UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2020

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 Incorporation or Organization	I.R.S. Employer Identification No.
2028 E. Ben White Blvd., Suite 240-9530, Austin, Texas	**78741**
Address of Principal Executive Offices	Zip Code

(512) 485-9530
Registrant's Telephone Number, Including Area Code
Not Applicable
Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report

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 par value per share	ASTC	NASDAQ Stock Market, LLC

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 is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☑

As of November 9, 2020, the number of shares of the registrant's common stock outstanding was: 18,557,754.

ASTROTECH CORPORATION AND SUBSIDIARIES
QUARTERLY REPORT ON FORM 10-Q
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PART I: FINANCIAL INFORMATION

ITEM 1. Condensed Consolidated Financial Statements

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

	September 30, 2020 (Unaudited)	June 30, 2020 (Note)
Assets		
Current assets		
Cash and cash equivalents	$ 1,853	$ 3,349
Accounts receivable	52	101
Inventory:		
Raw materials	114	416
Work-in-process	337	38
Finished goods	161	222
Income tax receivable	—	429
Prepaid expenses and other current assets	283	117
Total current assets	**2,800**	**4,672**
Property and equipment, net	100	99
Assets held for disposal	—	237
Operating leases, right-of-use assets, net	287	851
Other assets	—	71
Total assets	**$ 3,187**	**$ 5,930**
Liabilities and stockholders' equity (deficit)		
Current liabilities		
Accounts payable	75	239
Payroll related accruals	473	433
Accrued expenses and other liabilities	676	627
Income tax payable	2	2
Term note payable - related party	2,500	2,500
Term note payable	330	210
Lease liabilities	198	339
Total current liabilities	**4,254**	**4,350**
Term note payable, net of current portion	211	332
Lease liabilities, net of current portion	166	623
Other liabilities	—	—
Total liabilities	**4,631**	**5,305**
Commitments and contingencies (Note 13)		
Stockholders' equity (deficit)		
Convertible preferred stock, $0.001 par value, 2,500,000 shares authorized; 280,898 shares of Series D issued and outstanding at September 30, 2020 and June 30, 2020	—	—
Common stock, $0.001 par value, 50,000,000 shares authorized; 8,243,686 and 8,250,286 shares issued at September 30, 2020 and June 30, 2020, respectively; 7,843,770 and 7,850,362 shares outstanding at September 30, 2020 and June 30, 2020, respectively	190,599	190,599
Treasury stock, 399,916 shares at cost at September 30, 2020 and June 30, 2020	(4,129)	(4,129)
Additional paid-in capital	13,976	13,934
Accumulated deficit	(201,890)	(199,779)
Total stockholders' equity (deficit)	**(1,444)**	**625**
Total liabilities and stockholders' equity (deficit)	**$ 3,187**	**$ 5,930**

Note: The balance sheet at June 30, 2020, has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by the United States generally accepted accounting principles for complete financial statements.

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See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended September 30,	
	2020	**2019**
Revenue	$ 140	$ 1
Cost of revenue	113	—
Gross profit	**27**	**1**
Operating expenses:		
Selling, general and administrative	926	1,202
Research and development	609	855
Disposal of corporate lease	544	—
Total operating expenses	2,079	2,057
Loss from operations	**(2,052)**	**(2,056)**
Interest and other expense, net	(59)	(12)
Loss from operations before income taxes	**(2,111)**	**(2,068)**
Income tax benefit	—	—
Net loss	**$ (2,111)**	**$ (2,068)**
Weighted average common shares outstanding:		
Basic and diluted	7,719	5,591
Basic and diluted net loss per common share:		
Net loss	$ (0.27)	$ (0.37)
Total comprehensive loss	**$ (2,111)**	**$ (2,068)**

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Preferred Stock									
	Class C		Class D		Common Stock					
	Number of Shares Outstanding	Amount	Number of Shares Outstanding	Amount	Number of Shares Outstanding	Amount	Treasury Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
Balance at June 30, 2020	**—**	**$ —**	**281**	**$ —**	**7,850**	**$ 190,599**	**$ (4,129)**	**$ 13,934**	**$ (199,779)**	**$ 625**
Stock offering costs	—	—	—	—	—	—	—	(2)	—	(2)
Stock-based compensation	—	—	—	—	—	—	—	49	—	49
Restricted stock cancellation	—	—	—	—	(6)	—	—	(5)	—	(5)
Net loss	—	—	—	—	—	—	—	—	(2,111)	(2,111)
Balance at September 30, 2020	**—**	**$ —**	**281**	**$ —**	**7,844**	**$ 190,599**	**$ (4,129)**	**$ 13,976**	**$ (201,890)**	**$ (1,444)**

	Preferred Stock									
	Class C		Class D		Common Stock					
	Number of Shares Outstanding	Amount	Number of Shares Outstanding	Amount	Number of Shares Outstanding	Amount	Treasury Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
Balance at June 30, 2019	**281**	**$ —**	**281**	**$ —**	**5,775**	**$ 190,571**	**$ (4,129)**	**$ 7,964**	**$ (191,698)**	**$ 2,708**
Adjustment to opening retained earnings related to adoption of ASC Topic 842	—	—	—	—	—	—	—	—	230	230
Issuance of shares, net of offering issuance costs of $7	—	—		—	146	—	—	321	—	321
Stock-based compensation	—	—	—	—	—	—	—	78	—	78
Restricted stock issuance	—	—	—	—	5	26	—	—	—	26
Net loss	—	—	—	—	—	—	—	—	(2,068)	(2,068)
Balance at September 30, 2019	**281**	**$ —**	**281**	**$ —**	**5,926**	**$ 190,597**	**$ (4,129)**	**$ 8,363**	**$ (193,536)**	**$ 1,295**

See accompanying notes to unaudited condensed consolidated financial statements.

ASTROTECH CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Three Months Ended September 30,	
	2020	**2019**
Cash flows from operating activities:		
Net loss	$ (2,111)	$ (2,068)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation, net of forfeitures	44	104
Depreciation and amortization	81	141
Loss on disposal of assets	194	—
Changes in assets and liabilities:		
Accounts receivable	49	—
Income tax receivable	429	—
Inventory	64	1
Accounts payable	(164)	(61)
Other assets and liabilities	(66)	53
Net cash used in operating activities	**(1,480)**	**(1,830)**
Cash flows from investing activities:		
Purchases of property and equipment	(16)	—
Net cash used in investing activities	**(16)**	—
Cash flows from financing activities:		
Proceeds from term note payable - related party	—	1,500
Proceeds from issuance of stock, net of offering issuance costs	—	321
Net cash provided by financing activities	—	**1,821**
Net change in cash and cash equivalents	**(1,496)**	**(9)**
Cash and cash equivalents at beginning of period	3,349	1,588
Cash and cash equivalents at end of period	**$ 1,853**	**$ 1,579**
Supplemental disclosures of cash flow information:		
Cash paid for interest	**$ —**	**$ —**
Income taxes paid	**$ —**	**$ —**
Impact to retained earnings from adoption of ASC Topic 842	**$ —**	**$ 230**
Operating right-of-use assets and associated liabilities	**$ —**	**$ 1,608**

See accompanying notes to unaudited condensed consolidated financial statements.

ASTROTECH CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

(1) General Information

Description of the Company – Astrotech Corporation (Nasdaq: ASTC) ("Astrotech," "the Company," "we," "us," or "our"), a Delaware corporation organized in 1984, is a science and technology development and commercialization company that launches, manages, and builds scalable companies based on innovative technology in order to maximize shareholder value.

Basis of Presentation – The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles ("GAAP") for interim financial information and the rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the three months ended September 30, 2020 are not necessarily indicative of the results that may be expected for the year ending June 30, 2021. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended June 30, 2020.

Our Business Units

Astrotech Technology, Inc.

Astrotech Technology, 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 intellectual property includes 37 patents granted with three additional patents in process 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, 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.

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 facilities, 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 believes that IMS-based ETDs are fraught with false positives, as they often misidentify personal care products and other common household chemicals as explosives, causing 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 several 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 does not degrade the TRACER 1000's detection capabilities, as it has a virtually unlimited and expandable threat library.

In order to sell the TRACER 1000 to airport and cargo security customers in the European Union, ECAC certification is required. Certain other countries also accept ECAC certification. After receiving ECAC certification for the TRACER 1000 on February 21, 2019, the Company is now marketing to and taking orders from airports and cargo facilities outside of the U.S. that accept ECAC certification.

On June 26, 2019, the Company announced the official launch of the TRACER 1000, and on November 22, 2019, also announced the first commercial sale of TRACER 1000 units to a global shipping and logistics company.

In the United States, the Company is working with the 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 was beginning testing with 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 ("ITF") 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 non-detection testing resumed this summer, and the Company subsequently announced on September 9, 2020 that the TRACER 1000 passed the TSA's ACSQT non-detection testing. TSA cargo detection testing is expected to resume this fall. Given the deterioration in air traffic caused by the pandemic, TSA certification testing for passenger checkpoint security has been put on indefinite hold.

Finally, on October 28, 2020, the Company announced that it had surpassed $1.0 million in purchase orders for the TRACER 1000 and an additional $1.0 million in future service and support commitments, also announcing DHL (Deutsche Post AG) as its largest flagship customer.

AgLAB Inc.

AgLAB is a licensee of ATI and has developed the AgLAB-1000™ series of mass spectrometers for use in the agriculture industry for both process control and the detection of trace amounts of solvents and pesticides. The AgLAB product line is a derivative of the Company's core AMS Technology.

BreathTech Corporation

BreathTech 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 an infection, including COVID-19 or pneumonia.

Development of the BreathTest-1000 follows the Company's results in pre-clinical trials for the BreathDetect-1000™, a rapid self-serve breathalyzer that is designed to detect bacterial infections in the respiratory tract, including pneumonia. The pre-clinical trials were conducted in collaboration with UT Health San Antonio in 2017.

On October 20, 2020, the Company announced a joint development agreement with the Cleveland Clinic Foundation to explore leveraging the BreathTest-1000 to rapidly screen for COVID-19 or related indicators. The goal of the agreement is to develop a non-invasive device that will use breath samples to identify COVID-19 strains, with the potential to provide a low-cost, self-service screening option that could be deployed on a large-scale.

(2) Going Concern

The Company's annual report on Form 10-K for the fiscal year ended June 30, 2020 indicated substantial doubt as to its ability to continue as a going concern. On October 23, 2020, the Company completed a public offering of its common stock, raising gross proceeds of $18.0 million, and on October 30, 2020, the Company also completed a registered direct offering of its common stock, raising gross proceeds of $6.2 million (see Note 15 for more information). The Company believes that this solves its liquidity issue, and the Company no longer has substantial doubt about its ability to continue as a going concern.

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, minimizing infection risk to lab staff through a combination of social distancing and appropriate protective equipment. 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.

The continuing impact that the COVID-19 pandemic will have on the Company's operations, including duration, severity, and scope, remains highly uncertain and cannot be fully predicted at this time. Accordingly, the Company believes that the COVID-19 pandemic could continue to adversely impact its results of operations, cash flows, and financial condition in the future.

As the Company's business operations continue to be impacted by the pandemic, the Company continues to monitor the situation and the guidance that is being provided by relevant federal, state, and local public health authorities. The Company may take additional actions based upon their recommendations. However, it is possible that the Company may have to make further adjustments to its operating plans in reaction to developments that are beyond its control.

(3) Leases

As of July 1, 2019, the Company adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2016-02 Leases: Topic 842 ("Topic 842"), using the modified retrospective method of adoption. Astrotech elected to use the transition option that allowed the Company to initially apply the new lease standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the year of adoption. The adoption of Topic 842 resulted in an adjustment to accumulated deficit of $230 thousand at the beginning of fiscal year 2020.

The Company had two existing facility leases and several small equipment leases. Astrotech leased office space consisting of 5,219 square feet in Austin, Texas that housed executive management, finance and accounting, sales, and marketing and communications. The lease began in November 2016 and originally expired in December 2023. On August 3, 2020, the Company decided to terminate the lease. Upon lease termination, the Company recognized a decrease in the related operating right-of-use ("ROU") asset and operating lease liability of approximately $506 thousand and $540 thousand, respectively.

In May 2013, 1st Detect completed build-out of a 16,540 square foot leased research and development and production facility in Webster, Texas. This facility is equipped with state-of-the-art laboratories, a clean room, a production shop, and offices for staff. The term of the lease is 62 months and includes options to extend for two additional five-year periods. In February 2015, 1st Detect exercised its right of first refusal on the adjoining space of 9,138 square feet. The original lease began in May 2013 and was to expire in June 2018; these dates were amended in October 2014 with the amended lease beginning February 1, 2015, and expiring April 30, 2020, with provisions to renew and extend the lease for the entire premises, but not less than the entire

premises, for two renewal terms of five years each. On June 1, 2018, the Company entered into its third amendment of the original lease removing 8,118 square feet from its leased space, leaving leased premises with a total square footage of 17,560. On January 21, 2020, the Company entered into its fourth amendment of the original lease, with the amended lease beginning May 1, 2020 and expiring April 30, 2021, with the option to renew and extend the lease for one renewal term of one year.

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 judgement 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.

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 Condensed Consolidated Balance Sheet	September 30, 2020
Assets:		
Operating lease assets	Operating leases, right-of-use assets, net	$ 287
Financing lease assets	Property and equipment, net	52
Total lease assets		**$ 339**
Liabilities:		
Current:		
Operating lease obligations	Lease liabilities, current	$ 188
Financing lease obligations	Lease liabilities, current	10
Non-current:		
Operating lease obligations	Lease liabilities, non-current	129
Financing lease obligations	Lease liabilities, non-current	37
Total lease liabilities		**$ 364**

Future minimum lease payments under non-cancellable leases are as follows:

(In thousands) For the Year Ended June 30,	Operating Leases	Financing Leases	Total
2021	$ 160	$ 9	$ 169
2022	182	12	194
2023	6	12	18
2024	—	12	12
2025	—	8	8
Thereafter	—	—	—
Total lease obligations	**348**	**53**	**401**
Less: imputed interest	31	6	37
Present value of net minimum lease obligations	**317**	**47**	**364**
Less: lease liabilities - current	188	10	198
Lease liabilities - non-current	**$ 129**	**$ 37**	**$ 166**

Other information as of September 30, 2020 is as follows:

Weighted-average remaining lease term (years):	
Operating leases	1.2
Financing leases	4.4
Weighted-average discount rate:	
Operating leases	11.0%
Financing leases	6.2%

Cash payments for operating leases for the three months ended September 30, 2020 and September 30, 2019 totaled $70 thousand and $96 thousand, respectively. Cash payments for financing leases for the three months ended September 30, 2020 and September 30, 2019 totaled $3 thousand and $0, respectively.

(4) Property and Equipment

As of September 30, 2020 and June 30, 2020, property and equipment, net consisted of the following:

(In thousands)	September 30, 2020	June 30, 2020
Furniture, fixtures, equipment & leasehold improvements	$ 1,935	$ 2,522
Software	315	326
Capital improvements in progress	8	—
Gross property and equipment	**2,258**	**2,848**
Accumulated depreciation	(2,158)	(2,512)
Property held for disposal, net	—	(237)
Property and equipment, net	**$ 100**	**$ 99**

Depreciation expense of property and equipment for the three months ended September 30, 2020 and September 30, 2019 were $22 thousand and $59 thousand, respectively.

On August 3, 2020, the Company terminated its corporate office lease in Austin, Texas and wrote-off the remaining net book value of the related leasehold improvement assets in the amount of $229 thousand.

(5) Stockholders' Equity (Deficit)

Common Stock

From November 9, 2018 through March 25, 2020, the Company sold 793,668 shares of common stock pursuant to an At-the-Market Issuance Sales Agreement ("ATM Agreement") with B. Riley FBR, under which B. Riley FBR acted as the sales agent. In connection with the sale of these shares of common stock, the Company received net proceeds of $2.3 million. The weighted-average sale price per share was $3.04. No additional shares of the Company's common stock will be sold pursuant to the ATM Agreement. The Company did not incur any termination penalties as a result of its termination of the ATM Agreement.

Warrants

A summary of the common stock warrant activity for the three months ended September 30, 2020 is presented below:

	Shares (In thousands)	Weighted Average Exercise Price	Aggregate Fair Market Value at Issuance (In thousands)	Weighted Average Remaining Contractual Term (Years)
Outstanding June 30, 2020	**86**	**$ 5.14**	**$ 194**	**4.74**
Warrants issued	—	—	—	—
Warrants exercised	—	—	—	—
Warrants expired	—	—	—	—
Outstanding September 30, 2020	**86**	**$ 5.14**	**$ 194**	**4.49**

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

				Number of Shares Underlying Warrants	
Issue Date	Classification	Exercise Price	Expiration Date	September 30, 2020	June 30, 2020
March 26, 2020	Equity	$ 6.25	March 25, 2025	24,780	24,780
March 30, 2020	Equity	$ 4.69	March 27, 2025	61,133	61,133
Total Outstanding				**85,913**	**85,913**

Nasdaq Compliance

As previously noted in our Form 10-K for the fiscal year ended June 30, 2020, the Company was not in compliance with the minimum stockholders' equity requirement under Nasdaq Listing Rule 5550(b)(1) for continued listing on The Nasdaq Capital Market because its stockholders' equity was below the required minimum of $2.5 million at June 30, 2020. On September 11, 2020, the Company received a notice from the Listing Qualifications Department of the Nasdaq Stock Market LLC ("Nasdaq") stating that it was not in compliance with the required stockholder's equity of $2.5 million.

The Notice had no immediate effect on the Company's listing on The Nasdaq Capital Market. The Company originally had until October 26, 2020 to submit a plan to regain compliance with the minimum stockholders' equity requirement; however, Nasdaq granted an extension of the deadline to submit a plan until November 2, 2020.

On October 23, 2020, the Company closed a public offering of its common stock for gross proceeds of $18.0 million. The Company believes that, following this offering, it is now in compliance with the minimum stockholders' equity requirement. On October 30, 2020, the Company filed Form 8-K disclosing this information as part of an alternative proposed by Nasdaq to its submitting a plan to regain compliance. See Note 15 for more information.

(6) Net Loss per Share

Basic net 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 based on the weighted average number of common shares outstanding plus the effect of potentially dilutive common shares outstanding during the period using the treasury stock method and the if-converted method. Potentially dilutive common shares include outstanding stock options and share-based awards.

The following table reconciles the numerators and denominators used in the computations of both basic and diluted net loss per share:

(In thousands, except per share data)	Three Months Ended September 30, 2020	2019
Numerator:		
Net loss	$ (2,111)	$ (2,068)
Denominator:		
Denominator for basic and diluted net loss per share — weighted average common stock outstanding	7,719	5,591
Basic and diluted net loss per common share:		
Net loss	$ (0.27)	$ (0.37)

All unvested restricted stock awards for the three months ended September 30, 2020 are not included in diluted net loss per share, as the impact to net loss per share would be anti-dilutive. Options to purchase 324,661 shares of common stock at exercise prices ranging from $1.85 to $8.35 per share outstanding as of September 30, 2020 were not included in diluted net loss per share, as the impact to net loss per share would be anti-dilutive.

(7) 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.

An additional factor is reasonable assurance of collectability. This necessitates deferral of all or a portion of revenue recognition until collection. During the three months ended September 30, 2020, the Company had one material revenue source that comprised $134 thousand. During the three months ended September 30, 2019, the Company had one revenue source. Revenue was recognized at a point in time consistent with the guidelines in Topic 606.

The Company disaggregates revenue by reporting segment to depict the nature of revenue in a manner consistent with its business operations and to be consistent with other communications and public filings. Refer to Note 14 for additional details of revenues by reporting segment.

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, recognize revenue 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 less than one year.

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 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.

(8) Fair Value Measurement

The accounting standard for fair value measurements defines fair value, establishes a market-based framework or hierarchy for measuring fair value, and expands disclosures about fair value measurements. The standard 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.

As of September 30, 2020, the fair value of the Company's cash and cash equivalents approximate their carrying value due to their short-term nature.

(9) 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 ("Note No. 1") to Mr. Pickens with a principal amount of $1.5 million. Interest on Note No. 1 shall accrue at 11% per annum. The principal amount and accrued interest on Note No. 1 shall become due and payable on September 5, 2020 (the "Maturity Date"). The Company may prepay the principal amount and all accrued interest on Note No. 1 at any time prior to the Maturity Date. In connection with the issuance of Note No. 1, the Company, along with 1st Detect Corporation and Astrotech Technologies, Inc. (the "Subsidiaries"), entered into a security agreement, dated as of September 5, 2019, with Mr. Pickens (the "Security Agreement No. 1"), 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 Security Agreement No. 1. In addition, the Subsidiaries jointly and severally agreed to guarantee and act as surety for the Company's obligation to repay Note No. 1 pursuant to a subsidiary guarantee.

On February 13, 2020, the Company entered into a second private placement transaction with Mr. Pickens for the issuance and sale of a secured promissory note ("Note No. 2") to Mr. Pickens with a principal amount of $1.0 million. Interest on Note No. 2 shall accrue at 11% per annum. The principal amount and accrued interest on Note No. 2 shall become due and payable on the Maturity Date. The Company may prepay the principal amount and all accrued interest on Note No. 2 at any time prior to the Maturity Date. In connection with the issuance of Note No. 2, the Company, along with the Subsidiaries, entered into a second security agreement, dated as of February 13, 2020, with Mr. Pickens (the "Security Agreement No. 2"), 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 Security Agreement No. 2. In addition, the Subsidiaries jointly and severally agreed to guarantee and act as surety for the Company's obligation to repay Note No. 2 pursuant to a subsidiary guarantee.

On August 24, 2020, the Company and Mr. Pickens agreed to extend the Maturity Date of both the notes and payment of accrued interest to September 5, 2021.

On April 14, 2020, the Company entered into the PPP Promissory Note for $542 thousand with a commercial bank under the CARES Act. The PPP Promissory Note bears interest at a rate of 1.0% per annum. Payments are due monthly beginning November 10, 2020. The remaining principal amount of the PPP Promissory Note along with any unpaid interest is due on April 1, 2022. The principal and interest may be forgiven if the proceeds are used for forgivable purposes as defined by the terms in the PPP Promissory Note, and the Company has used the proceeds from the PPP Promissory Note for forgivable purposes as defined by the terms of the PPP Promissory Note. Interest expense for the three months ended September 30, 2020 was approximately $1 thousand.

Subsequent to the end of the quarter, the Company has applied for forgiveness under the provisions of the CARES Act and escrowed the balance of the note with the lender. Forgiveness is subject to the sole approval of the Small Business Administration and it may deny our application for forgiveness in whole or in part. See Note 15 for more information.

(10) Business Risk and Credit Risk Concentration Involving Cash

For the three months ended September 30, 2020, the Company had one customer that materially comprised all of the Company's revenue. All of the Company's revenue for the three months ended September 30, 2019 came from a single different customer.

The Company maintains funds in bank accounts that may exceed the limit insured by the Federal Deposit Insurance Corporation of $250 thousand per depositor. The risk of loss attributable to these uninsured balances is mitigated by depositing funds in what we believe to be high credit quality financial institutions. The Company has not experienced any losses in such accounts.

(11) Common Stock Compensation

Stock Option Activity Summary

The Company's stock option activity for the three months ended September 30, 2020 is as follows:

	Shares (in thousands)	Weighted Average Exercise Price
Outstanding at June 30, 2020	**325**	**$ 5.68**
Granted	—	—
Exercised	—	—
Canceled or expired	(1)	5.30
Outstanding at September 30, 2020	**324**	**$ 5.68**

The aggregate intrinsic value of options exercisable at September 30, 2020 was $0, as the fair value of the Company's common stock is less than the exercise prices of these options. The remaining stock-based compensation expense of $2 thousand related to stock options will be recognized over a weighted-average period of 2.03 years.

The table below details the Company's stock options outstanding as of September 30, 2020:

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
$1.85 – 3.55	76,500	2.53	$ 3.43	66,500	$ 3.43
$5.30 – 5.85	118,161	6.61	5.49	113,203	5.49
$6.00 – 8.35	130,000	4.14	7.19	86,000	6.59
$1.85 – 8.35	**324,661**	**4.66**	**$ 5.68**	**265,703**	**$ 5.33**

Compensation costs recognized related to stock option awards were $0 and $44 thousand for the three months ended September 30, 2020, and 2019, respectively.

Restricted Stock

The Company's restricted stock activity for the three months ended September 30, 2020, is as follows:

	Shares (in thousands)	Weighted Average Grant-Date Fair Value
Outstanding at June 30, 2020	**133**	**$ 3.95**
Granted	—	—
Vested	(1)	2.47
Canceled or expired	(7)	3.59
Outstanding at September 30, 2020	**125**	**$ 3.99**

Stock compensation expenses related to restricted stock were $44 thousand and $60 thousand for the three months ended September 30, 2020, and 2019, respectively. The remaining stock-based compensation expense of $232 thousand related to restricted stock awards granted will be recognized over a weighted-average period of 1.23 years.

(12) 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 September 30, 2020, the Company established a valuation allowance against all of its net deferred tax assets.

For the each of the three months ended September 30, 2020 and 2019, the Company incurred pre-tax losses in the amount of $2.1 million. The total effective tax rate was approximately 0% for the each of the three months ended September 30, 2020 and 2019.

For the each of the three months ended September 30, 2020 and 2019, the Company's effective tax rate differed from the federal statutory rate of 21%, primarily due to the valuation allowance placed against its net deferred tax assets.

The CARES Act was signed into law on March 27, 2020. The CARES Act provided certain tax relief measures including the acceleration of the alternative minimum tax ("AMT") credit previously paid. The CARES Act allows for the acceleration of the refundable AMT credit up to 100% of the AMT credit. In response to the impact of the CARES Act, the Company received the remaining AMT credit of $429 thousand for AMT previously paid during the three months ended September 30, 2020.

FASB ASC 740, "Income Taxes" addresses the accounting for uncertainty in income tax 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 no unrecognized tax benefit for the three months ended September 30, 2020 or 2019.

Loss carryovers are generally subject to modification by tax authorities until three years after they have been utilized; as such, the Company is subject to examination for the fiscal years ended 2001 through present for federal purposes and fiscal years ended 2006 through present for state purposes.

(13) 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.

Litigation, Investigations, and Audits – We are not party to, nor are our properties the subject of, any material pending legal proceedings.

(14) Segment Information

The Company currently has two reportable business units: 1st Detect Corporation and AgLAB Inc.

1st Detect Corporation

1st Detect is a manufacturer of explosives and narcotics trace detectors developed for use at airports, secured facilities, and borders worldwide.

AgLAB Inc.

AgLAB is developing a series of mass spectrometers for use in the agriculture market for process control and the detection of trace amounts of solvents and pesticides.

All intercompany transactions between business units have been eliminated in consolidation.

Key financial metrics of the Company's segments are as follows:

	Three Months Ended September 30, 2020			Three Months Ended September 30, 2019		
(In thousands)	Revenue	Depreciation	Loss before Income Taxes	Revenue	Depreciation	Loss before Income Taxes
1st Detect	$ 140	$ 22	$ (1,410)	$ 1	$ 59	$ (2,068)
AgLAB	—	—	(701)	—	—	—
Total	**$ 140**	**$ 22**	**$ (2,111)**	**$ 1**	**$ 59**	**$ (2,068)**

	September 30, 2020			June 30, 2020		
(In thousands)	Fixed Assets, Net	Total Capital Expenditures (1)	Total Assets	Fixed Assets, Net	Total Capital Expenditures (2)	Total Assets
1st Detect	$ 100	$ 16	$ 3,187	$ 99	$ —	$ 5,930
AgLAB	—	—	—	—	—	—
Total	**$ 100**	**$ 16**	**$ 3,187**	**$ 99**	**$ —**	**$ 5,930**

(1) Total capital expenditures are for the three months ended September 30, 2020.
(2) Total capital expenditures are for the twelve months ended June 30, 2020.

(15) Subsequent Events

Cash Reserve Agreement

As previously reported, on April 14, 2020, the Company entered into the PPP Promissory Note with a commercial bank (the "Bank") under the CARES Act. On October 19, 2020, the Company and the Bank entered into a Cash Reserve Agreement wherein the Company agreed to deliver to the Bank an amount equal to $541,500 (the "Cash Amount"), to be held in in a separate account in accordance with the terms and conditions of the Cash Reserve Agreement for the purpose of establishing a source of payment for the Company's obligations to repay and/or obtain forgiveness of the PPP Promissory Note.

The Cleveland Clinic Agreement

On October 20, 2020, the Company issued a press release announcing that its subsidiary BreathTech Corporation signed a joint development and option agreement (the "Agreement") with the Cleveland Clinic Foundation (the "Cleveland Clinic"). Pursuant to the Agreement, the Company and the Cleveland Clinic will collaborate in efforts to develop a rapid breath test for coronavirus infection or related indicators, using the Company's mass spectrometry technology and collection of data related thereto through an investigator initiated clinical study performed by the Cleveland Clinic.

Public Offerings of Common Stock

On October 21, 2020, the Company entered into a Securities Purchase Agreement (the "First Purchase Agreement") with certain purchasers named therein, pursuant to which the Company agreed to issue and sell 7,826,086 shares (the "Public Offering Shares") of the Company's common stock, par value $0.001 per share (the "Common Stock"), at an offering price of $2.30 per share (the "Public Offering").

The Public Offering resulted in gross proceeds of approximately $18.0 million before deducting the placement agent's fees and related offering expenses.

Pursuant to an engagement agreement dated July 23, 2020, as amended, the Company engaged H.C. Wainwright & Co., LLC (the "Placement Agent") to act as the Company's exclusive placement agent in connection with the Public Offering. The Company will issue to the Placement Agent, or its designees, warrants (the "Placement Agent's Warrants No. 1") to purchase up to 469,565

shares of Common Stock, which represents 6.0% of the Public Offering Shares sold in the Public Offering. The Placement Agent's Warrants No. 1 have an exercise price of $2.875 per share, which represents 125% of the per share offering price of the Public Offering Shares and a termination date of October 21, 2025.

On October 28, 2020, the Company entered into a Securities Purchase Agreement (the "Second Purchase Agreement") with certain purchasers named therein, pursuant to which the Company agreed to issue and sell, in a registered direct offering (the "Registered Offering"), 2,887,906 shares (the "Registered Offering Shares") of the Company's Common Stock, at an offering price of $2.15 per share.

The Registered Offering resulted in gross proceeds of approximately $6.2 million before deducting the placement agent's fees and related offering expenses.

Pursuant to an engagement agreement dated July 23, 2020, as amended, the Company engaged the Placement Agent to act as the Company's exclusive placement agent in connection with the Registered Offering. The Company will also issue to the Placement Agent, or its designees, warrants (the "Placement Agent's Warrants No. 2") to purchase up to 173,274 shares of Common Stock, which represents 6.0% of the Registered Offering Shares sold in the Registered Offering. The Placement Agent's Warrants No. 2 have an exercise price of $2.6875 per share, which represents 125% of the per share offering price of the Registered Offering Shares and a termination date of October 28, 2025.

NASDAQ Compliance

On November 3, 2020, the Company received a letter from NASDAQ stating that based on the Form 8-K filed by the Company on October 30, 2020, Nasdaq has determined that the Company complies with the Listing Rule 5550(b)(1).

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q 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. 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 impact of the COVID-19 outbreak on the global economy, including the possibility of a global recession, and more specifically the impact to our business, suppliers, consumers, customers, and employees;
- Our ability to raise sufficient capital to meet our long and short-term liquidity requirements;
- Our ability to successfully pursue our business plan and execute our strategy, including our recent collaboration with the Cleveland Clinic;
- Our ability to continue as a going concern;
- 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 the Company conducts its business;
- Technological difficulties and potential legal claims arising from any technological difficulties;
- Supply chain delays and challenges;
- Uncertainty in government funding and support for key programs, grant opportunities, or procurements;
- The impact of competition on our ability to win new contracts; and
- Our ability to meet technological development milestones and overcome development challenges.

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 Quarterly Report on Form 10-Q 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 in our 2020 Annual Report on Form 10-K, elsewhere in this Quarterly Report on Form 10-Q, 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 Quarterly Report on Form 10-Q and in prior or subsequent communications.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following information should be read in conjunction with the unaudited condensed consolidated financial statements and the accompanying notes included in Part I, Item 1 of this Report.

Business Overview

Astrotech Corporation (Nasdaq: ASTC) ("Astrotech," the "Company," "we," "us," or "our"), a Delaware corporation organized in 1984, is a science and technology development and commercialization company that launches, manages, and builds scalable companies based on innovative technology in order to maximize shareholder value.

The Company's efforts are focused on commercializing its platform mass spectrometry technology through its wholly-owned subsidiaries:

- Astrotech Technology, Inc. ("ATI") owns and licenses intellectual property related to the Astrotech Mass Spectrometer Technology™ (the "AMS Technology").
- 1st Detect Corporation ("1st Detect") is a manufacturer of explosives and narcotics trace detectors developed for use at airports, secured facilities, and borders worldwide. 1st Detect holds an exclusive AMS Technology license from ATI for airport security applications.
- AgLAB, Inc. ("AgLAB") is developing a series of mass spectrometers for use in the agriculture market for process control and the detection of trace amounts of solvents and pesticides. 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 they may have an infection, including COVID-19 or pneumonia. BreathTech holds an exclusive AMS Technology license from ATI for breath analysis applications.

Our Business Units

Astrotech Technology, Inc.

ATI owns and licenses the AMS Technology, the platform mass spectrometry technology originally developed by 1st Detect. The intellectual property includes 37 granted patents and three additional patents in process 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, 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.

1st Detect Corporation

1st Detect, an exclusive 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 facilities, 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 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 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 several 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 does not degrade the TRACER 1000's detection capabilities, as it has a virtually unlimited and easily expandable threat library. With terrorist threats becoming more numerous, sophisticated, and lethal, security professionals have been looking for better instrumentation, and specifically for mass spectrometry, to address the evolving threats, but mass spectrometry has long been too expensive, too cumbersome, and not practical for security applications until the launch of the TRACER 1000.

In order to sell the TRACER 1000 to airport and cargo security customers in the European Union, ECAC certification is required. Certain other countries also accept ECAC certification. After receiving ECAC certification for the TRACER 1000 on February 21, 2019, we are now marketing to and taking orders from airports and cargo facilities outside of the U.S. that accept ECAC certification.

On June 26, 2019, the Company announced the official launch of the TRACER 1000, and on November 22, 2019, we announced our first commercial sale of TRACER 1000 units to a global shipping and logistics company.

In the United States, we are working with the 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 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 non-detection testing resumed this summer, and we subsequently announced on September 9, 2020 that the TRACER 1000 passed the TSA's ACSQT non-detection testing. We expect TSA cargo detection testing to resume this fall. Given the deterioration in air traffic caused by the pandemic, TSA certification testing for passenger checkpoint security has been put on indefinite hold.

Finally, on October 28, 2020, the Company announced that it had surpassed $1.0 million in purchase orders for the TRACER 1000 and an additional $1.0 million in future service and support commitments, also announcing DHL (Deutsche Post AG) as its largest flagship customer.

AgLAB Inc.

AgLAB, an exclusive licensee of ATI for the agriculture market, has developed the AgLAB-1000™ series of mass spectrometers for process control and in the detection of trace levels of solvents and pesticides. The AgLAB product line is a derivative of the Company's core AMS Technology. The AMS Technology provides a significant competitive advantage due to its small size, rugged design, quick analysis, ease of use, and affordability. These attributes are valuable for agriculture applications in both processing facilities and in the field.

BreathTech Corporation

BreathTech, an exclusive licensee of ATI for breath analysis, 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 an infection, including COVID-19 or pneumonia.

Development of the BreathTest-1000 follows the Company's positive results in pre-clinical trials for the BreathDetect-1000™, a rapid self-serve breathalyzer that detects bacterial infections in the respiratory tract, including pneumonia. The pre-clinical trials were conducted in collaboration with UT Health San Antonio in 2017.

On October 20, 2020, we announced a joint development agreement with the Cleveland Clinic Foundation to explore leveraging the BreathTest-1000 to rapidly screen for COVID-19 or related indicators. The goal of the agreement is to develop a non-invasive device that will use breath samples to identify COVID-19 strains, with the potential to provide a low-cost, self-service screening option that could be deployed on a large-scale.

Trends and Uncertainties - COVID-19

In March 2020, the World Health Organization declared COVID-19 a global pandemic.

We are subject to risks and uncertainties as a result of the COVID-19 pandemic. The extent of the impact of the COVID-19 pandemic on our business is highly uncertain and difficult to predict, as the responses that we, other businesses, and governments are taking continue to evolve. Furthermore, capital markets and economies worldwide have also been negatively impacted by the COVID-19 pandemic, and it is possible that it could cause a prolonged global economic recession. Policymakers around the globe have responded with fiscal policy actions to support the economy as a whole. The magnitude and overall effectiveness of these actions remain uncertain.

To date, we have seen delays with respect to the TSA certification process and parts of our supply chain as a result of COVID-19. In addition, operational fees throughout Europe largely come from airline ticket fees, and with a reduction in air travel caused by the pandemic, we are seeing a reduction in near-term demand for ETDs at checkpoints.

It is possible that the continued spread of COVID-19 could cause further disruption in our supply chain; cause delay, or limit the ability of customers to perform, including in making timely payments to the Company; cause further delay in regulatory certification testing of our instruments; impact investment performance; and cause other unpredictable events. The extent to which the COVID-19 pandemic may in the future materially impact our financial condition, liquidity, or results of operations is uncertain.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based upon our condensed 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 affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosures. 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. Estimates and assumptions are reviewed periodically. Actual results may differ from these estimates under different assumptions or conditions.

Results of Operations

Three months ended September 30, 2020, compared to three months ended September 30, 2019:

Selected consolidated financial data for the quarters ended September 30, 2020, and 2019 is as follows:

	Three Months Ended September 30,	
(In thousands)	**2020**	**2019**
Revenue	$ 140	$ 1
Cost of revenue	113	—
Gross profit	**27**	**1**
Gross margin	**19%**	**100%**
Operating expenses:		
Selling, general and administrative	926	1,202
Research and development	609	855
Disposal of corporate lease	544	—
Total operating expenses	**2,079**	**2,057**
Loss from operations	**(2,052)**	**(2,056)**
Interest and other expense, net	(59)	(12)
Income tax benefit	—	—
Net loss	**$ (2,111)**	**$ (2,068)**

Revenue – Total revenue increased $139 thousand during the first quarter of fiscal 2021, compared to the first quarter of fiscal 2020. Substantially all of the revenue generated in the first quarter of fiscal 2021 was from the sales of our TRACER 1000 units. All of the revenue generated in the first quarter of fiscal 2020 was associated with the sale of components related to prior iterations of our MS technology.

Cost of Revenue – Gross profit is comprised of revenue less cost of revenue. In the first quarter of fiscal 2021, cost of revenue was comprised of labor, materials, shipping, and overhead related to the sale of TRACER 1000 units. No such costs were recognized during the first quarter of fiscal 2020.

Operating Expenses – Operating expenses increased $22 thousand, or 1%, during the first quarter of fiscal 2021, compared to the first quarter of fiscal 2020. Significant changes to operating expenses include the following:

- Selling, general and administrative decreased $276 thousand, or 23%, due to decreases in office rent, utilities, and parking associated with the former corporate office space. In addition, due to COVID-19, our expenses related to travel and conferences also decreased. Finally, we also had decreases in compensation and related expenses due to a reduction in headcount.
- Research and development decreased $246 thousand, or 29%, during the first quarter of fiscal 2021, compared to the first quarter of fiscal 2020. This decrease is mainly due to decreases in compensation and related expenses as well as less materials purchased for R&D purposes as development of the core AMS Technology is largely complete.
- Disposal of long-lived assets increased $544 thousand due to our termination of our corporate office lease and the disposal of the leasehold improvement assets and right-of-use assets and lease liabilities associated with that lease. As a result of this termination, our net cash savings will be approximately $870 thousand over the next three years.

Income Taxes – Income tax benefit did not change during the first quarter of fiscal 2021, compared to the first quarter of fiscal 2020. 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 the Company's deferred tax assets.

Liquidity and Capital Resources

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

(In thousands)	Three Months Ended September 30, 2020	2019	Change
Change in cash and cash equivalents:			
Net cash used in operating activities	$ (1,480)	$ (1,830)	$ 350
Net cash used in investing activities	(16)	—	(16)
Net cash provided by financing activities	—	1,821	(1,821)
Net change in cash and cash equivalents	**$ (1,496)**	**$ (9)**	**$ (1,487)**

Cash and Cash Equivalents

As of September 30, 2020, we held cash and cash equivalents of $1.9 million, and our working capital was approximately ($1.5) million. As of June 30, 2020, we had cash and cash equivalents of $3.3 million, and our working capital was approximately $0.3 million. Cash and cash equivalents decreased $1.5 million as of September 30, 2020, compared to June 30, 2020, due to funding our normal operating activities and research and development initiatives.

Operating Activities

Cash used in operating activities decreased $0.4 million for the three months ended September 30, 2020, compared to the three months ended September 30, 2019, primarily due to a decrease in accounts receivable due to receiving the remaining alternative minimum tax ("AMT") credit.

Investing Activities

Cash used in investing activities increased $16 thousand for the three months ended September 30, 2020, compared to the three months ended September 30, 2019, due to purchases of property and equipment.

Financing Activities

Cash provided by financing activities decreased $1.8 million for the three months ended September 30, 2020, compared to the three months ended September 30, 2019, due to a note payable from a related party as well as the sale of shares of common stock through an "at the market offering" program (the "ATM Offering") in the prior period.

Liquidity

Our annual report on Form 10-K for the fiscal year ended June 30, 2020 indicated substantial doubt as to our ability to continue as a going concern. On October 23, 2020, we completed a public offering of our common stock, raising gross proceeds of $18.0 million, and on October 30, 2020, we also completed a registered direct offering of our common stock, raising gross proceeds of $6.2 million. We believe this solves our liquidity issue, and we no longer have substantial doubt about our ability to continue as a going concern. We will continue to evaluate opportunities to further strengthen our liquidity, including selling the Company or a portion thereof, licensing some of our technology, raising additional funds through the capital markets, debt financing, equity financing, merging, or engaging in a strategic partnership.

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 September 30, 2020, the Company established a valuation allowance against all of its net deferred tax assets.

For the each of the three months ended September 30, 2020 and 2019, the Company incurred pre-tax losses in the amount of $2.1 million. The total effective tax rate was approximately 0% for the each of the three months ended September 30, 2020 and 2019.

For the each of the three months ended September 30, 2019 and 2019, the Company's effective tax rate differed from the federal statutory rate of 21%, primarily due to the valuation allowance placed against its net deferred tax assets.

The CARES Act was signed into law on March 27, 2020. The CARES Act provided certain tax relief measures including the acceleration of the alternative minimum tax ("AMT") credit previously paid. The CARES Act allows for the acceleration of the refundable AMT credit up to 100% of the AMT credit. In response to the impact of the CARES Act, the Company received the remaining AMT credit of $429 thousand for AMT previously paid during the three months ended September 30, 2020.

ASC 740, “Income Taxes” addresses the accounting for uncertainty in income tax 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 no unrecognized tax benefit for the three months ended September 30, 2020 or 2019.

Loss carryovers are generally subject to modification by tax authorities until three years after they have been utilized; as such, the Company is subject to examination for the fiscal years ended 2001 through present for federal purposes and fiscal years ended 2006 through present for state purposes.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of September 30, 2020, or June 30, 2020.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable to smaller reporting companies.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures, as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which are designed to ensure that information required to be disclosed by us in the reports that 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 our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as of the end of the period covered by this Quarterly Report. Based on the evaluation and criteria of these disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting during the three months ended September 30, 2020 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

As of September 30, 2020, we are not involved in any pending or threatened legal proceedings that we believe could reasonably be expected to have a material adverse effect on our financial condition, results of operations, or cash flows. From time to time, we are subject to legal proceedings and business disputes involving ordinary routine legal matters and claims incidental to our business. The ultimate legal and financial liability with respect to such matters generally cannot be estimated with certainty and requires the use of estimates in recording liabilities for potential litigation settlements or awards against us. Estimates for losses from litigation are made after consultation with outside counsel. If estimates of potential losses increase or the related facts and circumstances change in the future, we may be required to record either more or less litigation expense.

ITEM 1A. RISK FACTORS

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

As of September 30, 2020, we had an accumulated deficit of approximately $201.9 million and a reported net loss of $2.1 million for the three months ended September 30, 2020. 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 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, 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, FDA approval will be required to market the BreathTest-1000 in the United States. Obtaining FDA approval is a complex and lengthy process, and FDA approval for the BreathTest-1000 may not be granted on a timely basis or at all.

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.

Our cash and cash equivalents may not be sufficient to fund our operating expenses, capital equipment requirements, and other expected liquidity requirements.

Our future capital requirements will depend on a number of factors, including our success in developing and expanding markets for our products, payments under possible future strategic arrangements, continued progress of our research and development of potential products, the need to acquire licenses to new technology, costs associated with increasing our manufacturing and development facilities, costs associated with strategic acquisitions including integration costs and assumed liabilities, litigation expense, the status of competitive products, and potential cost associated with both protecting and defending our intellectual property. Additionally, actions taken as a result of the ongoing internal evaluation of our business could result in expenditures that are not currently contemplated. Factors that could affect our capital requirements, in addition to those listed above include

continued collections of accounts receivable consistent with our historical experience and our ability to manage product development efforts.

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 in order for our products to be commercially successful;
- if we fail to comply with healthcare regulations, we could face substantial enforcement actions, including civil and criminal penalties and our business, operations and financial condition could be adversely affected.

Product 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.

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. The COVID-19 pandemic has significantly reduced airline passenger traffic, which reduces demand for certain of our security screening products and services. To slow and limit the transmission of COVID-19, governments across the world have imposed significant air travel restrictions and businesses and individuals have canceled air travel plans. These restrictions and cancelations have reduced demand for security screening products and related services at airport checkpoints globally as the number of airline passengers requiring screening has fallen. The pandemic has also hampered our ability to meet with our customers and prospective customers. The continued spread of COVID-19 has also led to recent disruption and volatility in the global capital markets, which increases the cost of capital and adversely impacts access to capital. 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 could also further cause disruption in our supply chain; 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.

If we fail to comply with the continued listing requirements of The Nasdaq Capital Market LLC, our common stock may be delisted and the price of our common stock and our ability to access the capital markets could be negatively impacted.

As previously noted in our Form 10-K for the fiscal year ended June 30, 2020, we were not in compliance with the minimum stockholders' equity requirement under Nasdaq Listing Rule 5550(b)(1) for continued listing on The Nasdaq Capital Market because our stockholders' equity was below the required minimum of $2.5 million at June 30, 2020. On September 11, 2020, we received a notice from the Listing Qualifications Department of the Nasdaq Stock Market LLC ("Nasdaq") stating that we were not in compliance with the required stockholder's equity of $2.5 million.

The Notice has no immediate effect on our listing on The Nasdaq Capital Market. The Company originally had until October 26, 2020 to submit a plan to regain compliance with the minimum stockholders' equity requirement; however, Nasdaq granted an extension of the deadline to submit a plan until November 2, 2020. If our plan to regain compliance is accepted, Nasdaq may grant an extension of up to 180 calendar days from the date of the Notice to evidence compliance (the "Compliance Period").

On October 23, 2020, the Company closed a public offering of its common stock for gross proceeds of $18.0 million. On November 3, 2020, the Company received a letter from NASDAQ stating that based on the Form 8-K filed by the Company on October 30, 2020, Nasdaq has determined that the Company complies with the Listing Rule 5550(b)(1).

There is substantial doubt about our ability to continue as a going concern, indicating the possibility that we may not be able to operate in the future. The report of our independent registered public accounting firm also includes an explanatory paragraph about our ability to continue as a going concern.

Our annual report on Form 10-K for the fiscal year ended June 30, 2020 indicated substantial doubt as to our ability to continue as a going concern. On October 23, 2020, we completed a public offering of our common stock, raising gross proceeds of $18.0 million, and on October 30, 2020, we also completed a registered direct offering of our common stock, raising gross proceeds of $6.2 million. We believe this solves our liquidity issue, and we no longer have substantial doubt about our ability to continue as a going concern.

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 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.

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.

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

Our 1st Detect facilities in Houston 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 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.

Significant safety concerns could arise for our BreathTest-1000™ product, which could have a material adverse effect on our future revenues and financial condition.

If the development of the BreathTest-1000 is successfully completed, FDA approval will need to be obtained to market the BreathTest-1000 in the United States. Health care products typically receive regulatory approval based on data obtained in controlled clinical trials of limited duration. Following regulatory approval, these products will be used over longer periods of time in many patients. Investigators may also conduct additional, and perhaps more extensive, studies. If new safety issues are reported, we may be required to amend the conditions of use. For example, we may be required to provide additional warnings on the BreathTest-1000 label or narrow its approved intended use, either of which could reduce the product's market acceptance. If serious safety issues arise with the BreathTest-1000 product, sales of the product could be halted by us or by regulatory authorities. Safety issues affecting suppliers' or competitors' products also may reduce the market acceptance of our products.

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.

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.

We are required to evaluate the effectiveness of our internal control over financial reporting on an annual basis and publicly disclose any material weaknesses in our controls. Any adverse results from such evaluation could result in a loss of investor confidence in our financial reports and significant expense to remediate, and ultimately could have an adverse effect on our stock price.

Section 404 of the Sarbanes-Oxley Act of 2002 requires our management to assess the effectiveness of our internal control over financial reporting and to disclose if such controls were unable to provide assurance that a material error would be prevented or detected in a timely manner. We have an ongoing program to review the design of our internal controls framework in keeping with changes in business needs, implement necessary changes to our controls design, and test the system and process controls necessary to comply with these requirements. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within our Company will have been detected.

If we or our independent registered public accounting firm identifies material weaknesses in our internal controls, the disclosure of that fact, even if quickly remedied, may cause investors to lose confidence in our financial statements and our stock price may decline. Remediation of a material weakness could require us to incur significant expenses and, if we fail to remedy any material weakness, our ability to report our financial results on a timely and accurate basis may be adversely affected, our access to the capital markets may be restricted, our stock price may decline, and we may be subject to sanctions or investigation by regulatory authorities, including the SEC or Nasdaq. We may also be required to restate our financial statements from prior periods. Execution of restatements create a significant strain on our internal resources and could cause delays in our filing of quarterly or annual financial results, increase our costs, and cause management distraction. Restatements may also significantly affect our stock price in an adverse manner.

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 50,000,000 shares of common stock, of which 18,557,754 were outstanding as of November 9, 2020, 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 November 9, 2020.

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 many 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.

This choice of forum provision may 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.

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 regulated product or a significant modification to an existing product 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, unless an exemption from pre-market review applies. 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 and uncertain 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.

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 than we had expected, our product introductions or modifications 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 will require the more costly, lengthy and uncertain PMA process. Although we do not market any devices under PMA, the FDA may demand that we obtain a PMA prior to marketing certain of our future products. Further, even with respect to those future products where a PMA is not required, we cannot assure you that we will be able to obtain the 510(k) clearances with respect to those products.

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 that our products are safe and effective for their intended users;
- the data from our 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 Emergency Use Authorization (EUA), FDA clearance of a 510(k) premarket notification submission, 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 Emergency Use Authorization (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 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. 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 are 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.

Modifications to our products 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 a 510(k)-cleared device that 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.

If we or our third-party suppliers fail to comply with the FDA's good manufacturing practice regulations or fail to adequately, timely, or sufficiently respond to an FDA Form 483 or subsequent Warning Letter, this could impair our ability to market our products in a cost-effective and timely manner and could result in FDA enforcement action.

We and our third-party suppliers are required to comply with the FDA's Quality System Regulation, or QSR, and Current Good Manufacturing Practices (cGMP) which covers the methods and documentation of the design, testing, production, control, quality assurance, labeling, packaging, sterilization, storage and shipping of our product. The FDA audits compliance with the QSR, cGMP and related regulations through periodic announced and unannounced inspections of manufacturing and other facilities. The FDA may conduct these inspections or audits at any time. If, during the inspection, FDA identifies issues which, in FDA's judgment, may constitute violations of the Federal Food, Drug, and Cosmetic Act or FDA's regulations, the FDA inspector may issue an FDA Form 483 listing these observations.

Note that if an entity does not address observations found in an FDA Form 483 to FDA's satisfaction, the FDA could take enforcement action, including any of the following sanctions:

- untitled letters, warning letters, fines, injunctions, consent decrees and civil penalties;
- customer notifications or repair, replacement, refunds, recall, detention or seizure of our product;
- operating restrictions or partial suspension or total shutdown of production;
- refusing or delaying our requests for 510(k) clearance or pre-market approval of new products or modified products;
- withdrawing 510(k) clearances or pre-market approvals that have already been granted;
- refusal to grant export approval for our product; or
- criminal prosecution.

Any of the foregoing actions could have a material adverse effect on our reputation, business, financial condition and operating results.

A recall of our product, or the discovery of serious safety issues with our product, could have a significant adverse impact on us.

The FDA has the authority to require the recall of commercialized products in the event of material deficiencies or defects in design or manufacture or in the event that a product poses an unacceptable risk to health.

Manufacturers may, under their own initiative, recall a product if any material deficiency in a device is found. A government-mandated or voluntary recall by us or one of our distributors could occur as a result of an unacceptable risk to health, component failures, manufacturing errors, design or labeling defects or other deficiencies and issues. Recalls of our products would divert managerial and financial resources and have an adverse effect on our reputation, financial condition and operating results, which could impair our ability to produce our products in a cost-effective and timely manner.

Further, under the FDA's medical device reporting, or MDR regulations, we are required to report to the FDA any incident in which our products may have caused or contributed to a death or serious injury or in which our products malfunctioned and, if the malfunction were to recur, would likely cause or contribute to death or serious injury. Repeated product malfunctions may result in a voluntary or involuntary product recall, which could divert managerial and financial resources, impair our ability to manufacture our products in a cost-effective and timely manner and have an adverse effect on our reputation, financial condition and operating results. Depending on the corrective action we take to redress a product's deficiencies or defects, the FDA may require, or we may decide, that we will need to obtain new approvals or clearances for the device before we may market or distribute the corrected device. Seeking such approvals or clearances may delay our ability to replace the recalled devices in a timely manner. Moreover, if we do not adequately address problems associated with our devices, we may face additional regulatory enforcement action, including FDA warning letters, product seizure, injunctions, administrative penalties, or civil or criminal fines. We may also be required to bear other costs or take other actions that may have a negative impact on our sales as well as face significant adverse publicity or regulatory consequences, which could harm our business, including our ability to market our products in the future.

Any adverse event involving our products could result in future voluntary corrective actions, such as recalls or customer notifications, or regulatory agency action, which could include inspection, mandatory recall or other enforcement action. Any

corrective action, whether voluntary or involuntary, will require the dedication of our time and capital, distract management from operating our business and may harm our reputation and financial results.

We may be liable if the FDA or other U.S. enforcement agencies determine we have engaged in the off-label promotion of our products or have disseminated false or misleading labeling or promotional materials.

Our promotional materials and training methods must comply with FDA and other applicable laws and regulations, including laws and regulations prohibiting marketing claims that promote the off-label use of our products or that make false or misleading statements. Healthcare providers may use our products off-label, as the FDA does not restrict or regulate a physician's choice of treatment within the practice of medicine. FDA also could conclude that a performance claim is misleading if it determines that there are inadequate non-clinical and/or clinical data supporting the claim. If the FDA determines that our promotional materials or training promote of an off-label use or make false or misleading claims, 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. Although our policy is to refrain from statements that could be considered off-label promotion of our products or false or misleading, the FDA or another regulatory agency could disagree. 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.

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, 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. 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, President Trump signed into law a permanent repeal of the medical device tax under the PPACA, but 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.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 5. OTHER INFORMATION

None.

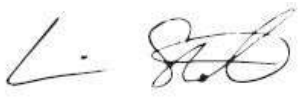
ITEM 6. EXHIBITS

The following exhibits are filed herewith:

Exhibit No.	Description	Incorporation by Reference
3.1	Certificate of Amendment to the Certificate of Incorporation of Astrotech Corporation.	Exhibit 3.1 to Form 8-K filed on July 1, 2020.
10.1	Omnibus Amendment to Promissory Notes, dated August 24, 2020.	Exhibit 10.1 to Form 8-K filed on August 25, 2020.
10.2	Acknowledgment, Consent and Affirmation of Guarantors, dated August 24, 2020.	Exhibit 10.2 to Form 8-K filed on August 25, 2020.
10.3	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.	Exhibit 10.3 to Form 8-K filed on August 25, 2020.
10.4	Omnibus Amendment to Subsidiary Guarantees, dated August 24, 2020, made by certain of the Company's subsidiaries in favor of Thomas B. Pickens III.	Exhibit 10.4 to Form 8-K filed on August 25, 2020.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.	Filed herewith.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.	Filed herewith.
32.1	Certification pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934.	Filed herewith.
101	The following financial information from the Company's Quarterly Report on Form 10-Q, for the period ended September 30, 2020 formatted in eXtensible Business Reporting Language: (i) Unaudited Condensed Consolidated Balance Sheets, (ii) Unaudited Condensed Consolidated Statements of Operations, (iii) Unaudited Condensed Consolidated Statements of Cash Flows, (iv) Notes to Unaudited Condensed Consolidated Financial Statements.	Filed herewith.

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Astrotech Corporation



Date: November 13, 2020

/s/ Eric Stober
Eric Stober
Chief Financial Officer and Principal Accounting Officer