute prohibits, among other things, knowingly and willfully offering, paying, soliciting or receiving any remuneration (including any kickback, bribe or rebate), directly or indirectly, overtly or covertly, in cash or in kind to induce or in return for purchasing, leasing, ordering or arranging for or recommending the purchase, lease or order of any good, facility, item or service reimbursable, in whole or in part, under Medicare, Medicaid or other federal healthcare programs.

Violations of the federal Anti-Kickback Statute may result in civil monetary penalties up to $100,000 for each violation, plus up to three times the remuneration involved. Civil penalties for such conduct can further be assessed under the federal False Claims Act. Violations can also result in criminal penalties, including criminal fines of up to $100,000 and/or imprisonment of up to 10 years. Similarly, violations can result in exclusion from participation in government healthcare programs, including Medicare and Medicaid. Liability under the federal Anti-Kickback Statute may also arise because of the intentions or actions of the parties with whom we do business.

The federal civil False Claims Act prohibits, among other things, any person or entity from knowingly presenting, or causing to be presented, a false or fraudulent claim for payment or approval to the federal government or knowingly making, using or causing to be made or used a false record or statement material to a false or fraudulent claim to the federal government. A claim includes “any request or demand” for money or property presented to the U.S. government. The federal civil False Claims Act also applies to false submissions that cause the government to be paid less than the amount to which it is entitled, such as a rebate. Intent to deceive is not required to establish liability under the federal civil False Claims Act.

In addition, private parties may initiate “qui tam” whistleblower lawsuits against any person or entity under the federal civil False Claims Act in the name of the government and share in the proceeds of the lawsuit. Penalties for federal civil False Claim Act violations include fines for each false claim, plus up to three times the amount of damages sustained by the federal government and, most critically, may provide the basis for exclusion from the federally funded healthcare program The criminal False Claims Act prohibits the making or presenting of a claim to the government knowing such claim to be false, fictitious or fraudulent and, unlike the federal civil False Claims Act, requires proof of intent to submit a false claim. When an entity is determined to have violated the federal civil False Claims Act, the government may impose civil fines and penalties ranging from $11,803 to $23,607 for each false claim, plus treble damages, and exclude the entity from participation in Medicare, Medicaid, and other federal healthcare programs.

The Civil Monetary Penalty Act of 1981 imposes penalties against any person or entity that, among other things, is determined to have presented or caused to be presented a claim to a federal healthcare program that the person knows or should know is for an item or service that was not provided as claimed or is false or fraudulent, or offering or transferring remuneration to a federal healthcare beneficiary that a person knows or should know is likely to influence the beneficiary’s decision to order or receive items or services reimbursable by the government from a particular provider or supplier.

The Health Insurance Portability and Accountability Act of 1996, as amended by the Health Information Technology for Economic and Clinical Health Act ("HITECH") and including implementing regulations (collectively, "HIPAA") also created additional federal criminal statutes that prohibit among other actions, knowingly and willfully executing, or attempting to execute, a scheme to defraud any healthcare benefit program, including private third-party payors, knowingly and willfully embezzling or stealing from a healthcare benefit program, willfully obstructing a criminal investigation of a healthcare offense, and knowingly and willfully falsifying, concealing or covering up a material fact or making any materially false, fictitious or fraudulent statement in connection with the delivery of or payment for healthcare benefits, items or services. Similar to the federal Anti-Kickback Statute, a person or entity does not need to have actual knowledge of the statute or specific intent to violate it in order to have committed a violation.

Many foreign countries have similar laws relating to healthcare fraud and abuse. Foreign laws and regulations may vary greatly from country to country. For example, the advertising and promotion of our products is subject to E.U. directives concerning misleading and comparative advertising and unfair commercial practices, as well as other EEA Member State legislation governing the advertising and promotion of medical devices. These laws may limit or restrict the advertising and promotion of our products to the general public and may impose limitations on our promotional activities with healthcare professionals. Also, many U.S. states have similar fraud and abuse statutes or regulations that may be broader in scope and may apply regardless of payor, in addition to items and services reimbursed under Medicaid and other state programs.

Data Privacy and Security Laws. In the future, we may also be subject to various federal, state, and foreign laws that protect personal information including certain patient health information, such as the E.U. General Data Protection Regulation ("GDPR") and the California Consumer Privacy Act ("CCPA"), and restrict the use and disclosure of patient health information, such as HIPAA, and analogous state laws, many of which apply more broadly than HIPAA, in the U.S.

HIPAA established uniform standards governing the conduct of certain electronic healthcare transactions and requires certain entities, called covered entities (as defined under HIPAA), to comply with standards that include the privacy and security of Protected Health Information ("PHI"). HIPAA also requires business associates (as defined under HIPAA), that may include independent contractors or agents of covered entities that access, use or disclose PHI in connection with providing a service to or on behalf of a covered entity to enter into business associate agreements with the covered entity and to safeguard the covered entity's PHI against improper use and disclosure.

The HIPAA privacy regulations cover the use and disclosure of PHI by covered entities as well as business associates, which are defined to include subcontractors that create, receive, maintain, or transmit PHI on behalf of a business associate. They also set forth certain rights that an individual has with respect to his or her PHI maintained by a covered entity, including the right to access or amend certain records containing PHI, or to request restrictions on the use or disclosure of PHI. The security regulations establish requirements for safeguarding the confidentiality, integrity, and availability of PHI that is electronically transmitted or electronically stored. HITECH, among other things, established certain health information security breach notification requirements. A covered entity must notify any individual whose PHI is breached according to the specifications set forth in the breach notification rule. The HIPAA privacy and security regulations establish a uniform federal "floor" and do not supersede state laws that are more stringent or provide individuals with greater rights with respect to the privacy or security of, and access to, their records containing PHI or insofar as such state laws apply to personal information that is broader in scope than PHI as defined under HIPAA.

HIPAA requires the notification of patients, and other compliance actions, in the event of a breach of unsecured PHI. If notification to patients of a breach is required, such notification must be provided without unreasonable delay and in no event later than 60 calendar days after discovery of the breach. In addition, if the PHI of 500 or more individuals is improperly used or disclosed, we would be required to report the improper use or disclosure to HHS which would post the violation on its website, and to the media. Failure to comply with the HIPAA privacy and security standards can result in civil monetary penalties up to $63,973 per violation, not to exceed an aggregate of $1.92 million per calendar year, and, in certain circumstances, criminal penalties with fines up to $250,000 per violation and/or imprisonment.

HIPAA authorizes state attorneys general to file suit on behalf of their residents for violations. Courts are able to award damages, costs and attorneys' fees related to violations of HIPAA in such cases. While HIPAA does not create a private right of action allowing individuals to file suit against us in civil court for violations of HIPAA, its standards have been used as the basis for duty of care cases in state civil suits such as those for negligence or recklessness in the misuse or breach of PHI. In addition, HIPAA mandates that the Secretary of HHS conduct periodic compliance audits of HIPAA covered entities, and their business associates for compliance with the HIPAA privacy and security standards. It also tasks HHS with establishing a methodology whereby harmed individuals who were the victims of breaches of unsecured PHI may receive a percentage of the civil monetary penalty paid by the violator.

In addition, California enacted the CCPA, effective January 1, 2020, which, among other things, creates new data privacy obligations for covered companies and provides new privacy rights to California residents, including the right to opt out of certain disclosures of their information. The CCPA also creates a private right of action with statutory damages for certain data breaches, thereby potentially increasing risks associated with a data breach. Although the law includes limited exceptions, including for "protected health information" maintained by a covered entity or business associate, it may regulate or impact our processing of personal information depending on the context.

In the EEA, we may become subject to laws which restrict our collection, control, processing, and other use of personal data (i.e., data relating to an identifiable living individual) including the GDPR (and any national laws implementing the GDPR). As part of our operations, we process personal data belonging to data subjects in the EEA, including employees, contractors, suppliers, distributors, service providers, customers, patients, or clinical trial participants. For patients or clinical trial participants, we process special categories of personal data like health and medical information. We need to ensure compliance with the GDPR (and any applicable national laws implementing the GDPR) in each applicable EEA jurisdiction.

Healthcare Reform. The U.S. and some foreign jurisdictions are considering or have enacted a number of legislative and regulatory proposals to change the healthcare system in ways that could affect our ability to sell our products profitably. Among policy makers and payors in the U.S. and elsewhere, there is significant interest in promoting changes in healthcare systems with the stated goals of containing healthcare costs, improving quality or expanding access. Current and future legislative proposals, on both a national and state level, to further reform healthcare or reduce healthcare costs may limit coverage of or lower reimbursement for the procedures associated with the use of our products. The cost containment measures that payors and providers are instituting and the effect of any healthcare reform initiative implemented in the future could impact our revenue from the sale of our medical products, to the extent any are authorized for commercialization in the United States.

We expect additional state and federal healthcare reform measures to be adopted in the future, any of which could limit the amounts that federal and state governments will pay for healthcare products and services, which could result in reduced demand for our products or additional pricing pressure.

US Government Regulation of the Cannabis Industry

While we do not generate any revenue from the direct sale of cannabis products, we offer our services and solutions to cultivators operating within the cannabis industry. Marijuana is a Schedule I controlled substance and is illegal under federal law. Even in those states in which specific uses of marijuana have been legalized, such as medical marijuana or for adult recreational purposes, its use remains a violation of federal laws, subject to the narrow exception carved out by the 2018 Farm Bill.

A Schedule I controlled substance is defined as a substance that has no currently accepted medical use in the United States, a lack of safety for use under medical supervision and a high potential for abuse. The Department of Justice defines Schedule I controlled substances as "the most dangerous drugs of all the drug schedules with potentially severe psychological or physical dependence." If the federal government decides to enforce the Controlled Substances Act with respect to marijuana, persons that are charged with distributing, possessing with intent to distribute, or growing cannabis in violation of federal law could be subject to fines and terms of imprisonment, the maximum being life imprisonment and a $50 million fine. Any unfavorable change in the federal government's enforcement of current federal laws could cause significant financial damage to the industry. While we do not intend to directly harvest, manufacture, distribute or sell cannabis or cannabis products, we may be detrimentally affected by a change in enforcement by the federal or state governments.

In the past, the Obama administration took the position that it was not an efficient use of resources to direct federal law enforcement agencies to prosecute those lawfully abiding by state-designated laws allowing the use and distribution of medical marijuana. The Trump administration revised this policy but made no major changes in enforcement. Although President Biden stood for decriminalization and descheduling during his campaign, his administration has not formulated an explicit policy on cannabis. The Biden administration has implemented pardons for past federal cannabis possession convictions and encouraged governors to do the same. Also, in May 2021 the Drug Enforcement Administration approved licensed facilities to grow cannabis for the purpose of medical research, and on December 2, 2022, President Biden signed the Medical Marijuana and Cannabidiol Research Expansion Act. This act is "the first standalone marijuana-related bill approved by both chambers of the United States Congress" and allows medical marijuana research. The act requires the Drug Enforcement Administration to register researchers and suppliers of cannabis for medical research in a timely manner, who will then be able to legally manufacture, distribute, dispense and possess the substance. It also creates a mechanism for FDA approval of drugs derived from the cannabis plant and "protects doctors who may now discuss the harms and benefits of using cannabis and cannabis derivatives." It also requires the Department of Health and Human Services to investigate the medical utility of cannabis and barriers that exist to conducting research, and requires the U.S. Attorney General to conduct an annual review to ensure that cannabis is being adequately produced for research purposes. In January 2023, the FDA stated that given the growing cannabidiol (CBD) products market, it had convened a high-level internal working group to explore potential regulatory pathways for CBD products and is prepared to find a new regulatory pathway for CBD to balance individuals' desire for access to CBD products with the regulatory oversight needed to manage risks. Notwithstanding the actions of the Biden administration, it should be expected that the Department of Justice will continue to enforce the Controlled Substances Act with respect to cannabis under established principles in setting their law enforcement priorities to prevent:

- the distribution of cannabis products, such as marijuana, to minors;
- criminal enterprises, gangs and cartels receiving revenue from the sale of cannabis;
- the diversion of cannabis products from states where it is legal under state law to states where it is not legal under state law;
- the use of state-authorized cannabis activity as a cover or pretext for the trafficking of other illegal drugs or other illegal activity;
- violence and the use of firearms in the cultivation and distribution of cannabis products;
- driving while impaired and the exacerbation of other adverse public health and safety consequences associated with cannabis product usage;
- the growing of cannabis on public lands; and
- cannabis possession or use on federal property.

Since the use of marijuana is illegal under federal law, most federally chartered banks will not accept deposit funds from businesses involved with marijuana. Consequently, businesses involved in the marijuana industry generally bank with state-chartered banks and credit unions to provide banking to the industry.

In 2014, Congress passed a spending bill containing a provision (the Rohrabacher-Farr amendment and sometimes referred to as the Rohrabacher-Blumenauer Amendment) blocking federal funds and resources allocated under the federal appropriations bills from being used to "prevent such States from implementing their own State medical marijuana laws." The Rohrabacher-Blumenauer Amendment, however, did not codify any federal protections for medical marijuana patients and producers operating within state law. The Justice Department maintains that it can still prosecute violations of the federal cannabis laws and continue cases already in the courts. The Rohrabacher-Blumenauer Amendment must be re-enacted every year, and it is continued through September 30, 2023. However, state laws do not supersede the prohibitions set forth in the federal drug laws.

In order to participate in either the medical or the adult use aspects of the cannabis industry, all businesses and employees must obtain licenses from the state and, for businesses, local jurisdictions as well. As an example, Colorado issues four types of business licenses including cultivation, manufacturing, dispensing, and testing. In addition, all owners and employees must obtain an occupational license to be permitted to own or work in a facility. All applicants for licenses undergo a background investigation, including a criminal record check for all owners and employees.

Colorado has also enacted stringent regulations governing the facilities and operations of cannabis businesses that are involved with the plant and its products. All facilities are required to be licensed by the state and local authorities and are subject to comprehensive security and surveillance requirements. In addition, each facility is subject to extensive regulations that govern its businesses practices, which includes mandatory seed-to-sale tracking and reporting, health and sanitary standards, packaging and labeling requirements, and product testing for potency and contaminants.

Laws and regulations affecting the medical marijuana industry are constantly changing, which could detrimentally affect our proposed operations. Local, state and federal medical marijuana and hemp laws and regulations are broad in scope and subject to evolving interpretations, which could require us to incur substantial costs associated with compliance or alter our business plan. It is also possible that regulations may be enacted in the future that will be directly applicable to our business. We cannot predict the nature of any future laws, regulations, interpretations or applications, nor can we determine what effect additional governmental regulations or administrative policies and procedures, when and if promulgated, could have on our business.

Regulatory Compliance and Risk Management

We maintain compliance with regulatory requirements and manage our risks through a program of compliance, awareness, and insurance, which includes maintaining certain insurances and a continued emphasis on safety to mitigate any risks.

Employees Update

As of June 30, 2023, we employed 22 employees, none of which were covered by any collective bargaining agreements.

Website

For more information on the Company's business operations, please visit our company website at www.astrotechcorp.com.

Item 1A. Risk Factors

An investment in our securities involves a high degree of risk. This annual report will contain a discussion of the risks applicable to an investment in our securities. Prior to making a decision about investing in our securities, you should carefully consider the specific factors discussed under the heading "Risk Factors" in this annual report. The risks and uncertainties we have described are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our operations. The occurrence of any of these known or unknown risks might cause you to lose all or part of your investment in the offered securities.

Summary Risk Factors

Our business is subject to a number of risks, including those described at length below. The following is a summary of some of the principal risks we face:

- Risks Related to Our Business and Industry
- Legal and Regulatory Risks
- Risks Related to Ownership of Our Common Stock
- General Risks

Risks Related to Our Business and Industry

We have incurred significant losses since inception and anticipate that we will incur continued losses for the foreseeable future.

As of June 30, 2023, we had an accumulated deficit of approximately $225.4 million and reported a net loss of $9.6 million for the fiscal year 2023. We are unable to predict the extent of any future losses or when we will become profitable, if at all. If we are unable to achieve and then maintain profitability, the market value of our common stock will likely experience significant decline.

Our business units are in the development stage. They have earned limited revenues and it is uncertain whether they will earn any revenues in the future or whether any of them will ultimately be profitable.

Our business units are in an early stage with a limited operating history. Their future operations are subject to all of the risks inherent in the establishment of a new business including, but not limited to, risks related to capital requirements, failure to establish business relationships, and competitive disadvantages against larger and more established companies. These business units will require substantial amounts of funding to continue to commercialize their products. If such funding comes in the form of equity financing, such equity financing may involve substantial dilution to existing shareholders. Even with funding, our products may fail to be effective or attractive to the market or lack the necessary financial or other resources or relationships to be successful.

These business units can be expected to experience continued operating losses until they can generate sufficient revenues to cover their operating costs. Furthermore, these business units may not be able to develop, manufacture, or market additional products in the future, and there can be no guarantee that future revenues will be significant, that any sales will be profitable, or that the business units will have sufficient funds available to complete their commercialization efforts. Any products and technologies developed and manufactured by our business units may require regulatory approvals prior to being made, marketed, sold, and used. Regulatory approval of any products may not be obtained. In particular, TSA approval is required to begin selling the TRACER 1000 in the United States and FDA clearance or approval is required to market the BreathTest-1000 in the United States. Obtaining approval from both TSA and FDA is a complex and lengthy process, and approvals for the TRACER 1000 and BreathTest-1000 may not be granted on a timely basis or at all, which would have a material adverse affect on our results of operations and financial condition.

We may need to raise additional capital to fund the operations of our business units and commercialize our products.

If our available cash resources and anticipated cash flows from operations are insufficient to satisfy our liquidity requirements, including because of lower demand for our products or the realization of other risks discussed in this Item1A. of this Form 10-K, we may be required to raise additional capital through issuances of equity or convertible debt securities, entrance into a credit facility or another form of third party funding or seek other debt financing. There is no assurance we will be able to obtain future financing on commercially reasonable terms, or at all. In any event, we may consider raising additional capital in the future to expand our business, to pursue strategic investments, to take advantage of financing opportunities or for other reasons, including to:

- increase our sales and marketing efforts to drive market adoption of our products and address competitive developments;
- fund development and marketing efforts of our existing products or any future products;
- expand our technologies into additional markets;
- acquire, license or invest in technologies and other intellectual property rights;
- acquire or invest in complementary businesses or assets; and
- finance capital expenditures and general and administrative expenses.

Our present and future funding requirements will depend on many factors, including:

- our ability to achieve projected revenue growth;
- the cost of expanding our operations, including production capacity;

- our rate of progress in launching and commercializing new products, and the cost of the sales and marketing activities associated with increasing sales of our existing instruments and products;
- our rate of progress in, and cost of research and development activities associated with, products in research and development;
- the effect of competing technological and market developments;
- the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing patent claims;
- costs related to domestic and international expansion; and
- the potential cost of and delays in product development as a result of any regulatory oversight that may be applicable to our products.

The various ways we could raise additional capital carry potential risks. If we raise funds by issuing equity securities, dilution to our stockholders could result. Any preferred equity securities issued also could provide for rights, preferences or privileges senior to those of holders of our common stock. If we raise funds by borrowing debt, such debt would have rights, preferences and privileges senior to those of holders of our common stock. The terms of such debt could impose significant restrictions on our operations. If we raise funds through collaborations or licensing arrangements, we might be required to relinquish significant rights to our platform technologies or products or grant licenses on terms that are not favorable to us or commit to future payment streams. Market volatility resulting from the COVID-19 pandemic or other factors may further adversely impact our ability to raise capital as and when needed. If we are unable to obtain adequate financing or financing on terms satisfactory to us, if we require it, our ability to continue to pursue our business objectives and to respond to business opportunities, challenges, or unforeseen circumstances could be significantly limited, and could have a material adverse effect on our business, financial condition, results of operations and prospects.

We may not be able to obtain patents, other intellectual property protection or licenses for the technologies contained in the products we develop.

The commercial success of any of our business units will depend, in part, on obtaining patent and other intellectual property protection for the technologies contained in any products it developed. In addition, our business units may need to license intellectual property to commercialize future products or avoid infringement of the intellectual property rights of others. Licenses may not be available on acceptable terms and conditions, if at all. Our business units may suffer if any licenses terminate, if the licensors fail to abide by the terms of the license or fail to prevent infringement by third parties, if the licensed patents or other rights are found to be invalid, or if our respective business unit is unable to enter into necessary licenses on acceptable terms. If such business unit, or any third-party, from whom it licenses intellectual property, fails to obtain adequate patent or other intellectual property protection for intellectual property covering its products, or if any protection is reduced or eliminated, others could use the intellectual property covering the products, resulting in harm to the competitive business position of this business unit. In addition, patent and other intellectual property protection may not provide our business units with a competitive advantage against competitors that devise ways of making competitive products without infringing any patents that this business unit owns or has rights to. Such competition could adversely affect the prices for any products or the market share of any of our business units and could have a material adverse effect on its results of operations and financial condition.

We may not be able to successfully develop the BreathTest-1000 or any other new products or services.

Our business strategy outlines the use of the decades of experience we have accumulated to expand the services and products we offer to both U.S. government agencies and commercial industries. These services and products are in the development stage and involve new and untested technologies and business models. These technologies and business models may not be successful, which could result in the loss of any investment we make in developing them, including the development of the BreathTest-1000.

Furthermore, we are subject to risks including, but not limited to, the following with respect to the development of the BreathTest-1000:

- the governmental approval process could be lengthy, time consuming and is inherently unpredictable, and we cannot guarantee that the required approvals for our products, including FDA approvals, will be granted on a timely basis or at all or that we will ever have a marketable product;
- customers must be persuaded that using our products are effective alternatives to other existing detection methods available for COVID-19 and other infections in order for our products to be commercially successful;

- if we fail to comply with applicable FDA regulations, our premarket submissions could be adversely affected, and we could face substantial enforcement actions, including civil and criminal penalties and our business, operations and financial condition could be adversely affected.

Medical-device development involves a high degree of risk and uncertainty, and our potential products may not be successfully developed, achieve their intended benefits, receive full market authorization, or be commercially successful. Moreover, as the COVID-19 pandemic persists and further information continues to develop, we are learning of increased risks and uncertainties in developing and commercializing new products and services in these unprecedented and evolving circumstances.

Our success depends significantly on the establishment and maintenance of successful relationships with our customers.

Our customer base is limited; therefore, we continue to work on diversifying our customer base, while going to great lengths to satisfy the needs of our current customer base. Due to the limited number of customers, if any of our customers terminate their relationship with us, it could materially harm our business and results of operations.

Third parties may claim we are infringing their intellectual property rights, and we could suffer significant litigation or licensing expenses or be prevented from selling products.

As we introduce any new and potentially promising product or service or improve existing products or services with new features or components, companies possessing competing technologies, or other companies owning patents or other intellectual property rights, may be motivated to assert infringement claims in order to generate royalty revenues, delay or diminish potential sales, and challenge our right to market such products or services. Even if successful in defending against such claims, patent and other intellectual property related litigation is costly and time consuming. In addition, we may find it necessary to initiate litigation in order to protect our patent or other intellectual property rights, and even if the claims are well-founded and ultimately successful, such litigation is typically costly and time-consuming and may expose us to counterclaims, including claims for intellectual property infringement, antitrust, or other such claims. Third parties could also obtain patents or other intellectual property rights that may require us to either redesign products or, if possible, negotiate licenses from such third parties. Adverse determinations in any such litigation could result in significant liabilities to third parties or injunctions, or could require us to seek licenses from third parties, and if such licenses are not available on commercially reasonable terms, prevent us from manufacturing, importing, distributing, selling, or using certain products, any one of which could have a material adverse effect on us. In addition, some licenses may be non-exclusive, which could provide our competitors access to the same technologies. Under any of these circumstances, we may incur significant expenses.

Our ongoing success is dependent upon the continued availability of certain key employees.

We are dependent in our operations on the continued availability of the services of our employees, many of whom are individually key to our current and future success, and the availability of new employees to implement our growth plans. The market for skilled employees is highly competitive, especially for employees in technical fields. While our compensation programs are intended to attract and retain the employees required for us to be successful, ultimately, we may not be able to retain the services of all of our key employees or a sufficient number to execute on our plans. In addition, we may not be able to continue to attract new employees as required.

Our operating results may be adversely affected by increased competition.

We generally sell our products in industries that have increased competition through frequent new product and service introductions, rapid technological changes, and changing industry standards. Without the timely introduction of new products, services, and enhancements, our products and services will become technologically obsolete over time, in which case our revenue and operating results would suffer. The success of our new products and services will depend on several factors, including our ability to:

- properly identify customer needs and predict future needs;
- innovate and develop new technologies, services, and applications;
- successfully commercialize new technologies in a timely manner;
- manufacture and deliver our products in sufficient volumes and on time;
- differentiate our offering from our competitors' offerings;
- price our products competitively;

- anticipate our competitors' development of new products, services, or technological innovations; and
- control product quantity in our manufacturing process.

Our facilities located in Austin are susceptible to damage caused by hurricanes or other natural disasters.

Our ATI facilities in Austin are susceptible to damage caused by hurricanes or other natural disasters. Although we insure our properties and maintain business interruption insurance, there can be no guarantee that the coverage would be sufficient or a claim will be fulfilled. A natural disaster could result in a temporary or permanent closure of some of our business operations, thus impacting our future financial performance.

If we are unable to anticipate technological advances and customer requirements in the commercial and governmental markets, our business and financial condition may be adversely affected.

Our business strategy employs our personnel's decades of experience to expand the services and products we offer to our customers. We believe that our growth and future financial performance depend upon our ability to anticipate technological advances and customer requirements. We may not be able to achieve the necessary technological advances for us to remain competitive. Our failure to anticipate or respond adequately to changes in technological and market requirements, or delays in additional product development or introduction, could have a material adverse effect on our business and financial performance. Additionally, the cost of capital to fund these businesses will likely require dilution of shareholders.

We incur substantial upfront, non-reimbursable costs in preparing proposals to bid on contracts or to receive research and development grants that we may not be awarded.

Preparing a proposal to bid on a contract or to receive a research and development grant is labor-intensive and results in the incurrence of substantial costs that are generally not retrievable. Additionally, although we may be awarded a contract or grant, work performance does not commence for several months following completion of the bidding process. If funding problems by the party awarding the contract or grant or other matters further delay our commencement of work, these delays may lower the value of the contract or grant, or possibly render it unprofitable.

A failure of a key information technology system, process, or site could have a material adverse impact on our ability to conduct business.

We rely extensively on information technology systems to interact with our employees and our customers. These interactions include, but are not limited to, ordering and managing materials from suppliers, converting materials to finished products, shipping product to customers, processing transactions, summarizing and reporting results of operations, transmitting data used by our service personnel and by and among our personnel and facilities, complying with regulatory, legal, and tax requirements, and other processes necessary to manage our business. If our systems are damaged or cease to function properly due to any number of causes, ranging from the failures of third-party service providers, to catastrophic events, to power outages, to security breaches, and our business continuity plans do not effectively compensate on a timely basis, we may suffer interruptions in our ability to manage operations which may adversely impact our results of operations and/or financial condition.

Our manufacturing operations are dependent upon third party suppliers, including single source suppliers, making us vulnerable to external factors such as supply shortages and price fluctuations, which could harm our business.

We are subject to the risks inherent in the manufacturing of our products, including industrial accidents, environmental events, strikes and other labor disputes, capacity constraints, as well as global shortages, disruptions in supply chain and loss or impairment of key suppliers, as well as natural disasters and other external factors over which we have no control. Our products contain several critical components, including certain electrical components such as specialized cables and specialized pumps. Some of the suppliers of critical components or materials are single source suppliers. Although we believe there are suitable alternative suppliers for these components, the replacement of existing suppliers or the identification and qualification of suitable second sources may require significant time, effort and expense, and could result in delays in production, which could negatively impact our business operations and revenue. We do not have supply agreements with certain suppliers of these critical components and materials beyond purchase orders and, although we maintain a safety stock inventory for certain critical components, forecasted amounts may be inaccurate and we may experience shortages as a result of serious supply problems with these suppliers. There can be no assurance that our supply of components will not be limited, interrupted, or of satisfactory quality or continue to be available at acceptable prices. In addition, loss of any critical component provided by a single source supplier could require us to change the design of our manufacturing process based on the functions, limitations, features and specifications of the replacement components.

In addition, several other non-critical components and materials that comprise our products are currently manufactured by a single supplier or a limited number of suppliers. In certain of these cases, we have not yet qualified alternate suppliers. A supply interruption or an increase in demand beyond our current suppliers' capabilities could harm our ability to manufacture our products unless and until new sources of supply are identified and qualified. Our reliance on these suppliers subjects us to a number of risks that could harm our business, including:

- interruption of supply resulting from modifications to or discontinuation of a supplier's operations;
- trade disputes or other political conditions or economic conditions;
- delays in the manufacturing operations of our suppliers, or in the delivery of parts and components to support such manufacturing operations, due to the impact of public health issues, endemics or pandemics, such as COVID-19;
- delays in product shipments resulting from uncorrected defects, reliability issues, or a supplier's variation in a component;
- a lack of long-term supply arrangements for key components with our suppliers;
- inability to obtain adequate supply in a timely manner, or to obtain adequate supply on commercially reasonable terms;
- difficulty and cost associated with locating and qualifying alternative suppliers for our components in a timely manner;
- a modification or change in a manufacturing process or part that unknowingly or unintentionally negatively impacts the operation of our platform;
- production delays related to the evaluation and testing of products from alternative suppliers, and corresponding regulatory qualifications;
- delay in delivery due to our suppliers prioritizing other customer orders over ours;
- damage to our brand reputation caused by defective components produced by our suppliers;
- increased cost of our warranty program due to product repair or replacement based upon defects in components produced by our suppliers; and
- fluctuation in delivery by our suppliers due to changes in demand from us or their other customers.

Any interruption in the supply of components or materials, or our inability to obtain substitute components or materials from alternate sources at acceptable prices in a timely manner, could result in increased costs and impair our ability to meet the demand of our customers, any of which would have an adverse effect on our business, financial condition, results of operations and prospects.

Changes in foreign currency exchange rates may negatively affect our financial condition and results of operations.

As a result of the scope of our foreign sales and foreign operations, including in connection with the sale of the TRACER 1000 to airport and cargo security customers in the European Union and certain other countries, we face significant exposure to movements in exchange rates for foreign currencies, particularly the Euro. Moreover, certain of our products are sold internationally in U.S. dollars; if the U.S. dollar strengthens, the relative cost of these products and services to customers located in foreign countries would increase, which could adversely affect export sales. In addition, most of our financial obligations must be satisfied in U.S. dollars. Our exposure to changes in foreign currency exchange rates may change over time as our business practices evolve and could result in increased costs or reduced revenue and could adversely affect our cash flow. Changes in the relative values of currencies occur regularly and may have a significant impact on our operating results. We cannot predict with any certainty changes in foreign currency exchange rates or the degree to which we can cost-effectively mitigate this exposure.

Repair or replacement costs due to warranties we provide on our products could have a material adverse effect on our business, financial condition and results of operations.

We provide our customers with warranties on the products we sell. These warranties typically provide for repairs and maintenance of the products if problems arise during a specified time period after original shipment. Existing and future warranties place us at the risk of incurring future repair and/or replacement costs. Concurrent with the sale of products, we record a provision for estimated warranty expenses with a corresponding increase in the cost of goods sold. We periodically adjust this provision based on historical experience and anticipated expenses. We charge actual expenses of repairs under warranty, including parts and labor, to this provision when incurred. We exercise judgment in estimating the expected product warranty costs, using data such as the actual and projected product failure rates, estimated repair costs, freight, material, labor and overhead costs. While we believe that historical experience provides a reliable basis for estimating such warranty cost, unforeseen quality issues or component failure rates as well as significantly higher sales and the introduction of new products could result in future costs in excess of such estimates, or alternatively, improved quality and reliability in our products could result in actual expenses that are below those currently estimated. As of June 30, 2023, and 2022, we had accrued a balance of $88 thousand and $50 thousand relating to product warranty provision, representing a surplus of estimated warranty expenses over actual expenses for the fiscal years. Substantial amounts of warranty claims could have a material adverse effect on our business, financial condition and results of operations.

Legal and Regulatory Risks

Our products and operations are subject to extensive governmental regulation, and failure to comply with applicable requirements could cause our business to suffer.

The medical technology industry is regulated extensively by governmental authorities, principally the FDA, and state regulatory agencies with oversight of various aspects of drug and device distribution, sale, and use. The regulations are very complex, have become more stringent over time, and are subject to rapid change and varying interpretations. Regulatory restrictions or changes could limit our ability to carry on or expand our operations or result in higher than anticipated costs or lower than anticipated sales. The FDA and other federal and state governmental agencies regulate numerous elements of our business, including:

- product design and development;
- pre-clinical and clinical testing and trials;
- product safety;
- establishment registration and product listing;
- labeling and storage;
- marketing, manufacturing, sales and distribution;
- pre-market clearance or approval;
- servicing and post-marketing surveillance, including reporting of deaths or serious injuries and malfunctions that, if they recurred, could lead to death or serious injury;
- advertising and promotion;
- post-market approval studies;
- product import and export; and
- recalls and field-safety corrective actions.

Before we can market or sell a new medical device, such as the BreathTest-1000, in the United States, we must obtain either clearance under Section 510(k) of the FDCA, grant of a *de novo* classification request, or approval of a pre-market approval, or PMA, application from the FDA. In the 510(k) clearance process, the FDA must determine that a proposed device is "substantially equivalent" to a legally marketed "predicate" device (in most cases Class II devices, with a few exceptions), with respect to intended use, technology and safety and effectiveness, in order to clear the proposed device for marketing. Class III devices approved under the PMA process cannot serve as predicates. Clinical data are sometimes required to support substantial equivalence. In the *de novo* process, the FDA must determine that general and special controls are sufficient to provide reasonable assurance of the safety and effectiveness of a device, which is low to moderate risk and has no predicate (in other words, the applicant must justify the "down-classification" to Class I or II for a new product type that would otherwise automatically be placed into Class III, but is lower risk). The PMA process requires an applicant to demonstrate the safety and effectiveness of the device based on extensive data, including, but not limited to, technical, preclinical, clinical trial, manufacturing and labeling data. The PMA process is typically required for devices that are deemed to pose the greatest risk, such as life-sustaining, life-supporting or implantable devices. Products that are approved through a PMA application generally need FDA approval before they can be modified. Similarly, some modifications made to products cleared through a 510(k) may require a new 510(k). The 510(k), *de novo,* and PMA processes can be expensive and lengthy and require the payment of significant fees, unless an exemption applies. The FDA's 510(k) clearance process usually takes from 3 to 12 months, but may take longer. The FDA's stated goal is to review *de novo* classification requests within 150 days, 50% of the time, but in reality the process for many applicants generally takes even longer, up to a year or more. The process of obtaining a PMA is much more costly, rigorous, and difficult than the 510(k) clearance process and generally takes from one to three years, or longer, from the time the application is submitted to the FDA until an approval is obtained. The process of obtaining regulatory clearances, approvals, and emergency use authorization to market a medical device can be costly and time-consuming, and we may not be able to obtain these clearances, approvals, or authorizations on a timely basis, or at all for our proposed products.

We expect that our BreathTest-1000 product candidate will undergo FDA premarket review via the 510(k) process. If the FDA requires us to go through a lengthier, more rigorous examination for marketing authorization of the BreathTest-1000 or future modifications to the BreathTest-1000, if cleared by the FDA, than we had expected, our commercialization plans could be delayed or canceled, which could cause our sales to decline or to not increase in line with our forecasts. In addition, the FDA may determine that future products, as applicable, will require the more costly, lengthy and uncertain PMA process. Although we do not currently intend to develop or market any devices under a PMA, the FDA may demand that we obtain a PMA prior to marketing certain of our future product candidates, if applicable. Further, even where a PMA is not required, we cannot assure you that we will be able to obtain any 510(k) clearances with respect to the BreathTest-1000 or other future product candidates that we may develop, if any.

The FDA can delay, limit or deny clearance, approval, or authorization of a device for many reasons, including:

- we may not be able to demonstrate to the FDA's satisfaction that our products meet the definition of "substantial equivalence" or meet the standard for the FDA to grant a petition for de novo classification;
- we may not be able to demonstrate that our products are safe and effective for their intended uses;
- the data from our pre-clinical studies (bench and/or animal) and/or clinical trials may be insufficient to support clearance, approval, or authorization; and
- the manufacturing process or facilities we use may not meet applicable requirements.

In addition, the FDA may change its clearance and approval policies, adopt additional regulations or revise existing regulations, or take other actions which may prevent or delay approval or clearance of our products under development. Any delay in, or failure to obtain or maintain, clearance or approval for our products under development could prevent us from generating revenue from these products and adversely affect our business operations and financial results. Additionally, the FDA and other regulatory authorities have broad enforcement powers. Regulatory enforcement or inquiries, or other increased scrutiny on us, could dissuade some customers from using our products and adversely affect our reputation and the perceived safety and efficacy of our product. Failure to comply with applicable regulations could jeopardize our ability to sell our products and result in enforcement actions such as fines, civil penalties, injunctions, warning letters, recalls of products, delays in the introduction of products into the market, refusal of the FDA or other regulators to grant future clearances or approvals, and the suspension or withdrawal of existing clearances or approvals by the FDA or other regulators. Any of these sanctions could result in higher than anticipated costs or lower than anticipated sales and negatively impact our reputation, business, financial condition and operating results. Furthermore, any operations or product applications outside of the United States will subject us to various additional regulatory and legal requirements under the applicable laws and regulations of the international markets we enter. These additional regulatory requirements may involve significant costs and expenditures and, if we are not able to comply with any such requirements, our international expansion and business could be significantly harmed.

Failure to obtain clearance or authorization for the BreathTest-1000, or other delays in the development of the BreathTest-1000, would adversely affect our ability to grow our business.

Commercialization of the BreathTest-1000 may require an EUA, FDA clearance of a 510(k) premarket notification submission, and/or authorization of a *de novo* submission. The process for submitting and obtaining FDA clearance of a 510(k), authorization of a *de novo* submission, or EUA can be expensive and lengthy. The FDA's review process can take several months or longer, and we may not be able to obtain FDA clearance, *de novo* authorization, or Emergency use Authorization for the BreathTest-1000 on a timely basis, if at all. The FDA's refusal of, or any significant delays in receiving 510(k) clearance, *de novo* authorization, or Emergency use Authorization of the BreathTest-1000, would have an adverse effect on our ability to expand our business. Thus far, we have not performed any clinical testing of the BreathTest-1000, which will likely be required before the device can be marketed. Even if a clinical trial is completed, there can be no assurance that the data generated during a clinical trial will meet the safety and effectiveness endpoints or otherwise produce results that will lead the FDA to grant marketing clearance, approval, or authorization. In addition, any other delays in the development of the BreathTest-1000, for example, unforeseen issues during product validation, would have an adverse effect on our ability to commercialize the BreathTest-1000.

FDA's policy with respect to Emergency Use Authorizations is evolving and may limit the ability for medical products, including the BreathTest-1000, to be eligible for commercialization under an Emergency Use Authorization.

We intend to submit an application with the FDA for EUA for the BreathTest-1000. The FDA has the authority to grant an Emergency Use Authorization to allow unapproved medical products to be used in an emergency to diagnose, treat or prevent serious or life-threatening diseases or conditions when there are no adequate, approved and available alternatives. If we are granted an Emergency Use Authorization for the BreathTest-1000 for the diagnosis of COVID-19, we would be able to temporarily commercialize the BreathTest-1000 for the diagnosis of COVID-19 prior to FDA clearance or authorization of a 510(k) or *de novo* submission, respectively, provided that we do so in accordance with the specific conditions set forth in the EUA. However, the FDA does not have review deadlines with respect to such submissions and, therefore, the timing of any approval of an EUA submission is uncertain. We cannot guarantee that the FDA will review our data in a timely manner, or that the FDA will accept the data when reviewed. The FDA may decide that our data is insufficient for an EUA and require additional pre-clinical, clinical or other studies and refuse to approve our application. In addition, the FDA may revoke an Emergency Use Authorization where it is determined that the underlying health emergency no longer exists or warrants such authorization, and we cannot predict how long, if ever, an Emergency Use Authorization would remain in place. Further, the FDA's policy with respect to EUAs related to COVID-19 is continuously evolving and may in the future limit the ability for medical products, including the BreathTest-1000, to be eligible for an EUA. If we are unsuccessful in obtaining an EUA for the BreathTest-1000 in a timely manner or at all, or if any granted EUA is revoked after a short period of time, it could have a material adverse effect on our future business, financial condition, operating results and cash flows.

We and our suppliers may not meet regulatory quality standards applicable to our device-manufacturing processes, which could have an adverse effect on our business, financial condition, and results of operations.

As a prospective medical device manufacturer, if BreathTest-1000 or any other device(s) we may successfully develop in the future is approved or cleared for commercialization in the United States, we will need to register with the FDA and will be subject to periodic inspection by the FDA for compliance with the QSR, including requirements pertaining to design controls, product validation and verification, in-process testing, quality control and documentation procedures, labeling, among numerous others. Compliance with applicable regulatory requirements is subject to continual review and is rigorously monitored through routine and unannounced inspections by the FDA. Any product and component suppliers we may engage in connection with the manufacture and/or distribution of any medical device(s) for which we obtain FDA clearance or approval, if any, will also be required to meet certain standards applicable to their manufacturing processes, and we may be held responsible for any failure to do so by any such suppliers or vendors.

We cannot assure you that we or our current or future suppliers or vendors will comply with all regulatory requirements. The failure by us or one of our suppliers to achieve or maintain compliance with these requirements or quality standards may disrupt our ability to supply products sufficient to meet demand until compliance is achieved or, until a new supplier has been identified and evaluated. Our failure, or any product or component supplier's failure, to comply with applicable regulations could result in a wide range of FDA enforcement actions against us, including warning letters, fines, recalls, injunctions, civil penalties, adverse action against marketing applications, product seizure or detention, operating restrictions, and criminal prosecution, any of which could harm our business.

If the BreathTest-1000 or any other device candidates are cleared for commercialization in the United States via the 510(k) process, product modifications may require new 510(k) clearances, de novo submissions, or pre-market approvals, or may require us to cease marketing or recall the modified products until clearances are obtained.

Any modification to any 510(k)-cleared device that we may market in the future, including the BreathTest-1000 if we are able to complete development and obtain FDA clearance for any indication(s) for use, as applicable, could significantly affect its safety or effectiveness, or that would constitute a major change in its intended use, design, or manufacture, requires a new 510(k) clearance or, possibly, a *de novo* or PMA. The FDA requires every manufacturer to make this determination in the first instance, and provides some guidance on decision making, but the FDA may review any manufacturer's decision at any time. The FDA may not agree with our decisions regarding whether new clearances or approvals are necessary. If the FDA disagrees with our determination and requires us to submit new 510(k) notifications, *de novo* submissions or PMAs for modifications to our previously cleared or approved products for which we have concluded that new clearances or approvals are unnecessary, we may be required to cease marketing or to recall the modified product until we obtain clearance or approval, and we may be subject to significant regulatory fines or penalties.

Once our BreathTest-1000 or any other device candidate we may develop in the future, if any, is cleared or approved by FDA for marketing in the United States, if ever, we may be liable if the FDA or other U.S. enforcement agencies determine we have engaged in the off-label promotion of such products or have disseminated false or misleading labeling or promotional materials.

If the BreathTest-1000 or any other device candidate we may successfully develop and commercialize in the future, if any, is approved or cleared by FDA for marketing in the United States, the promotional materials, labeling, and related training methods must comply with applicable regulations prohibiting promotional communications that are inconsistent with the approved or cleared marketing submission(s) for the applicable product(s), or "off-label" promotion, as well as any false or misleading statements, among various other types of promotional claims, depending on the circumstances, content, audience, and other factors. For example, the FDA and/or FTC could conclude that a performance claim about a medical device is misleading if it determines that there is inadequate substantiation for the claim. If the FDA determines that future promotional materials or training promote an off-label use or make false or misleading claims about our commercial device(s), if any, it could request that we modify our training or promotional materials or subject us to regulatory or enforcement actions, including the issuance of an untitled letter, a warning letter, injunction, seizure, civil fines and criminal penalties. It is also possible that other federal, state or foreign enforcement authorities might take action if they determine that our promotional or training materials promote an unapproved use or make false or misleading claims, which could result in significant fines or penalties. Violations of the FDCA may also lead to investigations alleging violations of federal and state health care fraud and abuse laws, as well as state consumer protection laws, which may lead to costly penalties and may adversely impact our business. Recent court decisions have impacted FDA's enforcement activity regarding off-label promotion in light of First Amendment Considerations; however, there are still significant risks in this area, in part due to the potential for False Claims Act exposure. In addition, the off-label use of our products may increase the risk of product liability claims. Product liability claims are expensive to defend and could result in substantial damage awards against us and harm our reputation. Similarly, until we have one or more commercially available, FDA-cleared or approved devices in the United States, if ever, we are prohibited from promoting or marketing the BreathTest-1000 for any indication(s) for use or any other investigational devices. We could be subject to the same wide range of enforcement actions described above if we are found in violation of FDA's prohibition on pre-approval promotion of an investigational device.

Legislative or regulatory healthcare reforms may make it more difficult and costly for us to obtain reimbursement for our products or regulatory clearance or approval of our future products, if any, and to produce, market and distribute those products after clearance or approval is obtained.

Recent political, economic and regulatory influences are subjecting the healthcare industry to fundamental changes. Both the federal and state governments in the United States and foreign governments continue to propose and pass new legislation and regulations designed to contain or reduce the cost of healthcare. Such legislation and regulations may result in decreased reimbursement for our product, which may further exacerbate industry-wide pressure to reduce the prices charged for our product. This could harm our ability to market our products and generate sales. In addition, FDA regulations and guidance are often revised or reinterpreted by the FDA in ways that may significantly affect our business and our current products and future products. Any new regulations or revisions or reinterpretations of existing regulations may impose additional costs or lengthen review times of our products. Delays in receipt of or failure to receive regulatory clearances or approvals for any future products would negatively impact our long-term business strategy.

In the U.S., there have been a number of legislative and regulatory changes and proposed changes regarding the healthcare system that restrict or regulate post-approval activities, which may affect our ability to profitably sell product candidates for which we obtain marketing approval, if any. Such government-adopted reform measures may adversely impact the pricing of healthcare products and services in the United States or internationally and the amount of reimbursement available from third-party payors.

Our financial performance may be adversely affected by medical device tax provisions in healthcare reform laws.

The Patient Protection and Affordable Care Act (the "PPACA") imposed, among other things, an excise tax of 2.3% on any entity that manufactures or imports medical devices offered for sale in the United States. Under these provisions, the Congressional Research Service predicted that the total cost to the medical device industry may be up to $20 billion over a decade. The Internal Revenue Service issued final regulations implementing the tax in December 2012, which required, among other things, bi-monthly payments and quarterly reporting. The Consolidated Appropriations Act, 2016 (Pub. L. 114-113), signed into law in December 2015, included a two-year moratorium on the medical device excise tax. A second two-year moratorium on the medical device excise tax was signed into law in January 2018 as part of the Extension of Continuing Appropriations Act, 2018 (Pub. L. 115-120), extending the moratorium through December 31, 2019. On December 20, 2019, as part of the Further Consolidated Appropriations Act, 2020 H.R. 1865 (Pub. L. 116-94), President Trump signed into law a permanent repeal of the medical device tax under the PPACA such that sales of taxable medical devices after December 31, 2015 are not subject to the tax; however, there is no guarantee that Congress or the President will not reverse course in the future. If such an excise tax on sales of our products in the United States is enacted, it could have a material adverse effect on our business, results of operations and financial condition.

Our AgLAB business' growth is highly dependent on the U.S. hemp and cannabis market. New regulations causing licensing shortages and future regulations may create other limitations that decrease the demand for our products. General regulations at state and federal in the future may adversely impact our business.

Although we do not grow, sell or distribute cannabis products, our products are closely tied to the hemp and cannabis industry and could subject us to regulatory, financial, operational and reputational risks and challenges.

The base of cannabis growers in the U.S. has grown over the last few decades since the legalization of cannabis for medical uses in states such as California, Colorado and Washington. The U.S. cannabis market is still in its infancy and early adopter states such as California, Colorado and Washington represent a large portion of historical industry revenues. The U.S. cannabis cultivation market is expected to be one of the fastest growing industries in the U.S. over the coming years. If the U.S. cannabis cultivation market does not grow as expected, our business, financial condition and results of operations could be impacted. The California cannabis cultivation market is expected to be one of the fastest growing industries in California over the coming years. If the California cannabis cultivation market does not grow as expected, our business, financial condition and results of operations could be impacted.

Marijuana remains illegal under U.S. federal law, as it is listed as a Schedule I substance under the United States Controlled Substances Act of 1970 (the "CSA"). Notwithstanding laws in various states permitting certain cannabis activities, all cannabis activities, including possession, distribution, processing and manufacturing of cannabis in violation of federal law and investment in, and financial services or transactions involving proceeds of, or promoting such activities remain illegal under various U.S. federal criminal and civil laws and regulations, including the CSA, as well as laws and regulations of several states that have not legalized some or any cannabis activities to date. Compliance with applicable state laws regarding cannabis activities does not protect us from federal prosecution or other enforcement action, such as seizure or forfeiture remedies, nor does it provide any defense to such prosecution or action. Cannabis activities conducted in or related to conduct in multiple states may potentially face a higher level of scrutiny from federal authorities. Penalties for violating federal drug, conspiracy, aiding, abetting, bank fraud and/or money laundering laws may include prison, fines, and seizure/forfeiture of property used in connection with cannabis activities, including proceeds derived from such activities.

Legislation and regulations pertaining to the use and cultivation of hemp and cannabis are enacted on both the state and federal government level within the United States. As a result, the laws governing the cultivation and use of hemp and cannabis may be subject to change. Any new laws and regulations limiting the use or cultivation of hemp and cannabis and any enforcement actions by state and federal governments could indirectly reduce demand for our products and may impact our current and planned future operations. There can be no assurance that changes in regulation of the industry and more rigorous enforcement by federal authorities will have a detrimental effect on us..

Evolving federal and state laws and regulations pertaining to the use or cultivation of hemp and cannabis, as well active enforcement by federal or state authorities of the laws and regulations governing the use and cultivation of hemp and cannabis may indirectly affect our business, our revenues and our profits.

The public's perception of hemp and cannabis may significantly impact the cannabis industry's success. Both the medical and adult-use of hemp and cannabis are controversial topics, and there is no guarantee that future scientific research, publicity, regulations, medical opinion, and public opinion relating to cannabis will be favorable. The hemp and cannabis industry is an early-stage business that is constantly evolving with no guarantee of viability. Among other things, such a shift in public opinion could cause state jurisdictions to abandon initiatives or proposals to legalize cultivation and sale of cannabis or adopt new laws or regulations restricting or prohibiting the cultivation of hemp and cannabis where it is now legal, thereby limiting the potential customers who are engaged in the hemp and cannabis industry.

Demand for our products may be negatively impacted depending on how laws, regulations, administrative practices, enforcement approaches, judicial interpretations, and consumer perceptions develop. We cannot predict the nature of such developments or the effect, if any, that such developments could have on our business.

As the possession and use of marijuana is illegal under the CSA, it is possible that our manufacture and sale of equipment that is used to cultivate marijuana or marijuana products may be deemed to be aiding and abetting illegal activities.

Federal practices could change with respect to providers of equipment potentially usable by cultivators in the medical and recreational cannabis industry, which could adversely impact us. Cannabis growers use equipment that we offer for sale. While we are not aware of any threatened or current federal or state law enforcement actions against any supplier of equipment that might be used for cannabis growing, law enforcement authorities, in their attempt to regulate the illegal use of cannabis, may seek to bring an action or actions against us, including but not limited to a claim of aiding and abetting, or being an accessory to, another's criminal activities or that our products are considered "drug paraphernalia."

The federal aiding and abetting statute, U.S. Code Title 18 Section 2(a), provides that anyone who "commits an offense against the United States or aids, abets, counsels, commands, induces or procures its commission, is punishable as a principal." Under U.S. Code Title 21 Section 863, the term "drug paraphernalia" means "any equipment, product or material of any kind which is primarily intended or designed for use in manufacturing, compounding, converting, concealing, producing, processing, preparing, injecting, ingesting, inhaling, or otherwise introducing into the human body a controlled substance." Any drug paraphernalia involved in any violation of Section 863 shall be subject to seizure and forfeiture upon the conviction of a person for such violation. While Section 863(f) contains an exemption for any person authorized by local, state or federal law to manufacture, possess, or distribute such items, any such action may force us to cease operations and our investors could lose value associated with their investment.

A risk exists that our activities could be deemed to be facilitating the selling or distribution of cannabis in violation of the CSA, or to constitute aiding or abetting, or being an accessory to, a violation of the CSA. There is also a risk that our products could be considered drug paraphernalia and could be subject to seizure. We believe, however, that such risks are relatively low. Federal authorities have not focused their resources on such tangential or secondary violations of the CSA, nor have they threatened to do so, with respect to the sale of equipment that might be used by cannabis cultivators, or with respect to any supplies marketed to participants in the medical and recreational cannabis industry. We are unaware of such a broad application of the CSA or the seizure of drug paraphernalia by federal authorities, and we believe that such an attempted application would be uncustomary.

If the federal government were to change its practices or were to expend its resources investigating and prosecuting providers of equipment that could be usable by participants in the medical or recreational cannabis industry, such action could have a materially adverse effect on our operations, our customers, or the sales of our products. As a result of such an action, we may be forced to cease operations within the cannabis industry and our investors could lose value associated with their investment.

We may become subject to FDA or ATF regulation with respect to our AgLab business.

Marijuana remains a Schedule I controlled substance under U.S. federal law. If the federal government reclassifies marijuana to a Schedule II, Schedule III, Schedule IV, or Schedule V controlled substance or declassifies it as a controlled substance, it is possible that the FDA would seek to regulate cannabis under the FDCA. The FDA is responsible for ensuring public health and safety through regulation of food, drugs, supplements, and cosmetics, among other products, through its enforcement authority pursuant to the FDCA. The FDA's responsibilities include regulating the ingredients as well as the marketing and labeling of drugs sold in interstate commerce. Because marijuana is federally illegal to produce and sell, and because it has few federally recognized medical uses, the FDA has historically deferred enforcement related to cannabis to the DEA; however, the FDA has enforced the FDCA with regard to hemp-derived products, especially CBD derived from hemp. The FDA has consistently asserted its authority to regulate CBD derived from hemp and currently prohibits the introduction or delivery for introduction into interstate commerce of any ingestible product (intended for human consumption) containing CBD, though, notably, to-date, its enforcement efforts in this area have been limited to products making therapeutic claims to treat, prevent, and/or mitigate one or more conditions or diseases. On January 26, 2023, the FDA reiterated its longstanding position (since the passage of the 2018 Farm Bill), announcing that, despite much speculation to the contrary, it would not seek to regulate CBD as a lawful dietary supplement.

If FDA changes its current position in the future or if Congress enacts new legislation under which FDA is expressly authorized and directed to do so, the FDA may issue rules and regulations, including good manufacturing practices related to the growth, cultivation, harvesting, processing, and production of hemp products. Clinical trials may be needed to verify the efficacy and safety of such products. It is also possible that the FDA would require facilities where medical-use cannabis is grown to register with the FDA and comply with certain federally prescribed regulations. If some or all these regulations are imposed, the impact they would have on the hemp and cannabis industry is unknown, including the costs, requirements and possible prohibitions that may be enforced. If we are unable to comply with the potential regulations or registration requirements prescribed by the FDA, it may have a detrimental effect on our business, prospects, revenue, results of operation and financial condition.

It is also possible that the federal government could seek to regulate cannabis under the U.S. Bureau of Alcohol, Tobacco, Firearms and Explosives ("ATF"). The ATF may issue rules and regulations related to the use, transport, sale and advertising of cannabis or cannabis products.

The hemp and cannabis industry could face strong opposition from other industries.

We believe that established businesses in other industries may have a strong economic interest in opposing the development of the hemp and cannabis industry. Hemp and cannabis may be seen by companies in other industries as an attractive alternative to their products, including recreational marijuana as an alternative to alcohol, and medical marijuana as an alternative to various commercial pharmaceuticals. Many industries that could view the emerging hemp and cannabis industry as an economic threat are well established, with vast economic and United States federal and state lobbying resources. It is possible that companies within these industries could use their resources to attempt to slow or reverse legislation legalizing cannabis. Any inroads these companies make in halting or impeding legislative initiatives that would be beneficial to the hemp and cannabis industry could have a detrimental impact on our clients and, in turn on our operations.

There may be difficulty enforcing certain of our commercial agreements and contracts.

Courts will not enforce a contract deemed to involve a violation of law or public policy. Because marijuana remains illegal under U.S. federal law, parties to contracts involving the state legal cannabis industry have argued that the agreement was void as federally illegal or against public policy. Some courts have accepted this argument in certain cases, usually against the company trafficking in cannabis. While courts have enforced contracts related to activities by state-legal cannabis companies, and the trend is generally to enforce contracts with state-legal cannabis companies and their vendors, there remains doubt and uncertainty that we will be able to enforce our commercial agreements with cannabis industry participants in court for this reason. We cannot be assured that we will have a remedy for breach of contract in such cases, which would have a detrimental impact on our business.

A drop in the retail price of hemp and cannabis products may negatively impact our business.

The fluctuations in economic and market conditions that impact the prices of commercially grown hemp and cannabis, such as increases in the supply of hemp and cannabis and decreases in demand for hemp and cannabis, could have a negative impact on our clients that are hemp and cannabis producers, and therefore could negatively impact our business.

We may be subject to constraints on and differences in marketing our products under varying state laws.

There are and may continue to be restrictions on sales and marketing activities imposed by government regulatory bodies that could hinder the development of our business and operating results. Restrictions may include regulations that specify what, where and to whom product information and descriptions may appear and/or be advertised. Marketing, advertising, packaging, and labeling regulations also vary from state to state, potentially limiting the consistency and scale of consumer branding communication and product education efforts. The regulatory environment in the U.S. limits our ability to compete for market share in a manner similar to other industries. If we are unable to effectively market our products and compete for market share, or if the costs of compliance with government legislation and regulation cannot be absorbed through increased selling prices for our products, our sales and operating results could be materially, adversely affected.

We are subject to differing tax rates in several jurisdictions in which we operate, which may adversely affect our business, financial condition, results of operations and prospects.

We are subject to taxes in the United States and certain foreign jurisdictions. Due to economic and political conditions, tax rates in various jurisdictions, including the United States, may be subject to change. Our future effective tax rates could be affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities and changes in tax laws or their interpretation. In addition, we may be subject to income tax audits by federal, state and local tax authorities in the United States and tax authorities outside the United States. Although we believe our income tax liabilities are reasonably estimated and accounted for in accordance with applicable laws and principles, an adverse resolution by one or more taxing authorities could have a material impact on the results of our operations.

Changes in U.S. trade policy, including changes to existing trade agreements and any resulting changes in international trade relations, may have a material adverse effect on us.

The change in U.S. presidential administrations may alter the U.S.'s approach to international trade, which may impact existing bilateral or multi-lateral trade agreements and treaties with foreign countries. The U.S. has imposed tariffs on certain foreign goods and may increase tariffs or impose new ones, and certain foreign governments have retaliated and may continue to do so. We derive a significant portion of our revenues from international sales, which makes us especially vulnerable to increased tariffs. Changes in U.S. trade policy have created ongoing turmoil in international trade relations, and it is unclear what future actions the U.S. government or foreign governments will or will not take with respect to tariffs or other international trade agreements and policies. Current trade negotiations may fail, which may exacerbate these risks. Ongoing or new trade wars or other governmental action related to tariffs or international trade agreements or policies could reduce demand for our products and services, increase our costs, reduce our profitability, adversely impact our supply chain or otherwise have a material adverse effect on our business and results of operations.

Risks Related to Ownership of Our Common Stock

Our stock price has fluctuated in the past, has recently been volatile and may be volatile in the future, and as a result, investors in our common stock could incur substantial losses.

Our stock price has fluctuated in the past, has recently been volatile and may be volatile in the future. On August 25, 2022, the intra-day sales price of our common stock fluctuated between a reported low sale price of $13.80 and a reported high sales price of $16.20. Throughout the fiscal year 2023, the closing sales price of our common stock has fluctuated between a reported low sales price of $9.28 and a reported high sales price of $16.20. We may incur rapid and substantial decreases in our stock price in the foreseeable future that are unrelated to our operating performance or prospects. The stock market in general and the market for companies such as ours in particular have experienced extreme volatility that has often been unrelated to the operating performance of particular companies. As a result of this volatility, investors may experience losses on their investment in our common stock. The market price for our common stock may be influenced by many factors, including the following:

- investor reaction to our business strategy;
- the success of competitive products or technologies;
- our continued compliance with the Nasdaq listing standards;
- regulatory or legal developments in the United States and other countries, especially changes in laws or regulations applicable to our products;
- actions taken by regulatory agencies with respect to our products, manufacturing process or sales and marketing terms;
- the success of our efforts to acquire or in-license additional products or product candidates;
- developments concerning our collaborations or partners;
- developments or disputes concerning patents or other proprietary rights, including patents, litigation matters and our ability to obtain patent protection for our products;
- our ability or inability to raise additional capital and the terms on which we raise it;
- declines in the market prices of stocks generally;

- trading volume of our common stock;
- sales of our common stock by us or our stockholders;
- general economic, industry and market conditions; and
- other events or factors, including those resulting from such events, or the prospect of such events, including war, terrorism and other international conflicts, public health issues including health epidemics or pandemics, and natural disasters such as fire, hurricanes, earthquakes, tornados or other adverse weather and climate conditions, whether occurring in the United States or elsewhere, could disrupt our operations, disrupt the operations of our suppliers or result in political or economic instability.

These broad market and industry factors may seriously harm the market price of our common stock, regardless of our operating performance. Further, recent increases are significantly inconsistent with any improvements in actual or expected operating performance, financial condition or other indicators of value, including our loss per share of $5.95 for our fiscal year ended June 30, 2023. Since the stock price of our common stock has fluctuated in the past, has been recently volatile and may be volatile in the future, investors in our common stock could incur substantial losses. In the past, following periods of volatility in the market, securities class-action litigation has often been instituted against companies. Such litigation, if instituted against us, could result in substantial costs and diversion of management's attention and resources, which could materially and adversely affect our business, financial condition, results of operations and growth prospects. There can be no guarantee that our stock price will remain at current levels or that future sales of our common stock will not be at prices lower than those sold to investors.

Additionally, securities of certain companies have recently experienced significant and extreme volatility in stock price due to short sellers of shares of common stock, known as a "short squeeze." These short squeezes have caused extreme volatility in both the stock prices of those companies and in the market, and have led to the price per share of those companies to trade at a significantly inflated rate that is disconnected from the underlying value of the company. Many investors who have purchased shares in those companies at an inflated rate face the risk of losing a significant portion of their original investment, as in many cases the price per share has declined steadily as interest in those stocks have abated. While we have no reason to believe our shares would be the target of a short squeeze, there can be no assurance that we won't be in the future, and you may lose a significant portion or all of your investment if you purchase our shares at a rate that is significantly disconnected from our underlying value.

We can sell additional shares of common stock without consulting shareholders and without offering shares to existing shareholders, which would result in dilution of shareholders' interests in the Company and could depress our stock price.

Our Certificate of Incorporation authorizes 250,000,000 shares of common stock, of which 1,681,729 were outstanding as of June 30, 2023, and our Board is authorized to issue additional shares of our common stock. In addition, our Certificate of Incorporation authorizes 2,500,000 shares of "blank check preferred stock." Shares of "blank check preferred stock" may be issued in such series and with such rights, privileges, and limitations as the Board may, in its sole discretion, determine. Our Board has designated 300,000 shares as Series A Junior Preferred Stock, none of which are outstanding. The Board has also designated Series C and Series D Preferred Stock, of which no shares and 280,898 shares are outstanding, respectively, as of June 30, 2023.

Although our Board intends to utilize its reasonable business judgment to fulfill its fiduciary obligations to our then existing shareholders in connection with any future issuance of our capital stock, the future issuance of additional shares of our capital stock would cause immediate, and potentially substantial, dilution to our existing shareholders, which could also have a material effect on the market value of the shares. Furthermore, our Board may authorize the issuance of a series of preferred stock that would grant to holders the preferred right to our assets upon liquidation, the right to receive dividend payments before dividends are distributed to the holders of common stock, and the right to the redemption of the shares, together with a premium, prior to the redemption of the common stock. In addition, our Board could authorize the issuance of a series of preferred stock that has greater voting power than the common stock or that is convertible into our common stock, which could decrease the relative voting power of the common stock or result in dilution to our existing shareholders.

Our Certificate of Incorporation provides that the Court of Chancery of the State of Delaware will be the sole and exclusive forum for any disputes between us and our stockholders, which could limit stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors or officers.

Our Certificate of Incorporation provides that unless we consent in writing to the selection of an alternative forum, the Court of Chancery for the State of Delaware is the sole and exclusive forum for claims brought by a stockholder, including claims in the right of the corporation, (i) that are based upon a violation of a duty by a current or former director or officer or stockholder in such capacity or (ii) as to which the Delaware General Corporation Law (the "DGCL") confers jurisdiction upon the Court of Chancery of the State of Delaware. The provision indicates that if the Court of Chancery does not have jurisdiction, then the Superior Court of the State of Delaware, or, if such other court does not have jurisdiction, the United States District Court for the District of Delaware, shall be the exclusive forum for such action.

These provisions of the bylaws are not a waiver of, and do not relieve anyone of duties to comply with, federal securities laws including those specifying the exclusive jurisdiction of federal courts under the Exchange Act and concurrent jurisdiction of federal and state courts under the Securities Act. Section 22 of the Securities Act provides that federal and state courts have concurrent jurisdiction over lawsuits brought pursuant to the Securities Act or the rules and regulations thereunder. To the extent the exclusive forum provision restricts the courts in which claims arising under the Securities Act may be brought, there is uncertainty as to whether a court would enforce such a provision. Any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock shall be deemed to have notice of and to have consented to these provisions. These provisions may impose additional litigation costs on stockholders in pursuing any such claims, particularly if the stockholders do not reside in or near the State of Delaware, or limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors or officers, which may discourage such lawsuits against us and our directors and officers. Alternatively, if a court were to find our choice of forum provision to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could harm our business, results of operations, and financial condition.

A sale of a substantial number of shares of the common stock may cause the price of our common stock to decline.

If our shareholders sell, or the market perceives that our shareholders intend to sell for various reasons, substantial amounts of our common stock in the public market may make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem reasonable or appropriate.

We are a smaller reporting company and, as a result of the reduced disclosure and governance requirements applicable to such companies, our common stock may be less attractive to investors.

We are a smaller reporting company, (i.e., a company with less than $250 million of public float) and we are eligible to take advantage of certain exemptions from various reporting requirements applicable to other public companies. We have elected to adopt these reduced disclosure requirements. We cannot predict if investors will find our common stock less attractive as a result of our taking advantage of these exemptions. If some investors find our common stock less attractive as a result of our choices, there may be a less active trading market for our common stock and our stock price may be more volatile.

Our failure to maintain compliance with Nasdaq's continued listing requirements could result in the delisting of our Common Stock.

Our common stock is currently listed for trading on the Nasdaq Capital Market. We must satisfy the Nasdaq Capital Market's continued listing requirements or risk delisting, which would have a material adverse effect on our business. A delisting of our common stock from the Nasdaq Capital Market could materially reduce the liquidity of our common stock and result in a corresponding material reduction in the price of our common stock. In addition, delisting could harm our ability to raise capital through alternative financing sources on terms acceptable to us, or at all, and may result in the potential loss of confidence by investors, suppliers, customers and employees and fewer business development opportunities.

If our common stock were delisted from Nasdaq, trading of our common stock would most likely take place on an over-the-counter market established for unlisted securities, such as the OTCQB or the Pink Market maintained by OTC Markets Group Inc. An investor would likely find it less convenient to sell, or to obtain accurate quotations in seeking to buy, our common stock on an over-the-counter market, and many investors would likely not buy or sell our common stock due to difficulty in accessing over-the-counter markets, policies preventing them from trading in securities not listed on a national exchange or other reasons. In addition, as a delisted security, our common stock would be subject to SEC rules as a "penny stock," which impose additional disclosure requirements on broker-dealers. The regulations relating to penny stocks, coupled with the typically higher cost per trade to the investor of penny stocks due to factors such as broker commissions generally representing a higher percentage of the price of a penny stock than of a higher-priced stock, would further limit the ability of investors to trade in our common stock. In addition, delisting could harm our ability to raise capital through alternative financing sources on terms acceptable to us, or at all, and may result in the potential loss of confidence by investors, suppliers, customers and employees and fewer business development opportunities. For these reasons and others, delisting would adversely affect the liquidity, trading volume and price of our common stock, causing the value of an investment in us to decrease and having an adverse effect on our business, financial condition and results of operations, including our ability to attract and retain qualified employees and to raise capital.

General Risks

We face various risks related to health epidemics, pandemics and similar outbreaks, which may have material adverse effects on our business, financial position, results of operations, and/or cash flows.

We face various risks related to health epidemics, pandemics, and similar outbreaks, including the global outbreak of COVID-19 and its multiple variants. The COVID-19 pandemic had numerous negative consequences for our business, including a reduction in demand for certain of our security screening products and services caused by a significant reduction in airline passenger traffic. To slow and limit the transmission of COVID-19, governments across the world have imposed air travel restrictions and businesses and individuals canceled air travel plans. These restrictions and cancelations reduced demand for security screening products and related services at airport checkpoints globally as the number of airline passengers requiring screening fell. The pandemic also hampered our ability to meet with our customers and prospective customers and created supply chain challenges as certain components had longer lead times. The continued spread of COVID-19 and COVID variants also led to disruption and volatility in the global capital markets, which increased the cost of capital and adversely impacted access to capital. While such negative impacts to our business have subsided to some degree, there is risk that new strains of COVID-19 may become more prevalent and cause an extension of or additional negative consequences. In addition, if significant portions of our workforce are unable to work effectively, including because of illness, quarantines, government actions, facility closures, or other restrictions in connection with the COVID-19 pandemic, our operations will likely be impacted. We may be unable to perform fully on our contracts and our costs may increase as a result of the COVID-19 outbreak. These costs may not be recoverable or adequately covered by insurance.

It is possible that the continued spread of COVID-19 and COVID variants could also further cause delay, or limit the ability of customers to perform, including in making timely payments to us; cause delay in regulatory certification testing of our instruments; and cause other unpredictable events. If any of our supply chain phases were interrupted or terminated, we could experience delays in our product development including the availability of products for clinical testing. The occurrence of one or more of these items could have a material adverse effect on our business, liquidity, financial condition, and/or results of operations. The effects of the COVID-19 pandemic may negatively impact productivity, disrupt our business and delay our clinical programs and timelines, the magnitude of which will depend, in part, on the length and severity of the restrictions and other limitations on our ability to conduct our business in the ordinary course. These and similar, and perhaps more severe, disruptions in our operations could negatively impact our business, operating results and financial condition.

In addition, any future clinical trials may be affected by the COVID-19 pandemic. Clinical site initiation and patient enrollment may be delayed due to prioritization of hospital resources toward the COVID-19 pandemic. Also, some patients may not be able to comply with clinical trial protocols if quarantines impede patient movement or interrupt healthcare services. Similarly, our ability to recruit and retain patients and principal investigators and site staff who, as healthcare providers, may have heightened exposure to COVID-19 and adversely impact our clinical trial operations.

The ongoing military action between Russia and Ukraine could adversely affect our business, financial condition and results of operations.

In February of 2022, Russian military forces invaded Ukraine, resulting in conflict and disruption in the region. The length, impact and outcome of the ongoing military conflict in Ukraine is highly unpredictable. This conflict has led and may continue to lead to significant market and other disruptions, including significant volatility in commodity prices and supply of energy resources, instability in financial markets, higher inflation, supply chain interruptions, political and social instability, changes in consumer or purchaser preferences as well as increase in cyberattacks and espionage. As a result of the invasion and ongoing military conflict, governments in the European Union, the United States, the United Kingdom, Switzerland and other countries have implemented and may implement additional sanctions, export controls or other measures against Russia, Belarus and other countries, regions, officials, individuals or industries in

the respective territories. Such sanctions, and other measures, as well as the existing and potential further responses from Russia or other countries to such sanctions, supply chain disruptions, tensions and military actions, could adversely affect the global economy and financial markets and could adversely affect our business, financial condition and results of operations, and could also aggravate the other risk factors that we identify herein.

Increased cybersecurity requirements, vulnerabilities, threats, and more sophisticated and targeted computer crime could pose a risk to our systems, networks, products, services, and data.

Increased global cybersecurity vulnerabilities, threats, and more sophisticated and targeted cyber-related attacks pose a risk to the security of our and our customers', suppliers', and third-party service providers' products, systems, and networks and the confidentiality, availability, and integrity of our and our customers' data. Although we have implemented policies, procedures, and controls to protect against, detect, and mitigate these threats, we remain potentially vulnerable to additional known or unknown threats. We also have access to sensitive, confidential, or personal data or information that is subject to privacy and security laws, regulations, and customer-imposed controls. Despite our efforts to protect sensitive, confidential, or personal data or information, we may be vulnerable to material security breaches, theft, misplaced or lost data, programming errors, employee errors, and/or malfeasance that could potentially lead to the compromising of sensitive, confidential, or personal data or information, improper use of our systems or networks, unauthorized access, use, disclosure, modification, or destruction of information, defective products, production downtimes, and operational disruptions. In addition, a cyber-related attack could result in other negative consequences, including damage to our reputation or competitiveness and remediation or increased protection costs, and could subject us to fines, damages, litigation, and enforcement actions.

Increased costs associated with corporate governance compliance may significantly impact our results of operations.

As a public company, we incur significant legal, accounting, and other expenses due to our compliance with regulations and disclosure obligations applicable to us, including compliance with the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, as well as rules implemented by the SEC, and Nasdaq. The SEC and other regulators have continued to adopt new rules and regulations and make additional changes to existing regulations that require our compliance. In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, was enacted. There are significant corporate governance and executive compensation related provisions in the Dodd-Frank Act that have required the SEC to adopt additional rules and regulations in these areas. Stockholder activism, the current political environment, and the current high level of government intervention and regulatory reform may lead to substantial new regulations and disclosure obligations, which may lead to additional compliance costs and impact, in ways we cannot currently anticipate, the manner in which we operate our business. Our management and other personnel devote a substantial amount of time to these compliance programs and monitoring of public company reporting obligations, and as a result of the new corporate governance and executive compensation related rules, regulations, and guidelines prompted by the Dodd-Frank Act, and further regulations and disclosure obligations expected in the future, we will likely need to devote additional time and costs to comply with such compliance programs and rules. These rules and regulations will cause us to incur significant legal and financial compliance costs and will make some activities more time-consuming and costly.The Sarbanes-Oxley Act requires that we maintain effective disclosure controls and procedures and internal control over financial reporting. We are continuing to develop and refine our disclosure controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file with the SEC is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and that information required to be disclosed in reports under the Exchange Act is accumulated and communicated to our principal executive and financial officers. Our current controls and any new controls that we develop may become inadequate, and weaknesses in our internal control over financial reporting may be discovered in the future. Any failure to develop or maintain effective controls could adversely affect the results of periodic management evaluations and annual independent registered public accounting firm attestation reports regarding the effectiveness of our internal control over financial reporting, which we may be required to include in our periodic reports that we file with the SEC under Section 404 of the Sarbanes-Oxley Act, and could harm our operating results, cause us to fail to meet our reporting obligations, or result in a restatement of our prior period financial statements. If we are not able to demonstrate compliance with the Sarbanes-Oxley Act, that our internal control over financial reporting is perceived as inadequate, or that we are unable to produce timely or accurate financial statements, investors may lose confidence in our operating results, and the price of our common stock could decline. We are required to comply with certain of the SEC rules that implement Section 404 of the Sarbanes-Oxley Act, which requires management to certify financial and other information in our quarterly and annual reports and provide an annual management report on the effectiveness of our internal control over financial reporting. This assessment needs to include the disclosure of any material weaknesses in our internal control over financial reporting identified by our management or our independent registered public accounting firm. During the evaluation and testing process, if we identify one or more material weaknesses in our internal control over financial reporting or if we are unable to complete our evaluation, testing, and any required remediation in a timely fashion, we will be unable to assert that our internal control over financial reporting is effective. These developments could make it more difficult for us to retain qualified members of our Board of Directors, or qualified executive officers. We are presently evaluating and monitoring regulatory developments and cannot estimate the timing or magnitude of additional costs we may incur as a result. To the extent these costs are significant, our general and administrative expenses are likely to increase.

Our insurance coverage may be inadequate to cover all significant risk exposures.

We are exposed to liabilities that are unique to the products and services we provide. We maintain insurance for certain risks, and we believe our insurance coverage is consistent with general practices within our industry. However, the amount of our insurance coverage may not cover all claims or liabilities and we may be forced to bear substantial costs.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Astrotech currently leases a research and development facility of approximately 5,960 square feet in Austin, Texas that includes a laboratory, a small production shop, and offices for staff, although our accounting and administrative employees continue to work remotely. The lease commenced on June 1, 2021 and has a lease term of 36 months.

On November 22, 2022, Astrotech entered into a sublease agreement for an additional facility directly adjacent to the R&D facility (the "subleased facility"). The subleased facility consists of approximately 3,900 square feet and will provide the space needed as the Company launches its AgLAB products and continues its R&D efforts at BreathTech. The sublease commenced on December 1, 2022 and has a lease term of 29 months.

During fiscal year 2023, Astrotech had two existing facility leases and several equipment leases. We believe that our current facilities and equipment are well maintained, in good condition, and are adequate for our present and foreseeable needs.

Item 3. Legal Proceedings

On April 15, 2021, a putative stockholder of the Company commenced a class action and derivative lawsuit in the Delaware Court of Chancery, Stein v. Pickens, et al., C.A. No. 2021-0322-JRS (the "Stein Action"), in which it was alleged, among other things, that the Company improperly included broker non-votes in the tabulation of votes counted in favor to approve an amendment to the Company's Certificate of Incorporation (the "2020 Certificate Amendment") and, thus the 2020 Certificate Amendment was defective. The Company investigated those allegations and does not believe that the filing and effectiveness of the 2020 Certificate Amendment was either invalid or ineffective. Nevertheless, to resolve any uncertainty, on April 30, 2021, the Company filed a validation proceeding in the Delaware Court of Chancery, In re Astrotech Corporation, C.A. No. 2021-0380-JRS, pursuant to Section 205 of the Delaware General Corporation Law. On October 6, 2021, the Delaware Court of Chancery granted the Company's request and confirmed and validated the 2020 Certificate Amendment. Thereafter, a settlement in principle was reached with the Plaintiffs in the Stein Action and the parties to the Stein Action presented the settlement to the Court for approval. On February 13, 2023, the Court approved the settlement, awarded the Plaintiff's attorneys' fees and expenses of $290,000, paid prior to the end of fiscal year 2023 and entered a final order and judgment dismissing the Delaware Action with prejudice. The parties to the settlement recognize that entry into the settlement does not constitute an admission of liability, wrongdoing, or any matter of fact or law.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

Market Information, Holders, and Dividends

Our common stock is principally traded on The Nasdaq Capital Market under the symbol ASTC. We have never paid cash dividends and have no intention of paying dividends in the future.

We have 250,000,000 shares of common stock authorized for issuance. As of September 26, 2023, we had 1,682,286 shares of common stock outstanding, which were held by approximately 130 holders of record. This number does not include beneficial or other owners for whom common stock may be held in "street" name. The last reported sale price of our common stock as reported by The Nasdaq Capital Market on September 26, 2023 was $10.10 per share.

Issuer Purchases of Equity Securities

The table below sets forth the information required by Item 703(b) of Regulation S-K with respect to any purchases made by or on behalf of the Company or any "affiliated purchaser," as defined in § 240 10b-18(a)(3) of the Exchange Act, of shares of our common stock.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs (1)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
February 1 through February 28, 2023	2,035	$ 12.67	2,035	$ 974,214
March 1 through March 31, 2023	3,786	$ 11.43	3,786	$ 930,930
April 1 through April 30, 2023	1,681	$ 10.71	1,681	$ 912,923
May 1 through May 31, 2023	1,993	$ 11.01	1,993	$ 890,979
June 1 through June 30, 2023	821	$ 11.59	821	$ 881,468
Total	10,316		10,316	

(1) On November 9, 2022, the Company's Board of Directors authorized a share repurchase program that allows the Company to repurchase up to $1.0 million of the Company's common stock beginning November 17, 2022 and continuing through and including November 17, 2023. No repurchases were made pursuant to the share repurchase program prior to February 2023. On June 16, 2023, in connection with entry into the ATM Agreement, the Company terminated its existing share repurchase program, effective immediately, in order to comply with Regulation M under the Exchange Act. The shares could have been repurchased from time to time in the open market or privately negotiated transactions or by other means in accordance with applicable state and federal securities laws. The timing, as well as the number and value of shares repurchased under the program, could have been determined by the Company at its discretion and would have depended on a variety of factors, including management's assessment of the intrinsic value of the Company's common stock, the market price of the Company's common stock, general market and economic conditions, available liquidity, compliance with the Company's debt and other agreements, applicable legal requirements, and other considerations.

Sales of Unregistered Securities
None.

Item 6. Reserved

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following information should be read in conjunction with the Consolidated Financial Statements and the accompanying Notes included below in Item 8 of this Annual Report on Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements.

Business Overview

Astrotech Corporation (Nasdaq: ASTC) ("Astrotech," the "Company," "we," "us," or "our"), a Delaware corporation organized in 1984, is a mass spectrometry company that launches, manages, and commercializes scalable companies based on its innovative core technology.

Our efforts are focused on commercializing our platform mass spectrometry technology through our wholly-owned subsidiaries.

- Astrotech Technologies, Inc. ("ATI") owns and licenses the intellectual property related to the Astrotech Mass Spectrometer Technology™ (the "AMS Technology").

- 1st Detect Corporation ("1st Detect") is a manufacturer of explosives trace detectors capable of also detecting narcotics. It was developed for use at airports, cargo and other secured facilities, and borders worldwide. 1st Detect holds an exclusive AMS Technology license from ATI for air passenger and cargo security applications.

- AgLAB, Inc. ("AgLAB") is developing a series of mass spectrometers for use in the hemp and cannabis market with initial focus on optimizing yields in the distillation processes. AgLAB holds an exclusive AMS Technology license from ATI for agriculture applications.

- BreathTech Corporation ("BreathTech") is developing a breath analysis tool to screen for volatile organic compound ("VOC") metabolites found in a person's breath that could indicate a compromised condition including but not limited to a bacterial or viral infection. BreathTech holds an exclusive AMS Technology license from ATI for breath analysis applications.

Astrotech Technologies, Inc.

ATI owns and licenses the AMS Technology, the platform mass spectrometry technology originally developed by 1st Detect. Long recognized as the gold standard in chemical detection, mass spectrometry has historically been too costly, bulky, and cumbersome. In contrast, the AMS Technology has been designed to be inexpensive, smaller, and easier to use when compared to traditional mass spectrometers. Unlike other technologies, the AMS Technology works under ultra-high vacuum, which eliminates competing molecules, yielding higher resolution and fewer false alarms. The intellectual property includes 18 granted patents along with extensive trade secrets. With a number of diverse market opportunities for the core technology, ATI is structured to license the intellectual property for different fields of use. ATI currently licenses the AMS Technology to three wholly-owned subsidiaries of Astrotech on an exclusive basis, including to 1st Detect for use in the security and detection market, to AgLAB for use in the agriculture market, and to BreathTech for use in breath analysis applications.

1st Detect Corporation

1st Detect, a licensee of ATI for the security and detection market, has developed the TRACER 1000™, the world's first mass spectrometer ("MS") based explosives trace detector ("ETD") certified by the European Civil Aviation Conference ("ECAC"), designed to replace the ETDs used at airports, cargo and other secured facilities, and borders worldwide. We believe that ETD customers are unsatisfied with the currently deployed ETD technology, which is driven by ion mobility spectrometry ("IMS"). We further believe that IMS-based ETDs are fraught with false positives, as they often misidentify personal care products and other common household chemicals as explosives, causing facility shutdowns, unnecessary delays, frustration, and significant wasted security resources. In addition, there are hundreds of different types of explosives, but IMS-based ETDs have a very limited threat detection library reserved only for those few explosives of largest concern. Adding additional compounds to the detection library of an IMS-based ETD fundamentally reduces the instrument's performance, further increasing the likelihood of false alarms. In contrast, adding additional compounds to the TRACER 1000's detection library does not degrade its detection capabilities, as it has a virtually unlimited and easily expandable threat library.

In order to sell the TRACER 1000 to airport and cargo security customers in the European Union and certain other countries, we obtained ECAC certification. We are currently selling the TRACER 1000 to customers who accept ECAC certification. As of June 30, 2023, we have deployed the TRACER 1000 in approximately 29 locations in 14 countries throughout Europe and Asia. On May 8, 2023, the Company announced that it has accepted a purchase order from a Romanian based company focused on research and innovation in the security and telecommunications space. The Company is required to deliver 17 TRACER 1000 explosive trace detectors over the remainder of calendar year 2023.

In the United States, we are working with the U.S. Transportation Security Administration ("TSA") towards air cargo certification. On March 27, 2018, we announced that the TRACER 1000 was accepted into TSA's Air Cargo Screening Technology Qualification Test ("ACSQT") and, on April 4, 2018, we announced that the TRACER 1000 was beginning testing with TSA for passenger screening at airports. On November 14, 2019, we announced that the TRACER 1000 had been selected by the TSA's Innovation Task Force to conduct live checkpoint screening at Miami International Airport. With similar protocols as ECAC testing, we have received valuable feedback from all programs. Following ECAC certification and our early traction within the cargo market, testing for cargo security continued with the TSA. With the onset of the COVID-19 pandemic, all testing within the TSA was put on hold; however, we resumed cargo testing during the summer of 2020, and we subsequently announced on September 9, 2020, that the TRACER 1000 passed the non-detection testing portion of the TSA's ACSQT. Due to delays caused by COVID-19, TSA cargo detection testing is ongoing, but has proceeded much more slowly than originally anticipated. As a result, efforts are primarily focused on our other opportunities. TSA cargo detection testing is the final step to be listed on the Air Cargo Screening Technology List ("ACSTL") as an "approved" device. If approved, the TRACER 1000 will be approved for cargo sales in the United States.

AgLAB Inc.

AgLAB, an exclusive licensee of ATI for the agriculture market, has developed the AgLAB 1000™ series of mass spectrometers for use in the hemp and cannabis markets with initial focus on optimizing yields in the distillation process. The AgLAB product line is a derivative of our core AMS Technology. The AMS Technology provides a significant competitive advantage due to its small size, rugged design, quick analysis, and ease of use. AgLAB has continued to conduct field trials to demonstrate that the AgLAB 1000-D2™ can be used in the distillation process to significantly improve the processing yields of tetrahydrocannabinol ("THC") and cannabidiol ("CBD") oil during distillation. The AgLAB 1000-D2 uses the Maximum Value Process solution ("MVP") to analyze samples in real-time and help the equipment operator to determine the ideal settings required to maximize yields. As part of our growth plan, we also plan to launch a family of "process control" methods and solutions that we believe could be valuable additions to many nutraceutical and pharmaceutical distillation processing plants.

During the first quarter of fiscal year 2023, we began our first production run of the AgLAB 1000-D2 and sales efforts are currently underway. On May 9, 2023, we announced the results from ongoing field trials of the AgLAB MVP solution, which we believe demonstrate that it can be a valuable tool for cannabis and hemp oil processors worldwide. During our field trials, we were able to improve ending-weights yields by an average of 30%.

BreathTech Corporation

BreathTech, an exclusive licensee of ATI for use in breath analysis applications, is developing the BreathTest-1000™, a breath analysis tool to screen for VOC metabolites found in a person's breath that could indicate they may have a compromised condition including but not limited to a bacterial or viral infection. The Company believes that new tools to aid in the battle against COVID-19 and other diseases remain of the utmost importance to help more quickly identify that an infection may be present.

In June 2022, the Company expanded its existing study that initially focused on COVID-19 with Cleveland Clinic to use the BreathTest-1000 to screen for a variety of diseases spanning the entire body. The project will focus on detecting bloodstream infections, respiratory infections such as influenza types A and B and respiratory syncytial virus ("RSV"), carriage of Staphylococcus aureus, and Clostridioides difficile ("C. diff") infections.

Critical Accounting Estimates

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with United States Generally Accepted Accounting Principles ("U.S. GAAP"). The preparation of these financial statements requires us to make estimates and judgments that directly affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosure of contingent assets and liabilities in the Company's consolidated financial statements and accompanying notes. A critical accounting estimate is one that involves a significant level of estimation uncertainty and have had or are reasonably likely to have a material impact on our financial condition or results of operations. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Management continuously evaluates its critical accounting policies and estimates, including those used in evaluating the recoverability of long-lived assets, recognition of revenue, valuation of inventory, and the recognition and measurement of loss contingencies, if any. Actual results may differ from these estimates under different assumptions or conditions. We believe the following accounting policies require us to make significant judgments and estimates in the preparation of our consolidated financial statements:

Revenue Recognition

Astrotech recognizes revenue employing the generally accepted revenue recognition methodologies described under the provisions of Accounting Standards Codification ("ASC") Topic 606 "Revenue from Contracts with Customers" ("Topic 606"), which was adopted by the Company in fiscal year 2019. The methodology used is based on contract type and how products and services are provided. The guidelines of Topic 606 establish a five-step process to govern the recognition and reporting of revenue from contracts with customers. The five steps are: (i) identify the contract with a customer, (ii) identify the performance obligations within the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations within the contract, and (v) recognize revenue when or as the performance obligations are satisfied.

Astrotech has multiple revenue sources such as product and related consumable sales, recurring maintenance & extended warranty services, lease revenue, repairs and training.

An additional factor is reasonable assurance of collectability. This necessitates deferral of all or a portion of revenue recognition until collection. During the fiscal year ended June 30, 2023, the Company had four material customers that comprised substantially all of its $750 thousand in revenue. During the fiscal year ended June 30, 2022, the Company recognized revenue from two material customers for total revenue of $869 thousand. Revenue was recognized at a point in time consistent with the guidelines in Topic 606.

Contract Assets and Liabilities. The Company enters into contracts to sell products and provide services, and it recognizes contract assets and liabilities that arise from these transactions. The Company recognizes revenue and corresponding accounts receivable according to Topic 606 and, at times, recognizes revenue once all performance obligations have been met, in advance of the time when contracts give us the right to invoice a customer. The Company may also receive consideration, per the terms of a contract, from customers prior to transferring goods to the customer. The Company records customer deposits as deferred revenue. Additionally, the Company may receive payments, most typically for service and warranty contracts, at the onset of the contract and before services have been performed. In such instances, the Company records a deferred revenue liability. The Company recognizes these contract liabilities as sales after all revenue recognition criteria are met.

Practical Expedients. In cases where the Company is responsible for shipping after the customer has obtained control of the goods, the Company has elected to treat the shipping activities as fulfillment activities rather than as a separate performance obligation. Additionally, the Company has elected to capitalize the cost to obtain a contract only if the period of amortization would be longer than one year. The Company only gives consideration to whether a customer agreement has a financing component if the period of time between transfer of goods and services and customer payment is greater than one year.

Product Sales. The Company recognizes revenue from sales of products upon shipment or delivery when control of the product transfers to the customer, depending on the terms of each sale, and when collection is probable. In the circumstance where terms of a product sale include subjective customer acceptance criteria, revenue is deferred until the Company has achieved the acceptance criteria unless the customer acceptance criteria are perfunctory or inconsequential. The Company generally offers customers payment terms of 60 days or less.

Freight. The Company records shipping and handling fees that it charges to its customers as revenue and related costs as cost of revenue.

Multiple Performance Obligations. Certain agreements with customers include the sale of equipment involving multiple elements in cases where obligations in a contract are distinct and thus require separation into multiple performance obligations, revenue recognition guidance requires that contract consideration be allocated to each distinct performance obligation based on its relative standalone selling price. The value allocated to each performance obligation is then recognized as revenue when the revenue recognition criteria for each distinct promise or bundle of promises has been met.

The standalone selling price for each performance obligation is an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the good or service. When there is only one performance obligation associated with a contract, the entire amount of consideration is attributed to that obligation. When a contract contains multiple performance obligations, the standalone selling price is first estimated using the observable price, which is generally a list price net of applicable discount or the price used to sell the good or service in similar circumstances. In circumstances when a selling price is not directly observable, the Company will estimate the standalone selling price using information available to it including its market assessment and expected cost, plus margin.

The timetable for fulfilment of each of the distinct performance obligations can range from completion in a short amount of time and entirely within a single reporting period to completion over several reporting periods. The timing of revenue recognition for each performance obligation may be dependent upon several milestones, including physical delivery of equipment, completion of site acceptance test, and in the case of after-market consumables and service deliverables, the passage of time.

Impairment of Long-lived Assets

We review the carrying amount of our long-lived assets, including property and equipment, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset or an asset group may not be fully recoverable. If indicators of impairment exist, an impairment loss would be recognized when the estimated undiscounted future cash flows expected to result from the use of the asset or asset group and its eventual disposition are less than its carrying amount. The impairment charge is determined based upon the excess of the carrying value of the asset over its estimated fair value, with estimated fair value determined based upon an estimate of discounted future cash flows or other appropriate measures of estimated fair value. For purposes of recognition of impairment for long-lived assets, we group assets and liabilities at the lowest level for which cash flows are separately identifiable.

Valuation of Inventory

Inventories are stated at the lower of cost or net realizable value. Cost is computed using standard cost, which approximates actual cost on a first-in, first-out basis. We reserve or write down inventory for estimated obsolescence, inventory in excess of reasonably expected sales, or unmarketable inventory, in an amount equal to the difference between the cost of inventory and the estimated market value, based upon assumption about future demand and market conditions. If actual market conditions are less favorable than those projected, additional inventory adjustments may be required. Inventory impairment charges establish a new cost basis for inventory and charges are not reversed subsequently to income, even if circumstances later suggest that increased carrying amounts are recoverable.

Warranty Provision

We offer our customers warranties on the products that we sell. These warranties typically provide for repairs and maintenance of the products if problems arise during a specified time period after original shipment. Concurrent with the sale of products, we record a provision for estimated warranty expenses with a corresponding increase in cost of goods sold. We periodically adjust this provision based on historical experience and anticipated expenses, which could impact our cost of revenue and gross margin. We charge actual expenses of repairs under warranty, including parts and labor, to this provision when incurred. The current obligation for warranty provision is included in accrued expenses and other liabilities in the consolidated balance sheets.

Results of Operations for the Years Ended June 30, 2023 and 2022

Selected financial data for the fiscal years ended June 30, 2023 and 2022 of our operations are as follows:

	Years Ended June 30,		
(In thousands)	**2023**	**2022**	**Variance**
Revenue	$ 750	$ 869	$ (119)
Cost of revenue	444	677	233
Gross profit	**306**	**192**	**114**
Gross margin	**41%**	**22%**	**19%**
Operating expenses			
Selling, general and administrative	5,775	6,006	231
Research and development	5,591	2,781	(2,810)
Total operating expenses	**11,366**	**8,787**	**(2,579)**
Loss from operations	**(11,060)**	**(8,595)**	**(2,465)**
Other income and expense, net	1,418	265	1,153
Income tax benefit	—	—	—
Net loss	$ **(9,642)**	$ **(8,330)**	$ **(1,312)**
Net unrealized losses	(254)	(1,176)	922
Total comprehensive loss	$ **(9,896)**	$ **(9,506)**	$ **(390)**

Revenue – Total revenue decreased by $119 thousand, or 13.7%, to $750 thousand for the fiscal year ended June 30, 2023, compared to $869 thousand for the fiscal year ended June 30, 2022. All of the fiscal years 2023 and 2022 revenue was comprised of sales related to our TRACER 1000 units, as well as ongoing sales of consumables and recurring maintenance services for the TRACER 1000. The decrease was due to less new units sold compared to the prior year.

Cost of Revenue and Gross Profit – Cost of revenue is comprised of labor, materials, shipping, warranty reserve, and overhead allocation related to the sale of TRACER 1000 units. Gross profit is comprised of revenue less cost of revenue. Cost of revenue decreased $233 thousand, or 34.4%, for the fiscal year ended June 30, 2023, compared to the year ended June 30, 2022, due to the decrease in sold units. Gross profit increased $114 thousand, or 59.4%, and gross margin increased to 41% during the fiscal year ended June 30, 2023, compared to the year ended June 30, 2022, due to a higher proportion of recurring revenue.

Operating Expenses – Our operating expenses increased $2.6 million, or 29.3%, during the fiscal year ended June 30, 2023, compared to the fiscal year ended June 30, 2022. Significant changes to operating expenses include the following:

- *Selling, General and Administrative Expenses* – Our selling, general and administrative expenses decreased by $231 thousand, or 3.8%, for the year ended June 30, 2023, compared to the year ended June 30, 2022. This is due to a decrease in bonus compensation to officers, partially offset by increase in Delaware franchise tax and legal fees on various matters.

- *Research and Development Expenses* – Research and development expenses increased $2.8 million, or a little over double the previous year. This was largely driven by increases in expenses related to cross-platform improvements to our technology, field trials and further development and refinement of our AgLAB product, increased headcount to further support the development of our mass spectrometry offering, contracting an additional clinical research firm to accelerate the collection of samples for building the BreathTech library, and increased depreciation related to equipment and facility expenses.

Other income and expense, net – Other income and expense, net for the year ended June 30, 2023 was $1.4 million compared to other expense, net of $265 thousand for the year ended June 30, 2022. The increase was driven by more income earned on short-term, capital-preservation investments as interest rates have increased and a reduction of interest expense from the payment of related party notes.

Income Taxes – Our income tax benefit did not change for the year ended June 30, 2023, compared to the year ended June 30, 2022. The realization of tax benefits depends on the existence of future taxable income. Pursuant to ASC 740 “Income Taxes”, a valuation allowance has been established on all of our deferred tax assets.

LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity

During the fiscal year 2021, we successfully completed several public offerings of our common stock, raising net proceeds of approximately $67.6 million which will be used to satisfy our short-term and long-term capital needs. We expect that our short- and long-term liquidity requirements will consist of working capital and general corporate expenses associated with the growth of our business, including, without limitation, expenses associated with scaling up our operations and continuing to increase our manufacturing capacity, sales and marketing expense associated with rollout of our AgLAB and BreathTech products to commercial customers, additional research and development expenses associated with expanding our product offerings, and expenses associated with being a public company. Our short-term capital expenditure needs relate primarily to the expansion of our research and development capabilities and optimization of existing business processes. We believe that our cash and cash equivalents and investments will enable us to fund our operating expenses and capital expenditure requirements for at least twelve months following the date these consolidated financial statements are issued.

Funding Requirements

We expect our expenses to increase in connection with our ongoing activities, particularly as we continue our research and development efforts and expand our business efforts. Furthermore, we have incurred and will continue to incur additional costs as a result of being a public company. Accordingly, we will need to obtain additional funding in connection with our continuing operations. If we are unable to raise capital when needed or on attractive terms, we would be forced to delay, reduce or eliminate our research and development programs, or future commercialization efforts.

Because of the numerous risks and uncertainties associated with our research and development efforts, we are unable to estimate the exact amount of our operating capital requirements. Our future capital requirements will depend on many factors, including:

- future research and development efforts;
- our ability to enter into and terms and timing of any collaborations, licensing agreements, or other arrangements;
- the costs of sales, marketing, distribution and manufacturing efforts;
- our headcount growth and associated costs as we expand our business;
- the costs of preparing, filing and prosecuting patent applications, maintaining and protecting our intellectual property rights and defending against intellectual property related claims; and
- the costs of operating as a public company.

Until such time, if ever, as we can generate positive cash flows from operations, we expect to finance our additional cash needs through a combination of equity offerings, debt financing, equity financing, merging, or engaging in a strategic partnership. To the extent that we raise additional capital through the sale of equity, our existing stockholders will be diluted, and the terms of those securities may include liquidation or other preferences that adversely affect the rights of holders of common stock. Debt financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends.

On June 16, 2023, we entered into an at-the-market offering agreement (the "ATM Agreement") with H.C. Wainwright ("Wainwright"). Pursuant to the terms of the ATM Agreement, we were permitted to offer and sell, from time to time through Wainwright, shares of our common stock having an aggregate offering price of up to $5,982,724. On June 26, 2023, we delivered notice to Wainwright to terminate the ATM Agreement, effective June 27, 2023. Prior to termination, we had not sold any shares of our common stock pursuant to the ATM Agreement.

If we raise funds through additional strategic alliances or licensing arrangements with third parties, we may have to relinquish valuable rights to our technologies or future revenue streams or to grant licenses on terms that may not be favorable to us. If we are unable to raise additional funds through equity offerings, debt financing, equity financing or engaging in a strategic partnership, we may be required to delay, limit, or reduce our expansion efforts.

Consolidated Balance Sheet

Total assets for the year ended June 30, 2023, were $47.7 million compared to total assets of $56.2 million as of the end of fiscal year 2022. The following table sets forth the significant components of the consolidated balance sheet as of June 30, 2023, compared with June 30, 2022:

	Years Ended June 30,		
(In thousands)	**2023**	**2022**	**Variance**
Assets:			
Current assets	$ 44,713	$ 54,950	$ (10,237)
Property and equipment, net	2,670	1,098	1,572
Operating lease right-of-use assets, net	262	162	100
Other assets, net	30	11	19
Total	$ **47,675**	$ **56,221**	$ **(8,546)**
Liabilities and stockholders' equity:			
Current liabilities	$ 2,665	$ 2,682	$ (17)
Lease liabilities, net of current portion	291	303	(12)
Stockholders' equity	44,719	53,236	(8,517)
Total	$ **47,675**	$ **56,221**	$ **(8,546)**

Current assets – Current assets decreased $10.2 million as of June 30, 2023, compared to June 30, 2022, as a result of cash used for continuing operating expenses, increasing our R&D equipment, share buy back program and the Delaware Litigation Settlement payment.

Property and equipment, net – Property and equipment increased $1.6 million as of June 30, 2023, compared to June 30, 2022, due to purchases of R&D equipment and internal use software relating to our BreathTech and AgLAB product development as well as the addition of leasehold improvement assets related to our R&D facility in Austin.

Operating lease right-of-use assets, net – Operating lease right-of-use assets increased $100 thousand as of June 30, 2023, compared to June 30, 2022, due to the new lease expansion in Austin.

Other assets, net – Other assets was consistent with the prior year.

Current liabilities – Current liabilities was consistent with the prior year.

Other long-term liabilities – Other long-term liabilities were consistent with the prior year.

Cash Flows

The following is a summary of the change in our cash and cash equivalents:

(In thousands)	Years Ended June 30, 2023	2022	Variance
Change in cash and cash equivalents:			
Net cash used in operating activities	$ (7,625)	$ (6,792)	(833)
Net cash used in investing activities	(3,844)	(596)	(3,248)
Net cash used in financing activities	(776)	(2,095)	1,319
Net change in cash and cash equivalents	$ **(12,245)**	**(9,483)**	$ **(2,762)**

Cash and Cash Equivalents

At June 30, 2023, we held cash and cash equivalents of $14.2 million and our net working capital was approximately $42.1 million. At June 30, 2022, we held cash and cash equivalents of $26.4 million and our net working capital was approximately $52.3 million. Cash and cash equivalents decreased by approximately $12.2 million during the year ended June 30, 2023, due to funding our continuing operating expenses, purchases of short-term time deposit investments, purchases of R&D equipment and expansion of our facility, share buyback program and the Delaware Litigation Settlement payment.

Operating Activities

Net cash used in operating activities was $7.6 million for the year ended June 30, 2023, compared to cash used in operating activities of $6.8 million for the year ended June 30, 2022. This increase was caused by an increase in operating expenses, increase in inventory as we secure hard to source electrical components, payment of the Stein Action settlement, partially offset by an increase in accounts payable and depreciation related to the increase in R&D equipment.

Investing Activities

Net cash used in investing activities for the year ended June 30, 2023 increased $3.2 million, compared to the year ended June 30, 2022. The increase in cash used in investing activities was due to purchasing of short-term time deposit investments, internal use software, and R&D equipment and expansion of our R&D facility in Austin.

Financing Activities

Cash used in financing activities was $776 thousand for the year ended June 30, 2023, and $2.1 million for the year ended June 30, 2022. This was due to repayment of related party debt (see below).

Related-party Debt

On September 5, 2019, the Company entered into a private placement transaction with Thomas B. Pickens III, the Chief Executive Officer and Chairman of the Board of Directors of the Company, for the issuance and sale of a secured promissory note to Mr. Pickens with a principal amount of $1.5 million (the "2019 Note"), and on February 13, 2020, the Company entered into a second private placement transaction with Mr. Pickens for the issuance and sale of a second secured promissory note to Mr. Pickens with a principal amount of $1.0 million (the "2020 Note" and, collectively with the 2019 Note, the "Original Notes"). Interest on the Original Notes accrued at 11% per annum. The principal amount and accrued interest on the Original Notes originally were to become due and payable on September 5, 2020; however, on August 24, 2020, the Company and Mr. Pickens agreed to extend the date of maturity of the Original Notes and payment of accrued interest to September 5, 2021 (the "Extended Maturity Date"). The Company had the option to prepay the principal amount and all accrued interest on the Original Notes at any time prior to the Extended Maturity Date.

In connection with the issuance of the Original Notes, the Company, along with 1st Detect Corporation and Astrotech Technologies, Inc. (the "Subsidiaries"), entered into two security agreements, dated as of September 5, 2019 and February 13, 2020 (collectively, the "Original Security Agreements"), with Mr. Pickens, pursuant to which the Company and the Subsidiaries granted to Mr. Pickens a security interest in all of the Company's and the Subsidiaries' Collateral, as such term is defined in the Original Security Agreements. In addition, the Subsidiaries jointly and severally agreed to guarantee and act as surety for the Company's obligation to repay the Original Notes pursuant to a subsidiary guarantee.

On September 3, 2021, the Company entered into (1) the Omnibus Amendment to the Secured Promissory Notes (the "Amended Notes") with Mr. Pickens, in connection with the Original Notes, and (2) the Omnibus Amendment to the Security Agreements (the "Amended Security Agreements", and together with the Amended Notes, the "Amendments") with the Subsidiaries, in connection with the Original Security Agreements. Pursuant to the Amendments, (a) the principal amount of $1.0 million and accrued interest of $172 thousand on the 2020 Note was paid in full and the 2020 Note was canceled, and (b) $1.0 million of the principal amount and $330 thousand of accrued interest on the 2019 Note was paid and the maturity date on the remaining balance of $500 thousand of the 2019 Note was extended to September 5, 2022 (the "Amended Maturity Date").

In addition, the Subsidiaries jointly and severally agreed to guarantee and act as surety for the Company's obligation to repay the remaining balance on the 2019 Note pursuant to subsidiary guarantees, dated September 5, 2019 and February 13, 2020, as amended by the Omnibus Amendments to Subsidiary Guarantees, dated August 24, 2020 and September 3, 2021, respectively (the Omnibus Amendment to Subsidiary Guarantees dated September 3, 2021, the "Amended Subsidiary Guarantee"). The Subsidiary Guarantee with respect to the 2020 Note was also canceled by the Amended Subsidiary Guarantee due to the 2020 Note being repaid in full.

On September 5, 2022, the 2019 Note matured and the principal amount of $500 thousand and accrued interest of $55 thousand was paid in full and the 2019 Note was canceled. With the cancelation of the 2019 Note, the Amended Subsidiary Guarantee was terminated and the Subsidiaries' Collateral was released.

Contractual Obligations and Commitments

The following table summarized our commitments to settle contractual obligations as of June 30, 2023:

	Payments Due by Period				
(In thousands)	**Total**	**Less than 1 Year**	**1 to 3 Years**	**4 to 5 Years**	**More than 5 Years**
Operating lease commitments [1]	$ 277	$ 139	$ 138	—	—
Finance lease commitments [2]	330	168	138	24	—
Total	**$ 607**	**$ 307**	**$ 276**	**$ 24**	**$ —**

(1) Consists of payments due for our leases of research and development space in Austin, Texas that expires April 2025.
(2) Consists of payments due for our leases of three pieces of equipment that expire between December 2024 and May 2028.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of June 30, 2023.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Not applicable to smaller reporting companies.

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Astrotech Corporation
Austin, Texas

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of Astrotech Corporation and subsidiaries (the "Company") as of June 30, 2023 and 2022, the related consolidated statements of operations and comprehensive loss, changes in stockholders' equity, and cash flows for the years then ended, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of June 30, 2023 and 2022, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

MOORE
An independent firm associated with Moore Global Network Limited

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that (i) relate to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

Revenue Recognition – Refer to Note 2 in the Financial Statements

Critical Audit Matter Description

The Company records revenue from contracts with customers that contain various performance obligations. Generally, the performance obligations identified are related to product sales, training, associated consumables, and future maintenance. The value allocated to each performance obligation is recognized as revenue when the revenue recognition criteria for each distinct promise or bundle of promises has been met.

A presumption of fraud risk exists related to revenue recognition and judgment is exercised by the Company in determining revenue recognition for each performance obligation within customer agreements.

The related audit effort to evaluate revenue recognition for customer agreements required auditor judgment.

How the Critical Audit Matter Was Addressed in the Audit

- We gained an understanding of internal controls related to revenue recognition including management's controls related to the evaluation of performance obligations and the allocation of the total contract consideration to these performance obligations.
- We evaluated management's revenue recognition policies and practices including the reasonableness of management's judgments and assumptions relating to the timing of revenue recognition of those performance obligations.
- We performed the following procedures on all product sales and on a sample of training, consumables and maintenances revenue:
  - Tested revenue contracts and underlying support to evaluate appropriateness of management's revenue recognition.
  - Tested the completeness and accuracy of management's calculation of revenue and associated timing of revenue recognized.

Armanino LLP
Dallas, Texas

We have served as the Company's auditor since 2019.

September 28, 2023

ASTROTECH CORPORATION
Consolidated Balance Sheets
(In thousands, except share and per share data)

	June 30, 2023	June 30, 2022
Assets		
Current assets		
Cash and cash equivalents	$ 14,208	$ 26,453
Short-term investments	27,919	26,173
Accounts receivable	225	56
Contract asset	—	2
Inventory, net:		
Raw materials	1,379	864
Work-in-process	243	136
Finished goods	373	518
Income tax receivable	1	—
Prepaid expenses and other current assets	365	748
Total current assets	**44,713**	**54,950**
Property and equipment, net	2,670	1,098
Operating lease right-of-use assets, net	262	162
Other assets, net	30	11
Total assets	$ **47,675**	$ **56,221**
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	$ 546	$ 169
Payroll related accruals	633	816
Accrued expenses and other liabilities	1,170	961
Income tax payable	—	2
Term note payable - related party	—	500
Lease liabilities, current	316	234
Total current liabilities	**2,665**	**2,682**
Lease liabilities, net of current portion	291	303
Total liabilities	**2,956**	**2,985**
Commitments and contingencies (Note 14)		
Stockholders' equity		
Convertible preferred stock, $0.001 par value, 2,500,000 shares authorized; 280,898 shares of Series D issued and outstanding at June 30, 2023 and 2022, respectively	—	—
Common stock, $0.001 par value, 250,000,000 shares authorized at June 30, 2023 and 2022 respectively; 1,692,045 and 1,685,595 shares issued at June 30, 2023 and 2022 respectively; 1,681,729 and 1,685,595 outstanding at June 30, 2023 and 2022, respectively	190,643	190,642
Treasury shares, 10,316 shares and no shares at June 30, 2023 and 2022, respectively	(119)	—
Additional paid-in capital	81,002	79,505
Accumulated deficit	(225,354)	(215,712)
Accumulated other comprehensive loss	(1,453)	(1,199)
Total stockholders' equity	**44,719**	**53,236**
Total liabilities and stockholders' equity	$ **47,675**	$ **56,221**

See accompanying notes to consolidated financial statements.

ASTROTECH CORPORATION
Consolidated Statements of Operations and Comprehensive Loss
(In thousands, except per share data)

	June 30,	
	2023	**2022**
Revenue	$ 750	$ 869
Cost of revenue	444	677
Gross profit	**306**	**192**
Operating expenses:		
Selling, general and administrative	5,775	6,006
Research and development	5,591	2,781
Total operating expenses	11,366	8,787
Loss from operations	**(11,060)**	**(8,595)**
Other income and expense, net	1,418	265
Loss from operations before income taxes	**(9,642)**	**(8,330)**
Income tax benefit	—	—
Net loss	$ **(9,642)**	$ **(8,330)**
Weighted average common shares outstanding:		
Basic and diluted	1,620	1,590
Basic and diluted net loss per common share:		
Net loss per common share	$ (5.95)	$ (5.24)
Other comprehensive loss, net of tax:		
Net loss	$ (9,642)	$ (8,330)
Available-for-sale securities:		
Net unrealized loss	(254)	(1,176)
Total comprehensive loss	$ **(9,896)**	$ **(9,506)**

See accompanying notes to consolidated financial statements.

ASTROTECH CORPORATION
Consolidated Statement of Changes in Stockholders' Equity
(In thousands)

	Preferred Stock Class D		Common Stock						
	Number of Shares Outstanding	Amount	Number of Shares Outstanding	Amount	Treasury Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance at June 30, 2021	**281**	$ —	**1,648**	$**190,641**	$ —	$ **77,971**	$ **(207,382)**	$ **(23)**	$ **61,207**
Net change in available-for-sale marketable securities	—	—	—	—	—	—	—	(1,176)	(1,176)
Stock-based compensation	—	—	46	1	—	1,534	—	—	1,535
Cancellation of restricted stock	—	—	(8)	—	—	—	—	—	—
Net loss	—	—	—	—	—	—	(8,330)	—	(8,330)
Balance at June 30, 2022	**281**	$ **—**	**1,686**	**190,642**	**—**	**79,505**	**(215,712)**	**(1,199)**	**53,236**
Net change in available-for-sale marketable securities	—	—	—	—	—	—	—	(254)	(254)
Stock-based compensation	—	—	4	1	—	1,497	—	—	1,498
Restricted stock issuance	—	—	2	—	—	—	—	—	—
Purchase of treasury stock	—	—	(10)	—	(119)	—	—	—	(119)
Net loss	—	—	—	—	—	—	(9,642)	—	(9,642)
Balance at June 30, 2023	**281**	$ —	**1,682**	$**190,643**	$ **(119)**	$ **81,002**	$ **(225,354)**	$ **(1,453)**	$ **44,719**

See the accompanying notes to consolidated financial statements.

ASTROTECH CORPORATION
Consolidated Statements of Cash Flows
(In thousands)

	Years Ended June 30,	
	2023	**2022**
Cash flows from operating activities:		
Net loss	$ (9,642)	$ (8,330)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation	1,498	1,535
Depreciation	366	148
Amortization of operating lease right-of-use assets	123	88
Interest on financing leases	15	13
Loss on disposal of asset	25	—
Changes in assets and liabilities:		
Accounts receivable	(169)	(51)
Contract asset	2	(2)
Inventory, net	(477)	(18)
Income tax receivable	(1)	—
Accounts payable	377	(227)
Other assets and liabilities	390	138
Income taxes payable	(2)	—
Operating lease liabilities	(130)	(86)
Net cash used in operating activities	**(7,625)**	**(6,792)**
Cash flows from investing activities:		
Purchases of property and equipment	(1,844)	(596)
Purchases of short-term investments	(5,140)	—
Proceeds from short-term investments	3,140	—
Net cash used in investing activities	**(3,844)**	**(596)**
Cash flows from financing activities:		
Purchase of treasury shares	(119)	—
Repayment of related-party debt	(500)	(2,000)
Repayments on finance lease liabilities	(157)	(95)
Net cash used in financing activities	$ **(776)**	$ **(2,095)**
Net change in cash and cash equivalents	$ **(12,245)**	$ **(9,483)**
Cash and cash equivalents at beginning of period	26,453	35,936
Cash and cash equivalents at end of period	$ **14,208**	$ **26,453**
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 69	$ 515
Acquisition of equipment through financing lease	$ 119	$ 394
Operating right-of-use assets and associated liabilities	$ 223	$ —
Income taxes paid	$ 2	$ —

See accompanying notes to consolidated financial statements.

ASTROTECH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2023 and 2022

(1) Description of the Company and Operating Environment

Astrotech Corporation (Nasdaq: ASTC) ("Astrotech," the "Company," "we," "us," or "our"), a Delaware corporation organized in 1984, is a mass spectrometry company that launches, manages, and commercializes scalable companies based on its innovative core technology.

On November 22, 2022, the Company put into effect a 1-for-30 reverse stock split of all the Company's issued and outstanding shares of Common Stock. All historical per share data, number of shares outstanding, and other common stock equivalents for the periods presented in the accompanying consolidated financial statements and notes thereto have been adjusted retroactively, where applicable, to reflect the Reverse Stock Split. See Footnote 8 for additional information.

Business Overview

Segment Information – The Company has determined that it does not meet the criteria of Accounting Standards Codification ("ASC") 280 "Segment Reporting" because the Company's subsidiaries represent Company brands that leverage the same core technology rather than independent operating segments.

Astrotech Technologies, Inc.

Astrotech Technologies, Inc ("ATI") owns and licenses the Astrotech Mass Spectrometer Technology™ (the "AMS Technology"), the platform mass spectrometry technology originally developed by 1st Detect Corporation ("1st Detect"). The AMS Technology has been designed to be comparatively inexpensive, small, and easy to use. AMS Technology works under ultra-high vacuum, which eliminates competing molecules, yielding higher resolution and fewer false alarms. The intellectual property includes 18 granted patents along with extensive trade secrets. With a number of diverse market opportunities for the core technology, ATI is structured to license the intellectual property for different fields of use. ATI currently licenses the AMS Technology to three wholly-owned subsidiaries of Astrotech on an exclusive basis, including to 1st Detect for use in the security and detection market, to AgLAB Inc. ("AgLAB") for use in the agriculture market, and to BreathTech Corporation ("BreathTech") for use in breath analysis applications.

ATI contracts with various vendors to assist with the further development of our mass spectrometer products including the manufacturability and reliability of our systems.

1st Detect Corporation

1st Detect, a licensee of ATI for the security and detection market, has developed the TRACER 1000, the world's first mass spectrometer ("MS") based explosives trace detector ("ETD") certified by the European Civil Aviation Conference ("ECAC"), designed to replace the ETDs used at airports, cargo and other secured facilities, and borders worldwide.

In order to sell the TRACER 1000 to airport and cargo security customers in the European Union and certain other countries, we obtained ECAC certification. The Company is currently selling the TRACER 1000 to customers who accept ECAC certification. As of June 30, 2023, the Company has deployed the TRACER 1000 in approximately 29 locations in 14 countries throughout Europe and Asia.

In the United States, the Company is working with the U.S. Transportation Security Administration ("TSA") towards air cargo certification. If approved, the TRACER 1000 will be approved for cargo sales in the United States.

AgLAB Inc.

AgLAB, an exclusive licensee of ATI for the agriculture market, has developed the AgLAB 1000™ series of mass spectrometers for use in the hemp and cannabis markets with initial focus on optimizing yields in the distillation process. The AgLAB product line is a derivative of the Company's core AMS Technology.

During the first quarter of fiscal year 2023, we began our first production run of the AgLAB 1000-D2™ and sales efforts are currently underway. On May 9, 2023, we announced the results from ongoing field trials of the AgLAB MVP solution.

BreathTech Corporation

BreathTech, an exclusive licensee of ATI for use in breath analysis applications, is developing the BreathTest-1000™, a breath analysis tool to screen for volatile organic compound ("VOC") metabolites found in a person's breath that could indicate they may have a compromised condition including but not limited to a bacterial or viral infection.

In June 2022, the Company expanded its existing study that initially focused on COVID-19 with Cleveland Clinic to use the BreathTest-1000 to screen for a variety of diseases spanning the entire body. The project focuses on detecting bloodstream infections, respiratory infections such as influenza types A and B and respiratory syncytial virus ("RSV"), carriage of Staphylococcus aureus, and Clostridioides difficile ("C. diff") infections.

(2) Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of Astrotech Corporation and its wholly-owned subsidiaries that are required to be consolidated. All intercompany transactions have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to the current year presentation and have had no impact on net income or stockholders' equity.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that directly affect the amounts reported in the Company's consolidated financial statements and accompanying notes. Management continuously evaluates its critical accounting policies and estimates, including those used in evaluating the recoverability of long-lived assets, recognition of revenue, valuation of inventory, warranty provision and the recognition and measurement of loss contingencies, if any. Actual results may vary.

Revenue Recognition

Astrotech recognizes revenue employing the generally accepted revenue recognition methodologies described under the provisions of Accounting Standards Codification ("ASC") Topic 606 “Revenue from Contracts with Customers” (“Topic 606”). The methodology used is based on contract type and how products and services are provided. The guidelines of Topic 606 establish a five-step process to govern the recognition and reporting of revenue from contracts with customers. The five steps are: (i) identify the contract with a customer, (ii) identify the performance obligations within the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations within the contract, and (v) recognize revenue when or as the performance obligations are satisfied.

An additional factor is reasonable assurance of collectability. This necessitates deferral of all or a portion of revenue recognition until assurance of collection. During the fiscal year ended June 30, 2023, the Company had four material customers that comprised substantially all of its $750 thousand in revenue. During the fiscal year ended June 30, 2022, the Company had two material customers that consisted substantially all of the $869 thousand. Revenue was recognized at a point in time consistent with the guidelines in Topic 606.

Contract Assets and Liabilities. The Company enters into contracts to sell products and provide services, and it recognizes contract assets and liabilities that arise from these transactions. The Company recognizes revenue and corresponding accounts receivable according to Topic 606 and, at times, recognizes revenue once all performance obligations have been met, in advance of the time when contracts give us the right to invoice a customer. The Company may also receive consideration, per the terms of a contract, from customers prior to transferring goods to the customer. The Company records customer deposits as deferred revenue. Additionally, the Company may receive payments, most typically for service and warranty contracts, at the onset of the contract and before services have been performed. In such instances, the Company records a deferred revenue liability. The Company recognizes these contract liabilities as sales after all revenue recognition criteria are met.

Practical Expedients. In cases where the Company is responsible for shipping after the customer has obtained control of the goods, it has elected to treat the shipping activities as fulfillment activities rather than as a separate performance obligation. Additionally, the Company has elected to capitalize the cost to obtain a contract only if the period of amortization would be longer than one year. The Company only gives consideration to whether a customer agreement has a financing component if the period of time between transfer of goods and services and customer payment is greater than one year.

Product Sales. The Company recognizes revenue from sales of products upon shipment or delivery when control of the product transfers to the customer, depending on the terms of each sale, and when collection is probable. In the circumstance where terms of a product sale include subjective customer acceptance criteria, revenue is deferred until the Company has achieved the acceptance criteria unless the customer acceptance criteria are perfunctory or inconsequential. The Company generally offers customers payment terms of 60 days or less.

Freight. The Company records shipping and handling fees that it charges to its customers as revenue and related costs as cost of goods sold.

Multiple Performance Obligations. Certain agreements with customers include the sale of equipment involving multiple elements in cases where obligations in a contract are distinct and thus require separation into multiple performance obligations, revenue recognition guidance requires contract consideration be allocated to each distinct performance obligation based on its relative standalone selling price. In general, our performance obligations are related to the sale of TRACER-1000 systems, training, associated consumables which can be delivered in multiple occurrences, and future maintenance. The value allocated to each performance obligation is then recognized as revenue when the revenue recognition criteria for each distinct promise or bundle of promises has been met.

The standalone selling price for each performance obligation is an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the good or service. When there is only one performance obligation associated with a contract, the entire amount of consideration is attributed to that obligation. When a contract contains multiple performance obligations the standalone selling price is first estimated using the observable price, which is generally a list price net of applicable discount or the price used to sell the good or service in similar circumstances. In circumstances when a selling price is not directly observable, the Company will estimate the standalone selling price using information available including our market assessment and expected cost plus margin.

The timetable for fulfilment of each of the distinct performance obligations can range from completion in a short amount of time and entirely within a single reporting period to completion over several reporting periods. The timing of revenue recognition for each performance obligation may be dependent upon several milestones, including physical delivery of equipment, completion of site acceptance test, and in the case of after-market consumables and service deliverables, the passage of time.

Foreign Currency

The Company's international operations are subject to certain opportunities and risks, including from foreign currency fluctuations and governmental actions. During fiscal years 2023 and 2022, the Company conducted business in eleven countries. The Company closely monitors its operations in each country in which it does business and seeks to adopt appropriate strategies that are responsive to changing economic and political environments. The Company currently conducts business in the U.S. dollar and the Euro. Revenues, costs, and expenses are translated at the applicable rate on the date of the transaction. Translation gains and losses, if any, are calculated on accounts receivable or accounts payable outstanding at the rate applicable at the end of the period. The Company includes gains and losses resulting from foreign currency transactions in income, while it excludes those resulting from translation of financial statements from income and includes them as a component of accumulated other comprehensive loss when applicable. Transaction gains and losses, which were included in the Company's consolidated statements of operations and comprehensive loss, amounted to a loss of approximately $3 thousand for the fiscal year ended June 30, 2023 and a loss of approximately $13 thousand for the fiscal year ended June 30, 2022.

Warranty Provision

Astrotech offers its customers warranties on the products that it sells. These warranties typically provide for repairs and maintenance of the products if problems arise during a specified time period after original shipment. Concurrent with the sale of products, the Company records a provision for estimated warranty expenses with a corresponding increase in cost of goods sold. The Company periodically adjusts this provision based on historical experience and anticipated expenses. The Company charges actual expenses of repairs under warranty, including parts and labor, to this provision when incurred. The current obligation for warranty provision is included in accrued expenses and other liabilities in the consolidated balance sheets, whose activity for each of the two fiscal years ended June 30, 2023 and 2022 is summarized in the following table:

(In thousands)	**Warranty Provision**
Balance as of June 30, 2021	$ 16
Warranty claims provided for	112
Settlements made	(78)
Balance as of June 30, 2022	50
Warranty claims provided for	157
Settlements made	(119)
Balance as of June 30, 2023	$ 88

Research and Development

Research and development costs are expensed as incurred. Research and development costs are used to improve system functionality, streamline and simplify the user experience, and extend our capabilities into customer-defined, application-specific opportunities. Research and development expenses for the fiscal years ended June 30, 2023 and 2022 were $5.6 million and $2.8 million, respectively.

Net Loss per Common Share

Basic net loss per common share is calculated by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted net loss per common share is the same as basic net loss per common share as the potential dilutive shares are considered to be anti-dilutive. For more information, see Note 12.

Cash and Cash Equivalents

The Company considers short-term investments with original maturities of three months or less to be cash equivalents. Cash equivalents are comprised primarily of money market and mutual fund investments.

Accounts Receivable

The carrying value of the Company's accounts receivable, net of an allowance for doubtful accounts, if any, represents their estimated net realizable value. Astrotech estimates an allowance for doubtful accounts based on type of customer, age of outstanding receivable, historical collection trends, and existing economic conditions. If events or changes in circumstances indicate that a specific receivable balance may be unrealizable, further consideration is given to the collectability of those balances, and the allowance is adjusted accordingly. Receivable balances deemed uncollectible are written off against the allowance. The Company anticipates collecting all unreserved receivables within one year. As of June 30, 2023 and 2022, there was no allowance for doubtful accounts deemed necessary.

Inventory

The Company computes inventory cost on a first-in, first-out basis, and inventory is valued at the lower-of-cost or net realizable value. The valuation of inventory also requires the Company to estimate obsolete and excess inventory as well as inventory that is not of saleable quality.

Property and Equipment, net

Property and equipment are stated at cost, less accumulated depreciation. All furniture, fixtures, and equipment are depreciated using the straight-line method over the estimated useful lives of the respective assets, which is generally five years. Purchased software is typically depreciated over three years. Leasehold improvements are amortized over the shorter of the useful life of the improvement or the term of the lease. Repairs and maintenance are expensed when incurred.

Internal Use Software

The Company has adopted the provisions of ASC *350-40*, *Internal-Use Software*, and therefore the costs incurred in the preliminary stages of development are expensed as incurred. The Company capitalizes all direct external costs related to software developed or obtained for internal use when management commits to funding the project, the preliminary project stage is completed and when technological feasibility is established. Once a new functionality or improvement is released for operational use, the asset is moved from the property and equipment category "capital improvements in progress" ("CIP") to a property and equipment asset subject to depreciation. Capitalization of costs ceases when the project is substantially complete and ready for its intended use. Depreciation is applied using the straight-line method over the estimated useful lives of the assets once the assets are placed in service.

Impairment of Long-Lived Assets

The Company continuously evaluates its long-lived assets for impairment to assess whether the carrying amount of an asset may not be recoverable. Our evaluation is based on an assessment of potential indicators of impairment, such as an adverse change in the business climate that could affect the value of an asset, current or forecasted operating or cash flow losses that demonstrate continuing losses associated with the use of an asset, and a current expectation that, more likely than not, an asset will be disposed of before the end of its previously estimated useful life. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. There was no impairment of long lived assets recorded for fiscal years ended June 30, 2023, and 2022. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Recoverability of long-lived assets is dependent on a number of conditions, including uncertainty about future events and demand for our services. Due to the disposal of an asset, the Company recorded a loss of long-lived assets of $25 thousand for the fiscal year ended June 30, 2023, which is included in loss on disposal of asset in the accompanying Consolidated Statements of Cash Flows.

Fair Value of Financial Instruments

Astrotech's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities. Management believes the carrying amounts of these assets and liabilities approximates their fair value due to their liquidity. For more information about the Company's accounting policies surrounding fair value investments, see Note 6.

Available-for-Sale Investments

Investments that are designated as available-for-sale are reported at fair value, with unrealized gains and losses recorded in accumulated other comprehensive loss. The Company determines the cost of investments sold based on a first-in, first-out cost basis at the individual security level. The Company also considers specific adverse conditions related to the financial health of, and the business outlook for, the investee which may include industry and sector performance, changes in technology, operational and financing cash flow factors, and changes in the investee's credit rating. The Company records other than temporary impairments on marketable equity securities and marketable equity method investments in gains (losses) on equity investments, net of previously recorded gains (losses). For more information on investments, see Note 3.

Leases

The Company determines, at the inception of an arrangement, whether the arrangement is or contains a lease, based on the unique facts and circumstances present. Operating lease assets represent the Company's right to use an underlying asset for the lease term and operating lease liabilities represent its obligation to make lease payments arising from the lease. Right-of-use ("ROU") assets and operating lease liabilities are recognized at the commencement date of the lease based upon the present value of lease payments over the lease term. When determining the lease term, the Company includes options to extend or terminate the lease when it is reasonably certain, at inception, that the Company will exercise that option. The interest rate implicit in lease contracts is typically not readily determinable; accordingly, the Company uses its incremental borrowing rate, which is the rate that would be incurred to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment, based upon the information available at the commencement date. The lease payments used to determine the Company's operating lease assets may include lease incentives, stated rent increases and escalation clauses linked to rates of inflation, when determinable, and are recognized in determining its ROU assets. The Company's operating leases are reflected in the operating lease, right-of-use asset; lease liabilities, current; and lease liabilities, non-current in its consolidated balance sheets.

Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term. As a result of the Company's adoption of ASU 2016-02, it no longer recognizes deferred rent on the consolidated balance sheet. Short-term leases, defined as leases that have a lease term of 12 months or less at the commencement date, are excluded from this treatment and are recognized on a straight-line basis over the term of the lease. Variable lease payments are amounts owed by the Company to a lessor that are not fixed, such as reimbursement for common area maintenance costs for our facility lease, and are expensed when incurred.

Financing leases, formerly referred to as capitalized leases, are treated similarly to operating leases except that the asset subject to the lease is included in the appropriate fixed asset category, rather than recorded as a right-of-use asset, and depreciated over its estimated useful life, or lease term, if shorter. For more information, see Note 4.

Stock-Based Compensation

The Company accounts for stock-based awards to employees based on the fair value of the award on the grant date. The fair value of stock options is estimated using the expected dividend yields of the Company's stock, the expected volatility of the stock, the expected length of time the options remain outstanding, and the risk-free interest rates. Changes in one or more of these factors may significantly affect the estimated fair value of the stock options. The Company recognizes forfeitures as they occur. The fair value of awards that are likely to meet goals, if any, are recorded as an expense over the vesting period. For more information, see Note 10.

Income Taxes

The Company accounts for income taxes under the liability method, whereby deferred tax asset or liability account balances are determined based on the difference between the financial statement and the tax bases of assets and liabilities using current tax laws and rates in effect for the year in which the differences are expected to affect taxable income. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. A valuation allowance is established when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

In December 2019, the Financial Accounting Standards Board ("FASB") released Accounting Standards Update ("ASU") No. 2019-12, which affects general principles within Topic 740, Income Taxes. The amendments of ASU 2019-12 are meant to simplify and reduce the cost of accounting for income taxes. The FASB has stated that the ASU is being issued as part of its Simplification Initiative, which is meant to reduce complexity in accounting standards by improving certain areas of U.S. GAAP without compromising information provided to users of financial statements. The Company adopted this guidance as of June 30, 2022 and the adoption had no impact on the Company's consolidated financial statements.

Treasury Stock

The Company records treasury stock at the cost to acquire it and includes treasury stock as a component of stockholders' equity. During fiscal year 2023, Astrotech repurchased from the open market $119 thousand in treasury stock now held by the Company.

Accounting Pronouncements

In November 2021, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2021-10, "Government Assistance (Topic 832)" ("ASU 2021-10"), which enhances disclosure of transactions with governments that are accounted for by applying a grant or contribution model. The new pronouncement requires entities to provide information about the nature of the transaction, terms and conditions associated with the transaction, and financial statement line items affected by the transaction. ASU 2021-10 is effective for fiscal years beginning after December 15, 2021. The adoption of this did not have a material impact on its financial statements.

Recently Issued Accounting Standards Not Yet Adopted

In July 2023, the FASB issued ASU No 2023-03, "Presentation of Financial Statements (Topic 205), Income Statement—Reporting Comprehensive Income (Topic 220), Distinguishing Liabilities from Equity (Topic 480), Equity (Topic 505), and Compensation—Stock Compensation (Topic 718)" pursuant to SEC Staff Accounting Bulletin No. 120, which adds interpretive guidance for public companies to consider when entering into share-based payment transactions while in possession of material non-public information. The effective date of this update is for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. The Company does not expect the adoption to have a material impact on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 requires entities to use a forward-looking approach based on current expected credit losses ("CECL") to estimate credit losses on certain types of financial instruments, including trade receivables. The standard will become effective for the Company for financial statements periods beginning after December 15, 2022.We do not believe this will have a material impact on the Company's consolidated financial statements.

(3) Investments

The following tables summarize gains and losses related to the Company's investments:

	June 30, 2023			
Available-for-Sale (In thousands)	**Adjusted Cost**	**Unrealized Gain**	**Unrealized Loss**	**Fair Value**
Mutual Funds - Corporate & Government Debt	$ 19,990	$ —	$ (1,025)	$ 18,965
ETFs - Corporate & Government Debt	7,376	—	(418)	6,958
Time Deposits	2,006	—	(10)	1,996
Total	**$ 29,372**	$ —	**$ (1,453)**	**$ 27,919**

	June 30, 2022			
Available-for-Sale (In thousands)	**Adjusted Cost**	**Unrealized Gain**	**Unrealized Loss**	**Fair Value**
Mutual Funds - Corporate & Government Debt	$ 19,997	$ —	$ (806)	$ 19,191
ETFs - Corporate & Government Debt	7,375	—	(393)	6,982
Total	**$ 27,372**	$ —	**$ (1,199)**	**$ 26,173**

We have certain financial instruments on our consolidated balance sheets related to interest-bearing time deposits. Time deposits with maturities of less than 90 days, if any, from the purchase date are included in "Cash and Cash Equivalents." Time deposits with maturities from 91-360 days, if any, are included in "Short-term investments." Time deposits with maturities of more than 360 days, if any, are included in "Long-term investments." As of June 30, 2023 and June 30, 2022, the Company had no long-term investments. For more information about the fair value of the Company's financial instruments, see Note 6.

The following table presents the carrying amounts of certain financial instruments as of June 30, 2023 and June 30, 2022:

	Carrying Value			
	Short-Term Investments		Long-Term Investments	
(In thousands)	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Money Market Funds				
Mutual Funds - Corporate & Government Debt	18,965	19,191	—	—
ETFs - Corporate & Government Debt	6,958	6,982	—	—
Time deposits				
Maturities from 1-90 days	—	—	—	—
Maturities from 91-360 days	1,996	—	—	-
Total	$ **27,919**	$ **26,173**	$ —	$ —

(4) Leases

On April 27, 2021, Astrotech entered into a new lease for a research and development facility of approximately 5,960 square feet in Austin, Texas (the "R&D facility") that includes a laboratory, a small production shop, and offices for staff. The lease commenced on June 1, 2021 and had a lease term of 36 months. On November 11, 2022, the Company signed a lease extension agreement for the R&D facility, extending the term of the lease through April 30, 2025. The Company's total contractual base rent obligation for the eleven-month extension is approximately $95 thousand.

On November 22, 2022, Astrotech entered into a sublease agreement for an additional facility directly adjacent to the R&D facility (the "subleased facility"). The subleased facility consists of approximately 3,900 square feet and will provide the space needed as the Company launches its AgLAB products and continues its R&D efforts at ATI and BreathTech. The sublease commenced on December 1, 2022, and has a lease term of 29 months. The Company's total contractual base rent obligation for the subleased facility is approximately $156 thousand.

Operating lease assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent its obligation to make lease payments arising from the lease. Operating lease assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate in determining the present value of lease payments. Significant judgment is required when determining the Company's incremental borrowing rate. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The amortization expense for financed lease assets for the years ended June 30, 2023 and 2022 totaled $101 thousand and $61 thousand, respectively.

Upon the adoption of Topic 842, the Company's accounting for financing leases, previously referred to as capital leases, remains substantially unchanged from prior guidance.

The balance sheet presentation of the Company's operating and finance leases is as follows:

(In thousands)	**Classification on the Consolidated Balance Sheet**	**June 30, 2023**	**June 30, 2022**
Assets:			
Operating lease assets	Operating lease right-of-use assets, net	262	162
Financing lease assets	Property and equipment, net	484	466
Total lease assets		$ **746**	$ **628**
Liabilities:			
Current:			
Operating lease obligations	Lease liabilities, current	148	95
Financing lease obligations	Lease liabilities, current	168	139
Non-current:			
Operating lease obligations	Lease liabilities, non-current	130	90
Financing lease obligations	Lease liabilities, non-current	161	213
Total lease liabilities		$ **607**	$ **537**

Future minimum lease payments as of June 30, 2023 under non-cancelable leases are as follows (in thousands):

For the Year Ended June 30,	Operating Leases	Financing Leases	Total
2024	$ 153	$ 181	$ 334
2025	142	94	236
2026	—	27	27
2027	—	27	27
2028	—	24	24
Thereafter	—	—	—
Total lease obligations	**295**	**353**	**648**
Imputed interest	(17)	(24)	(41)
Present value of net minimum lease obligations	**278**	**329**	**607**
Lease liabilities - current	(148)	(168)	(316)
Lease liabilities - non-current	$ **130**	$ **161**	$ **291**

Other information as of June 30, 2023 is as follows:

Weighted-average remaining lease term (years):	
Operating leases	1.8
Financing leases	2.2
Weighted-average discount rate:	
Operating leases	6.3%
Financing leases	5.2%

Cash payments for operating leases for the years ended June 30, 2023 and 2022 totaled $130 thousand and $86 thousand, respectively. Cash payments for financing leases for the years ended June 30, 2023 and 2022 totaled $157 thousand and $95 thousand, respectively.

(5) Property and Equipment, net

As of June 30, 2023 and 2022, property and equipment, net consisted of the following:

	June 30,	
(In thousands)	**2023**	**2022**
Furniture, fixtures, equipment & leasehold improvements	$ 2,805	$ 1,371
Software	217	264
Capital improvements in progress	649	242
Gross property and equipment	**3,671**	**1,877**
Accumulated depreciation	(1,001)	(779)
Property and equipment, net	$ **2,670**	$ **1,098**

Depreciation and amortization expense of property and equipment was $366 thousand for the year ended June 30, 2023 and $148 thousand for the year ended June 30, 2022. Total depreciation and amortization expense includes finance lease right-of-use asset amortization of $101 thousand and $61 thousand for the years ended June 30, 2023 and 2022, respectively.

(6) Fair Value Measurement

ASC Topic 820 "Fair Value Measurement" ("Topic 820") defines fair value, establishes a market-based framework or hierarchy for measuring fair value, and expands disclosures about fair value measurements. Topic 820 is applicable whenever assets and liabilities are measured and included in the financial statements at fair value. The fair value hierarchy established in the standard prioritizes the inputs used in valuation techniques into three levels as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities.

The following tables present the carrying amounts, estimated fair values, and valuation input levels of certain financial instruments as of June 30, 2023, and June 30, 2022:

	June 30, 2023				
	Carrying	Fair Value Measured Using			Fair
(In thousands)	**Amount**	**Level 1**	**Level 2**	**Level 3**	**Value**
Available-for-Sale Securities					
Short-Term Investments					
Mutual Funds - Corporate & Government Debt	$ 18,965	$ 18,965	$ —	$ —	$ 18,965
ETFs - Corporate & Government Debt	6,958	6,958	—	—	6,958
Time Deposits: 91-360 days	1,996	—	1,996		1,996
Total Available-for-Sale Investments	**$ 27,919**	**$ 25,923**	**$ 1,996**	$ —	**$ 27,919**

	June 30, 2022				
	Carrying	Fair Value Measured Using			Fair
(In thousands)	**Amount**	**Level 1**	**Level 2**	**Level 3**	**Value**
Available-for-Sale Securities					
Short-Term Investments					
Mutual Funds - Corporate & Government Debt	$ 19,191	$ 19,191	$ —	$ —	$ 19,191
ETFs - Corporate & Government Debt	6,982	6,982	—	—	6,982
Total Available-for-Sale Investments	**$ 26,173**	**$ 26,173**	$ —	$ —	**$ 26,173**

The value of available-for-sale investments is based on pricing from third-party pricing vendors, who may use quoted prices in active markets for identical assets (Level 1 inputs).

(7) Related-party Debt

On September 5, 2019, the Company entered into a private placement transaction with Thomas B. Pickens III, the Chief Executive Officer and Chairman of the Board of Directors of the Company, for the issuance and sale of a secured promissory note to Mr. Pickens with a principal amount of $1.5 million (the "2019 Note"), and on February 13, 2020, the Company entered into a second private placement transaction with Mr. Pickens for the issuance and sale of a second secured promissory note to Mr. Pickens with a principal amount of $1.0 million (the "2020 Note" and, collectively with the 2019 Note, the "Original Notes"). Interest on the Original Notes accrued at 11% per annum. The principal amount and accrued interest on the Original Notes originally were to become due and payable on September 5, 2020; however, on August 24, 2020, the Company and Mr. Pickens agreed to extend the date of maturity of the Original Notes and payment of accrued interest to September 5, 2021 (the "Extended Maturity Date"). The Company had the option to prepay the principal amount and all accrued interest on the Original Notes at any time prior to the Extended Maturity Date.

In connection with the issuance of the Original Notes, the Company, along with 1st Detect Corporation and Astrotech Technologies, Inc. (the "Subsidiaries"), entered into two security agreements, dated as of September 5, 2019 and February 13, 2020 (collectively, the "Original Security Agreements"), with Mr. Pickens, pursuant to which the Company and the Subsidiaries granted to Mr. Pickens a security interest in all of the Company's and the Subsidiaries' Collateral, as such term is defined in the Original Security Agreements. In addition, the Subsidiaries jointly and severally agreed to guarantee and act as surety for the Company's obligation to repay the Original Notes pursuant to a subsidiary guarantee.

On September 3, 2021, the Company entered into (1) the Omnibus Amendment to the Secured Promissory Notes (the "Amended Notes") with Mr. Pickens, in connection with the Original Notes, and (2) the Omnibus Amendment to the Security Agreements (the "Amended Security Agreements", and together with the Amended Notes, the "Amendments") with the Subsidiaries, in connection with the Original Security Agreements. Pursuant to the Amendments, (a) the principal amount of $1.0 million and accrued interest of $172 thousand on the 2020 Note was paid in full and the 2020 Note was canceled, and (b) $1.0 million of the principal amount and $330 thousand of accrued interest on the 2019 Note was paid and the maturity date on the remaining balance of $500 thousand of the 2019 Note was extended to September 5, 2022 (the "Amended Maturity Date").

In addition, the Subsidiaries jointly and severally agreed to guarantee and act as surety for the Company's obligation to repay the remaining balance on the 2019 Note pursuant to subsidiary guarantees, dated September 5, 2019 and February 13, 2020, as amended by the Omnibus Amendments to Subsidiary Guarantees, dated August 24, 2020 and September 3, 2021, respectively (the Omnibus Amendment to Subsidiary Guarantees dated September 3, 2021, the "Amended Subsidiary Guarantee"). The Subsidiary Guarantee with respect to the 2020 Note was also canceled by the Amended Subsidiary Guarantee due to the 2020 Note being repaid in full.

On September 5, 2022, the 2019 Note matured and the principal amount of $500 thousand and accrued interest of $55 thousand was paid in full and the 2019 Note was canceled. With the cancelation of the 2019 Note, the Amended Subsidiary Guarantee was terminated and the Subsidiaries' Collateral was released.

(8) Stockholders' Equity

Common Stock

On November 22, 2022, the Company filed a third amendment (the "Amendment") to the Company's Certificate of Incorporation (as amended, the "Certificate of Incorporation") with the Secretary of State of the State of Delaware to effect a 1-for-30 reverse stock split of all of the Company's issued and outstanding shares of Common Stock. The Amendment provided that, at the effective time of the Reverse Stock Split, every 30 shares of the Company's issued and outstanding Common Stock were automatically combined into one validly issued, fully paid and non-assessable share of Common Stock, without effecting a change to the par value per share. The Reverse Stock Split affected all shares of the Company's Common Stock outstanding immediately prior to the effective time of the Reverse Stock Split, as well as the number of shares of Common Stock available for issuance under the Company's equity incentive plans. In addition, the Reverse Stock Split effected a reduction in the number of shares of Common Stock issuable upon the exercise of stock options and warrants outstanding immediately prior to the effectiveness of the Reverse Stock Split with a corresponding increase in exercise price per share. The Reverse Stock Split also triggered a proportionate adjustment to the number of shares of Common Stock issuable upon the conversion of our Series D convertible preferred stock, par value of $0.001 per share ("Series D Preferred Shares"). All historical per share data, number of shares outstanding, and other common stock equivalents for the periods presented in the accompanying consolidated financial statements and notes thereto have been adjusted retroactively, where applicable, to reflect the Reverse Stock Split.

Preferred Stock

The Company has issued 280,898 shares of Series D convertible preferred stock ("Series D Preferred Shares"), all of which were issued and outstanding as of June 30, 2023. Series D Preferred Shares are convertible to common stock on a one-to-one basis. Series D Preferred Shares are not callable by the Company. The holder of the preferred stock is entitled to receive, and we shall pay, dividends on shares equal to and in the same form as dividends actually paid on shares of common stock when, and if, such dividends are paid on shares of common stock. No other dividends are paid on the preferred shares. Preferred shares have no voting rights. Upon liquidation, dissolution, or winding-up of the Company, whether voluntary or involuntary, the preferred shares have preference over common stock. The holder of Series D Preferred Shares has the option to convert said shares to common stock at the holder's discretion.

Share Repurchase Program

On November 9, 2022, the Company's Board of Directors authorized a share repurchase program that allows the Company to repurchase up to $1.0 million of the Company's common stock beginning November 17, 2022, and continuing through and including November 17, 2023. The shares may be repurchased from time to time in the open market or privately negotiated transactions or by other means in accordance with applicable state and federal securities laws. The timing, as well as the number and value of shares repurchased under the program, will be determined by the Company at its discretion and will depend on a variety of factors, including management's assessment of the intrinsic value of the Company's common stock, the market price of the Company's common stock, general market and economic conditions, available liquidity, compliance with the Company's debt and other agreements, applicable legal requirements, and other considerations. The exact number of shares to be repurchased by the Company is not guaranteed, and the program may be suspended, modified, or discontinued at any time without prior notice. The Company expects to fund the repurchases with available working capital.

During the year ended June 30, 2023, 10,316 shares of the Company's common stock were repurchased at an aggregate cost of $118,532.

Rights Plan

On December 21, 2022, the Company's Board of Directors adopted a limited duration stockholder rights plan (the "Rights Plan") expiring December 20, 2023 and declared a dividend of one preferred share purchase right for each outstanding share of common stock to stockholders of record on January 5, 2023 to purchase from the Company one one-thousandth of a share of Series A Junior Participating Preferred Stock, par value $0.001 per share, of the Company for an exercise price of $58.00 once the rights become exercisable, subject to the terms of and adjustment as provided in the related rights agreement.

Warrants

A summary of the common stock warrant activity for the year ended June 30, 2023 is presented below:

	Shares (In thousands)	Weighted Average Exercise Price	Aggregate Fair Market Value at Issuance (In thousands)	Weighted Average Remaining Contractual Life (in years)
Outstanding at June 30, 2021	**80**	$ **72.10**	$ **3,747**	**4.63**
Issued	—	—	—	—
Exercised	—	—	—	—
Canceled or expired	—	—	—	—
Outstanding at June 30, 2022	**80**	$ **72.10**	$ **3,747**	**3.60**
Issued	—	—	—	—
Exercised	—	—	—	—
Canceled or expired	—	—	—	—
Outstanding at June 30, 2023	**80**	$ **72.10**	$ **3,747**	**2.60**

The following represents a summary of the warrants outstanding at each of the dates identified:

				Number of Shares Underlying Warrants (In thousands)	
				For the period ended June 30,	
Issue Date	**Classification**	**Exercise Price**	**Expiration Date**	**2023**	**2022**
March 26, 2020	Equity	$ 187.50	March 25, 2025	1	1
March 30, 2020	Equity	$ 140.63	March 27, 2025	2	2
October 23, 2020	Equity	$ 86.25	October 21, 2025	15	15
October 28, 2020	Equity	$ 80.63	October 28, 2025	6	6
February 16, 2021	Equity	$ 121.88	February 11, 2026	6	6
April 12, 2021	Equity	$ 56.25	April 7, 2026	50	50
Total Outstanding				**80**	**80**

Nasdaq Compliance

On December 5, 2022, the Company effectuated a reverse stock split of its shares of common stock, par value $0.001 per share (the "Common Stock"), whereby every thirty (30) pre-split shares of Common Stock were exchanged for one (1) post-split share of the Company's Common Stock (the "Reverse Stock Split"). No fractional shares were issued in connection with the Reverse Stock Split. Stockholders who would otherwise have held a fractional share of the Common Stock received a cash payment in lieu thereof. Numbers presented in these consolidated financial statements have been adjusted to reflect the Reverse Stock Split.

The Reverse Stock Split was primarily intended to bring the Company into compliance with the minimum bid price requirements for maintaining its listing on The Nasdaq Stock Market LLC ("Nasdaq"). On December 19, 2022, the Company received written notice from the Listing Qualifications Department of Nasdaq stating that, because the Company's Common Stock had a closing bid price at or above $1.00 per share for a minimum of 10 consecutive business days, the Company had regained compliance with the minimum bid price requirement of $1.00 per share for continued listing on The Nasdaq Capital Market, as set forth in Nasdaq Listing Rule 5550(a)(2), and that the matter is now closed.

(9) Business Risk and Credit Risk Concentration Involving Cash

For the fiscal year ended June 30, 2023, the Company had four customers that substantially comprised all of the Company's revenue. All of the Company's revenue for the fiscal year ended June 30, 2022 was also generated by two customers. Additionally, the material amount of the company's receivables was compromised by two companies in both fiscal years.

The Company maintains funds in bank accounts that may exceed the limit insured by the Federal Deposit Insurance Corporation (the "FDIC"). The risk of loss attributable to these uninsured balances is mitigated by depositing funds in what the Company believes to be high credit quality financial institutions. The Company has not experienced any losses in such accounts.

(10) Common Stock Incentive, Stock Purchase Plans, and Other Compensation Plans

Stock Option Activity Summary

The Company's stock option activity for the years ended June 30, 2023 and 2022 was as follows:

	Shares	Weighted Average Exercise Price
Outstanding at June 30, 2021	**9,183**	$ **157.50**
Granted	29,200	19.20
Exercised	—	—
Canceled or expired	(4,099)	148.80
Outstanding at June 30, 2022	**34,284**	$ **40.50**
Granted	6,962	12.47
Exercised	—	—
Canceled or expired	(3,080)	139.29
Outstanding at June 30, 2023	**38,166**	$ **27.34**

The aggregate intrinsic value of options exercisable at June 30, 2023 was $0 as the fair value of the Company's common stock is less than the exercise prices of these options. The aggregate intrinsic value of all options outstanding at June 30, 2023 was $0.

Range of exercise prices	Number Outstanding	Options Outstanding Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price	Number Exercisable	Options Exercisable Weighted-Average Exercise Price
$10.38 – $19.20	35,495	8.89	$ 17.99	9,733	$ 19.20
$55.50 – $84.90	431	5.26	62.22	431	62.22
$159.00 – $175.50	2,240	3.86	168.82	2,240	168.82
$10.38 – $175.50	**38,166**	**8.55**	$ **27.34**	**12,404**	$ **46.77**

Compensation costs recognized related to vested stock option awards during the years ended June 30, 2023 and 2022 were $189 thousand and $37 thousand, respectively. At June 30, 2023, there was $360 thousand of total unrecognized compensation cost related to non-vested stock option awards, which is expected to be recognized over a weighted average period of 1.83 years.

Restricted Stock

The Company's restricted stock activity for the years ended June 30, 2023 and 2022, was as follows:

	Shares	Weighted Average Grant-Date Fair Value
Outstanding at June 30, 2021	**67,423**	$ **61.50**
Granted	40,000	18.90
Vested	(23,090)	62.40
Canceled or expired	(8,461)	60.60
Outstanding at June 30, 2022	**75,873**	$ **39.00**
Granted	2,150	11.83
Vested	(26,742)	46.68
Canceled or expired	(610)	60.60
Outstanding at June 30, 2023	**50,671**	$ **33.43**

Compensation costs recognized related to vested restricted stock awards during the years ended June 30, 2023 and 2022 were $1.3 million and $1.5 million, respectively. At June 30, 2023, there was $1.3 million of unrecognized compensation cost related to restricted stock, which is expected to be recognized over a weighted average period of 1.92 years.

Stock-based Compensation in Operating Expenses

The Company's stock-based compensation by category for the years ended June 30,2023 and 2022 was as follows:

(in thousands)	Year Ended June 30, 2023	Year Ended June 30, 2022
Selling, Administration and General	$ 1,457	$ 1,503
Research & Development	41	32
Total	**$ 1,498**	**$ 1,535**

Fair Value of Stock-Based Compensation

Stock-based compensation costs are generally based on the fair value calculated from the Black-Scholes model on the date of the grant of stock options. The fair values of stock options are amortized as compensation expense on a straight-line basis over the vesting period of the grants. The Company recognizes forfeitures as they occur. The assumptions used for the years ended June 30, 2023 and 2022 and the resulting estimates of weighted-average fair value per share of options granted or modified are summarized in the following table:

	Year Ended June 30, 2023	Year Ended June 30, 2022
Expected Dividend Yield	—	—
Expected Volatility	104.67%	104.97%
Risk-Free Interest Rates	1.59%	0.65%
Expected Option Life (in years)	3.5	3.5
Weighted-average grant-date fair value of options awarded	$ 20.22	$ 25.80

- The expected dividend yield is based on the Company's current dividend yield and the best estimate of projected dividend yield for future periods within the expected life of the option, which is currently 0%.
- The Company estimated volatility using the historical share price performance over the expected life. Management believes the historical estimated volatility is materially indicative of expectations about future volatility.
- The estimate of the risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant.
- For the years ended June 30, 2023 and 2022, the Company used the simplified method of calculating the expected life of the options.

(11) Income Taxes

The Company accounts for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts. Valuation allowances are established, when necessary, to reduce deferred tax assets to amounts that are more likely than not to be realized. As of June 30, 2023 and 2022, the Company had established a full valuation allowance against all of its net deferred tax assets. The Company also has $1 thousand of prepaid income taxes on the balance sheet at June 30, 2023.

For the fiscal years ended June 30, 2023 and 2022, the Company incurred losses from operations in the amount of $9.6 million and $8.3 million, respectively. There is no effective tax rate for the fiscal years 2023 or 2022. There is materially no current state tax expense.

FASB ASC 740, "Income Taxes" addresses the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken or expected to be taken on a tax return. The Company had unrecognized tax benefit of $486 thousand as of June 30, 2023, all of which has been accounted for as contra deferred tax assets.

For the years ended June 30, 2023 and 2022, the Company's effective tax rate differed from the federal statutory rate of 21%, primarily due to prior year deferred true ups and the valuation allowance against its net deferred tax assets.

Income Tax Expense and Effective Tax Rate

The company has no tax benefit, current or deferred, as of the years ended June 30, 2023 and 2022.

A reconciliation of the reported income tax benefit to the amount that would result by applying the U.S. Federal statutory rate to the loss before income taxes to the actual amount of income tax benefit recognized follows:

	Year Ended June 30,	
(In thousands)	**2023**	**2022**
Expected benefit	$ 2,025	$ 1,749
State tax expense	—	—
Tax credits	200	166
Change in valuation allowance	(1,838)	(1,511)
Stock-based compensation	(296)	(306)
Prior year true-up	—	(9)
Expiration of net operating loss carryovers	(88)	(89)
Other permanent items	(3)	—
Total income tax benefit	$ —	$ —

Deferred Tax Assets and Liabilities

The Company's deferred tax assets as of June 30, 2023 and 2022 consist of the following:

	Year Ended June 30,	
(In thousands)	**2023**	**2022**
Deferred tax assets:		
Net operating loss carryforwards	$ 17,920	$ 17,202
Tax credit carryforwards	1,530	1,330
Lease liability - current and non-current	128	113
Unrealized loss on securities	305	—
IRC Section 174 R&D Expense Capitalization	1,061	
Accrued expenses and other timing	143	180
Stock-based compensation	111	579
Property and equipment, principally due to differences in depreciation	—	—
Total gross deferred tax assets	$ **21,198**	$ **19,404**
Less — valuation allowance	(21,064)	(19,348)
Net deferred tax assets	$ **134**	$ **56**
Deferred tax liabilities:		
Right-of-use assets	$ (55)	$ (34)
Property and equipment, principally due to differences in depreciation	(79)	(22)
Total gross deferred tax liabilities	**(134)**	**(56)**
Net deferred tax assets	$ —	$ —

The Company files consolidated returns for federal, California, Florida, and Texas income and franchise taxes. In assessing the need for a valuation allowance, management considers whether it is more likely than not that some portion or all of the net deferred tax assets will be utilized to offset future tax liabilities. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. As of June 30, 2023, the Company provided a full valuation allowance of approximately $21.0 million against its net deferred tax assets.

The valuation allowance increased by approximately $1.7 million for the year ended June 30, 2023, $305 thousand of which relates to unrealized loss on securities charged to other comprehensive income. Since the Company reflects a full valuation allowance against its deferred tax assets, there has been no income tax impact from these changes.

At June 30, 2023, the Company had net operating loss carryforwards of approximately $83.5 million with approximately $37.8 million ($7.9 million, tax effected) for federal income tax purposes that are available to offset future regular taxable income set to expire between the years of 2024 and 2037. The Company also had net operating loss carryforwards with indefinite lives of approximately $45.7 million ($9.6 million, tax effected) for federal income tax purposes that are available to offset future regular taxable income. For net operating losses with indefinite carryforward lives, generated beginning after December 31, 2017, the Tax Cuts and Jobs Act limits the amount of net operating losses to be utilized and deducted by the taxpayer to 80% of the taxpayer's taxable income. Utilization of some of these net operating losses is limited due to the changes in stock ownership of the Company associated with the October 2007 Exchange Offer; as such, the benefit from these losses may not be realized.

The Company has federal research and development income tax credit carryovers of $1.1 million as of June 30, 2023. These credits will expire between the years 2035 and 2043.

At June 30, 2023, the Company also has accumulated state net operating loss carryforwards of approximately $7.4 million ($0.4 million, tax effected) that are available to offset future state taxable income. These net operating loss carryforwards expire between the years 2026 and 2036. These losses may also be subject to utilization limitations; as such, the benefit from these losses may not be realized.

Loss carryovers are generally subject to modification by tax authorities until three years after they have been utilized.

The Company has a temporary credit for business loss carryovers that may be utilized to offset its Texas margin tax. At June 30, 2023, the credit amount is $0.5 million ($0.4 million, tax effected). These credits may be used to offset $13 thousand of state tax liability each year and will expire in 2027.

Uncertain Tax Positions

The Company had unrecognized tax benefits of $486 thousand as of June 30, 2023, all of which have been accounted for as contra deferred tax assets. A rollforward of the beginning and ending amount of unrecognized tax benefits from July 1, 2021 to June 30, 2023 is as follows:

	Year Ended June 30,	
(In thousands)	**2023**	**2022**
Fiscal year beginning balance	$ 400	$ 329
Additions for tax positions of current period	86	71
Additions for tax positions of prior years	—	—
Decreases for tax positions of prior years	—	—
Fiscal year ending balance	$ 486	$ 400

The Company recognizes interest and penalties related to income tax matters in income tax expense, as incurred. For the years ended June 30, 2023 and 2022, the Company did not recognize any interest expense for uncertain tax positions.

(12) Net Loss per Share

Basic loss per share is computed on the basis of the weighted average number of shares of common stock outstanding during the period. Diluted net loss per share is computed on the basis of the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method and the if-converted method. Dilutive potential common shares include outstanding stock options and stock-based awards.

Reconciliation and the components of basic and diluted net loss per share are as follows (in thousands):

	Year Ended June 30,	
	2023	**2022**
Numerator:		
Net loss	$ (9,642)	$ (8,330)
Denominator:		
Denominator for basic and diluted net loss per share — weighted average common stock outstanding	1,620	1,590
Basic and diluted net loss per common share:		
Net loss	$ **(5.95)**	$ **(5.24)**

All unvested restricted stock awards for the years ended June 30, 2023 and 2022 are not included in diluted net loss per share, as the impact to net loss per share is anti-dilutive. Options to purchase 38,166 shares of common stock at exercise prices ranging from $10.38 to $175.50 per share outstanding for the year ended June 30, 2023 and options to purchase 34,284 shares of common stock at exercise prices ranging from $19.20 to $175.50 per share outstanding for the year ended June 30, 2022 were not included in diluted net loss per share, as the impact to net loss per share is anti-dilutive.

(13) Employee Benefit Plans

Astrotech has a defined contribution retirement plan, which covers substantially all employees and officers. Effective July 1, 2019, the Company elected to no longer match employees' contributions to the plan; however, beginning in the third quarter of fiscal year 2021, the Company reinstated the match to employees' contributions to the retirement plan. For the years ended June 30, 2023 and 2022, the Company made matching contributions of $59 thousand and $57 thousand, respectively, to the plan. The Company has the right, but not an obligation, to make additional contributions to the plan in future years at the discretion of the Company's Board of Directors. The Company has not made any additional contributions for the years ended June 30, 2023 and 2022.

(14) Commitments and Contingencies

The Company is subject to various lawsuits and other claims in the normal course of business. In addition, from time to time, the Company receives communications from government or regulatory agencies concerning investigations or allegations of noncompliance with laws or regulations in jurisdictions in which the Company operates.

The Company establishes reserves for the estimated losses on specific contingent liabilities, for regulatory and legal actions where the Company deems a loss to be probable and the amount of the loss can be reasonably estimated. In other instances, the Company is not able to make a reasonable estimate of liability because of the uncertainties related to the outcome or the amount or range of potential loss.

Employment Contracts

The Company has entered into an employment contract with a key executive. Generally, certain amounts may become payable in the event the Company terminates the executive's employment.

Legal Proceedings

On April 15, 2021, a putative stockholder of the Company commenced a class action and derivative lawsuit in the Delaware Court of Chancery, Stein v. Pickens, et al., C.A. No. 2021-0322-JRS (the "Stein Action"), in which it was alleged, among other things, that the Company improperly included broker non-votes in the tabulation of votes counted in favor to approve an amendment to the Company's Certificate of Incorporation (the "2020 Certificate Amendment") and, thus the 2020 Certificate Amendment was defective. The Company investigated those allegations and does not believe that the filing and effectiveness of the 2020 Certificate Amendment was either invalid or ineffective. Nevertheless, to resolve any uncertainty, on April 30, 2021, the Company filed a validation proceeding in the Delaware Court of Chancery, In re Astrotech Corporation, C.A. No. 2021-0380-JRS, pursuant to Section 205 of the Delaware General Corporation Law. On October 6, 2021, the Delaware Court of Chancery granted the Company's request and confirmed and validated the 2020 Certificate Amendment. Thereafter, a settlement in principle was reached with the Plaintiffs in the Stein Action and the parties to the Stein Action presented the settlement to the Court for approval. On February 13, 2023, the Court approved the settlement, awarded the Plaintiff's attorneys' fees and expenses of $290,000 paid prior to the end of fiscal year 2023, and entered a final order and judgment dismissing the Delaware Action with prejudice. The parties to the settlement recognize that entry into the settlement does not constitute an admission of liability, wrongdoing, or any matter of fact or law.

Further information regarding the Stein Action and the Section 205 Action is provided in the Schedule 14A proxy statement amendment and supplement filed by the Company with the Securities and Exchange Commission on April 29, 2021.

(15) Impact of COVID-19 Pandemic

The Company has taken what it believes are necessary precautions to safeguard its employees from the COVID-19 pandemic. The Company continues to follow the Centers for Disease Control and Prevention's ("CDC") guidance and the recommendations and restrictions provided by state and local authorities. All of the Company's employees who do not work in a lab setting are currently on a telecommunication work arrangement and have been able to successfully work remotely. The Company's lab requires in-person staffing, and the Company has been able to continue to operate its lab. There can be no assurance, however, that key employees will not become ill or that the Company will be able to continue to operate its labs.

To date, the Company has seen delays with respect to the TSA certification process and parts of its supply chain, particularly the impact of the global semiconductor and electronics shortage, which has now resulted in product pricing inflation. In addition, although passenger demand for air travel has rebounded, the overall recovery of the airline industry and ancillary services remains highly uncertain and is dependent upon, among other things, the number of cases declining around the globe, public health impacts of new COVID-19 variants, the continued administration of vaccines to unvaccinated populations, and the duration of immunity granted by vaccines.

The Company continues to manage production, to secure alternative supplies, and to take other proactive actions. The Company believes that it will be able to pass the inflation caused by raw materials shortages and increased shipping costs to its customers by increasing the price of its instruments. If supply chain shortages become more severe or longer term in nature, the Company's business and results of operations could be adversely impacted; however, the Company does not expect this issue to materially adversely affect its liquidity position. The long-term impact of the COVID-19 pandemic on the Company's business may not be fully reflected until future periods.

CARES Act

On March 27, 2020, the CARES Act was enacted. The CARES Act, among other things, includes provisions relating to refundable payroll taxes, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, and technical corrections to tax depreciation methods for qualified improvement property. The most significant relief measures which the Company qualified for are a loan pursuant to the Paycheck Protection Program for which the Company has received full forgiveness, alternative minimum tax credit refunds, employee retention credit, and payroll tax deferral. The payroll tax deferral was effective from the enactment date through December 31, 2020, and the deferred amount will be repaid in two installments. 50% of the deferred amount has been paid as of December 31, 2021, and the remainder was paid before December 31, 2022. The deferred payroll taxes are recorded within accrued liabilities on the consolidated balance sheets.

The Company will continue to assess the treatment of the CARES Act to the extent additional guidance and regulations are issued, the further applicability of the CARES Act to the Company, and the potential impacts on the business.

(16) Subsequent Events

Management has reviewed subsequent events through September 26, 2023.

On July 31, 2023, the Company Board of Directors approved and adopted amendments to the Bylaws of the Company related to the new universal proxy rules under Rule 14a-19 of the Securities Exchange Act of 1934, among other things.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed by us in the reports we file or submit under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management was required to apply its judgment in evaluating and implementing possible controls and procedures. Management, including our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Annual Report on Form 10-K. Based on this evaluation, our principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures were effective as of June 30, 2022 at the reasonable assurance level.

Management's Annual Report on Internal Controls over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal controls over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our principal executive and financial officers, we conducted an evaluation of the effectiveness of our internal controls over financial reporting as of June 30, 2023, based on the frame-work in the *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO Framework"). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our evaluation under the COSO Framework, our management concluded that our internal controls over financial reporting were effective as of June 30, 2023.

This annual report does not include an attestation report of our registered public accounting firm regarding internal controls over financial reporting. Management's report was not subject to attestation by our registered accounting firm pursuant to §989G of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which exempts the Company from the requirement that it include an attestation report of the Company's registered public accounting firm regarding internal controls over our management's assessment of internal controls over financial reporting.

Changes in Internal Controls over Financial Reporting

There have been no changes in our internal controls over financial reporting that occurred during the fiscal quarter ended June 30, 2023 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Item 9B. Other Information

None.

PART III

As set forth below, the information required by Part III (Items 10, 11, 12, 13, and 14) is incorporated herein by reference to the Company's definitive proxy statement to be used in connection with its 2023 Annual Meeting of Stockholders and which will be filed with the SEC not later than 120 days after the end of the Company's fiscal year ended June 30, 2023 (the "2023 Proxy Statement"), in accordance with General Instructions G(3) of Form 10-K.

Item 10. Directors, Executive Officers, and Corporate Governance

The information required by Item 10 will be contained in, and is hereby incorporated by reference to, the 2023 Proxy Statement.

Item 11. Executive Compensation

The information required by Item 11 will be contained in, and is hereby incorporated by reference to, the 2023 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by Item 12 will be contained in, and is hereby incorporated by reference to, the 2023 Proxy Statement.

Item 13. Certain Relationships and Related Transactions and Director Independence

The information required by Item 13 will be contained in, and is hereby incorporated by reference to, the 2023 Proxy Statement.

Item 14. Principal Accounting Fees and Services

The information required by Item 14 will be contained in, and is hereby incorporated by reference to, the 2023 Proxy Statement.

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PART IV

Item 15. Exhibits, Financial Statement Schedules

The following documents are filed as part of the report:

Financial Statements.

The following consolidated financial statements of Astrotech Corporation and its wholly-owned subsidiaries and related notes, are set forth herein as indicated below.

Exhibits

Exhibit No.	Description of Exhibit
3.1	Certificate of Incorporation, as filed with the Secretary of State of the State of Delaware (incorporated by reference to Exhibit 3.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on December 28, 2017).
3.2	Certificate of Amendment to the Certificate of Incorporation of Astrotech Corporation (incorporated by reference to Exhibit 3.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on July 1, 2020).
3.3	Certificate of Amendment to the Certificate of Incorporation of Astrotech Corporation (incorporated by reference to Exhibit 3.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on October 12, 2021).
3.4	Third Certificate of Amendment to the Certificate of Incorporation of Astrotech Corporation (incorporated by reference to Exhibit 3.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on November 23, 2022)
3.5	Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit 3.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on August 1, 2023)
3.6	Certificate of Designations of Series A Junior Participating Preferred Stock, as filed with the Secretary of State of the State of Delaware (incorporated by reference to Exhibit 3.3 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on December 28, 2017).
3.7	Certificate of Designations of Preferences, Rights and Limitations of Series D Convertible Preferred Stock, as filed with the Delaware Secretary of State on April 17, 2019 (incorporated by reference to Exhibit 3.2 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on April 23, 2019).
4.1 *	Description of Securities.
4.2	Form of Placement Agent's Warrant, issued on March 27, 2020 (incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on March 26, 2020).
4.3	Promissory Note due September 5, 2020. (incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on February 18, 2020).

4.4	Form of Placement Agent's Warrant, issued on March 30, 2020 (incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on March 30, 2020).
4.5	Omnibus Amendment to Promissory Notes, dated August 24, 2020, (incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on August 26, 2020).
4.6	Form of Placement Agent's Warrant, issued on October 23, 2020 (incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on October 23, 2020)
4.7	Form of Placement Agent's Warrant, issued on October 30, 2020 (incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on October 30, 2020)
4.8	Form of Placement Agent's Warrant, dated February 16, 2021 (incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on February 16, 2021)
4.9	Astrotech Corporation 2021 Omnibus Equity Incentive Plan (incorporated by reference to Appendix A to the Company's Proxy Statement on Schedule 14A filed on April 5, 2021).
4.10	Form of Underwriter Warrant, dated April 12, 2021 (incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on April 12, 2021)
4.11	Omnibus Amendment to Secured Promissory Notes, dated September 3, 2021, by and between the Company and Thomas B. Pickens III (incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on September 8, 2021)
4.12	Rights Agreement between the Company and American Stock Transfer & Trust Company, LLC, as Rights Agent, dated as of December 21, 2022 (incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on December 21, 2022).
10.1	Security Agreement, dated September 5, 2019, by and among the Company, certain of the Company's subsidiaries and Thomas B. Pickens III (incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on September 11, 2019).
10.2	Subsidiary Guarantee, dated September 5, 2019, made by certain of the Company's subsidiaries in favor of Thomas B. Pickens III (incorporated by reference to Exhibit 10.2 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on September 11, 2019).
10.3	Security Agreement, dated February 13, 2020, by and among the Company, certain of the Company's subsidiaries and Thomas B. Pickens III (incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on February 18, 2020).
10.4	Subsidiary Guarantee, dated February 13, 2020, made by certain of the Company's subsidiaries in favor of Thomas B. Pickens III (incorporated by reference to Exhibit 10.2 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on February 18, 2020).
10.5	Acknowledgment, Consent and Affirmation of Guarantors, dated August 24, 2020 (incorporated by reference to Exhibit 10.2 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on August 26, 2020)
10.6	Omnibus Amendment to Security Agreements, dated August 24, 2020, by and among the Company, certain of the Company's subsidiaries and Thomas B. Pickens III (incorporated by reference to Exhibit 10.3 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on August 26, 2020)
10.7	Omnibus Amendment to Subsidiary Guarantees, dated August 24, 2020, made by certain of the Company's subsidiaries in favor of Thomas B. Pickens III (incorporated by reference to Exhibit 10.4 of Registrant's Form 8-K filed with the Securities and Exchange Commission on August 26, 2020)
10.8	Joint Development and Option Agreement, dated October 20, 2020 (incorporated by reference to Exhibit 99.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on October 20, 2020)

10.9	Cash Reserve Agreement, dated October 19, 2020 (incorporated by reference to Exhibit 99.3 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on October 20, 2020)

10.10	Letter of Agreement, dated March 24, 2021 (incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on March 30, 2021)
10.11	Investigator-Initiated Study Agreement, dated March 31, 2021 (incorporated by reference to Exhibit 99.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on April 6, 2021)
10.12	Acknowledgement, Consent and Affirmation of Guarantors, dated September 3, 2021 (incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on September 8, 2021)
10.13	Omnibus Amendment to Security Agreements, dated September 3, 2021, by and among the Company, certain of the Company's subsidiaries and Thomas B. Pickens III (incorporated by reference to Exhibit 10.2 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on September 8, 2021)
10.14	Omnibus Amendment to Subsidiary Guarantees, dated September 3, 2021, made by certain of the Company's subsidiaries in favor of Thomas B. Pickens III (incorporated by reference to Exhibit 10.3 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on September 8, 2021)
10.15	Amendment to Joint Development and Option Agreement, dated June 8, 2022 (incorporated by reference to Exhibit 99.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on June 23, 2022).
10.16 †	Employment Agreement, effective October 6, 2008 between SPACEHAB, Incorporated and Thomas B. Pickens, III (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report Form 8-K filed with the Securities and Exchange Commission on November 21, 2008).
10.17 †	Form of Indemnification Agreement of Astrotech Corporation (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on February 17, 2015).
16.1	Letter dated August 7, 2023 from Armanino LLP to the Securities and Exchange Commission (incorporated by reference to Exhibit 16.1 to the Registrant's Form 8-K filed with the Securities and Exchange Commission on August 7, 2023).
21.1 *	Astrotech Corporation and Subsidiaries — Subsidiaries of the Registrant
23.1 *	Consent of Armanino LLP
31.1 *	Certification of Thomas B. Pickens III, the Company's Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
31.2 *	Certification of Jaime Hinojosa, the Company's Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
32.1 *	Certification of Thomas B. Pickens III, the Company's Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.
32.2 *	Certification of Jaime Hinojosa, the Company's Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Schema Document
101.CAL	Inline XBRL Calculation Linkbase Document
101.DEF	Inline XBRL Definition Linkbase Document
101.LAB	Inline XBRL Labels Linkbase Document
101.PRE	Inline XBRL Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL and contained in Exhibit 101)

† Management contract or compensatory plan arrangement.
* Filed herewith.

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Astrotech Corporation

By: /s/ Thomas B. Pickens III
Thomas B. Pickens III
Chief Executive Officer, Chief Technology Officer and Chairman of the Board

Date September 28, 2023

By: /s/ Jaime Hinojosa
Jaime Hinojosa
Chief Financial Officer, Treasurer and Secretary
(Principal Financial and Accounting Officer)

Date: September 28, 2023

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of this registrant in the capacities and on the dates indicated.

/s/ Thomas B. Pickens III Thomas B. Pickens III	Chief Executive Officer, Chief Technology Officer, and Chairman of the Board	September 28, 2023
/s/ Daniel T. Russler, Jr. Daniel T. Russler, Jr.	Director	September 28, 2023
/s/ Tom Wilkinson Tom Wilkinson	Director	September 28, 2023
/s/ Jim Becker Jim Becker	Director	September 28, 2023
/s/ Bob McFarland Bob McFarland	Director	September 28, 2023
/s/ Jaime Hinojosa Jaime Hinojosa	Chief Financial Officer, Treasurer and Secretary (Principal Financial and Accounting Officer)	September 28, 2023