

ASTROTECH Corp  
Form 10-K  
September 25, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended June 30, 2018

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 (I.R.S. Employer  
corporation or organization) Identification No.)

201 West 5th Street, Suite 1275, Austin, Texas 78701  
(Address of principal executive offices) (Zip Code)

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

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

Title of each class	Name of each exchange
Common Stock	on which registered
\$0.001 per share	NASDAQ Capital Market

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to the Form 10-K.

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

The aggregate market value of the registrants voting and non-voting common equity held by non-affiliates of the registrant as of December 31, 2017, based upon the closing price of such stock on the NASDAQ Capital Market on such date of \$3.35 was approximately \$10,477,772.

As of September 24, 2018, 4,095,373 shares of the registrant's common stock, par value \$0.001 per share, were outstanding.

#### DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the definitive Proxy Statement for our 2018 Annual Meeting of Shareholders, to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, are incorporated by reference into Part III of this Form 10-K.



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## FORWARD-LOOKING STATEMENTS

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

- The 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;
- 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;
- Our ability to continue as a going concern;
- 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;
- Technological difficulties and potential legal claims arising from any technological difficulties;
- Product demand and market acceptance risks, including our ability to develop and sell products and services to be used by governmental or commercial customers;
- 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 Form 10-K will prove to be accurate. In light of the significant uncertainties inherent in our forward-looking statements, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved. Some of these and other risks and uncertainties that could cause actual results to differ materially from such forward-looking statements are more fully described elsewhere in this Form 10-K, or in the documents incorporated by reference herein. Except as may be required by applicable law, we undertake no obligation to publicly update or advise of any change in any forward-looking statement, whether as a result of new information, future events or otherwise. In making these statements, we disclaim any obligation to address or update each factor in future filings with the Securities and Exchange Commission (“SEC”) or communications regarding our business or results, and we do not undertake to address how any of these factors may have caused changes to discussions or information contained in previous filings or communications. In addition, any of the matters discussed above may have affected our past results and may affect future results, so that our actual results may differ materially from those expressed in this Form 10-K and in prior or subsequent communications.

## PART I

### Item 1. Business

#### Our Company

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

Our efforts are focused on the following:

- 1<sup>st</sup> Detect Corporation (“1<sup>st</sup> Detect”) is a manufacturer of advanced chemical detection and analysis instrumentation.
- Astrogenetix, Inc. (“Astrogenetix”) was developing next-generation vaccines but, due to recent developments, has been put on hold indefinitely.
- Astral Images Corporation (“Astral”) is a developer of advanced film restoration and enhancement software.

#### Business Developments

On Monday, October 16, 2017, we effectuated a reverse stock split of our shares of Common Stock whereby every five (5) pre-split shares of Common Stock were exchanged for one (1) post-split share of our Common Stock (“Reverse Stock Split”). No fractional shares were issued in connection with the Reverse Stock Split. Stockholders who would otherwise have held a fractional share of the Common Stock received a cash payment in lieu thereof. Numbers presented in these financial statements have been adjusted to reflect the Reverse Stock Split.

Effective December 22, 2017, we changed our state of incorporation from Washington to Delaware. As of that date, the rights of the Company's stockholders began to be governed by the Delaware corporation laws, our Certificate of Incorporation filed with the state of Delaware, and newly adopted By-Laws.

On July 3, 2018, we filed a Form S-3 shelf registration statement with the SEC for a maximum offering amount of \$30 million. The shelf registration was subsequently deemed effective by the SEC on August 20, 2018.

On September 11, 2018, we received notification from the National Aeronautics and Space Administration (“NASA”) that our application for additional funding for Astrogenetix was declined.

## Our Business Units

### Astro Scientific

Astro Scientific is a technology incubator that commercializes innovative technologies. Subsidiaries 1<sup>st</sup> Detect and Astrogenetix currently reside in Astro Scientific:

1<sup>st</sup> Detect - 1<sup>st</sup> Detect is a manufacturer of advanced chemical detection technology that detects and identifies trace amounts of explosives and narcotics. The Company offers technology that we believe outperforms currently deployed competitive trace detection solutions by offering:

- ♣ A higher probability of detection with a near-zero false alarm rate
- ♣ A considerably expanded library of explosives, narcotics, and other compounds of interest
- ♣ A target library that can be instantaneously updated or expanded in the field without requiring hardware configuration changes
- ♣ Improved throughput at security or inspection checkpoints
- ♣ Competitive pricing to current solutions

Our efforts have resulted in a platform technology that has many diverse market opportunities, with the initial focus remaining on the explosives and narcotics trace detection market where ion mobility spectrometers (“IMS”) are the leading incumbent technology. Of the 25,000 IMS instruments installed in the field, many are nearing their end of life. We believe

these IMS systems have many shortcomings — most notably their limited library of detectable compounds, inability to adapt quickly to emerging threats, limited probability of detection, and significant false positive rates that reduce the user's confidence in the machine's efficacy and extends security or inspection checkpoint wait times.

As the current generation of IMS technology is replaced, we are positioning the Company to be the best next-generation solution for this market. Following a successful demo of our technology to U.S. Department of Homeland Security ("DHS") and Transportation Security Administration ("TSA") personnel in late 2017, we recently announced that the TRACER 1000 entered the Developmental Testing and Evaluation ("DT&E") process at the DHS's Transportation Security Laboratory ("TSL"). Successful completion and passing of the DT&E phase would lead to TSL Certification. TSL Certification is a significant endorsement that foreign governments and other U.S. government agencies consider when procuring explosives trace detector ("ETD") instrumentation. Certification is also a major step towards being listed on the TSA's Qualified Products List ("QPL"), and subsequently being deployed in airports throughout the U.S. In addition, we also recently announced that the TRACER 1000 has been accepted into the TSA's Air Cargo Screening Technology Qualification Test ("ACSQT") program, representing a major step toward inclusion on TSA's exclusive Air Cargo Screening Technology List ("ACSTL") and having the TRACER 1000 deployed at airports and cargo facilities worldwide to screen checked luggage and other air cargo. The instrument is designed to enable air carriers, freight forwarders, shippers, and independent cargo facilities to stay ahead of evolving threats while optimizing cargo throughput. Finally, the Company also announced that the TRACER 1000 was accepted into the European Civil Aviation Conference's ("ECAC") evaluation process for both passenger and cargo screening in airports. ECAC is the European equivalent to the U.S. TSA. The ECAC Certification would be a significant milestone that will allow us to begin selling to airports and governments internationally.

There is no assurance that any of the further steps detailed in the milestones mentioned above will be achieved or that our technology will be approved by any of the programs listed.

**Astrogenetix** - Astrogenetix was developing a fast-track, on-orbit discovery platform using the International Space Station to develop vaccines. We were working with Texas A&M University to obtain additional funding from NASA, which was declined subsequent to year-end. Future efforts at Astrogenetix have therefore been halted due to the lack of funding.

#### Astral Images Corporation

**Astral Images** - Astral is a developer of advanced film restoration and enhancement software. The Company offers significant cost savings to content owners who traditionally employ a laborious, inconsistent, and expensive manual frame-by-frame restoration process. At 24 frames-per-second, a full-length movie can easily have in excess of 200,000 frames, making manual conversion prohibitively expensive in some instances. At some point, we believe film studios will need to convert their film assets to 4K and/or high-dynamic range ("HDR") (collectively known as ultra-high definition ("UHD")). Astral will continue to position itself to support this shift using its powerful artificial intelligence ("AI")-driven algorithms that remove dust, scratches, and defects from film while converting the content to a digital



format with significantly enhanced resolution.

The Company is at a point whereby its resources must be carefully allocated to optimize the primary objective – setting 1<sup>st</sup> Detect on a path to meaningful sales by getting through testing and certification. Although we believe Astral has developed valuable technology fortified by patents and trade secrets, the potential market has not evolved as quickly as anticipated. Due to funding constraints, the Company’s main focus remains on the 1<sup>st</sup> Detect opportunity. Consequently, headcount at Astral has been reduced, the Astral office was consolidated with the corporate office, expenditures have been reduced, and new development is exclusively focused on strategic initiatives that would facilitate the realization of Astral’s value.

## Business Strategy

### Astro Scientific

#### 1<sup>st</sup> Detect

Due to the high-speed performance, analytical capability, and flexibility of our product, our best opportunities involve government programs in aviation security, the military, breath analysis, and in applications where real-time or in-situ monitoring is required.

There are approximately 25,000 IMS instruments deployed today, with many nearing their end of life. As the current generation of IMS technology is replaced, we are positioning the Company to be the best next-generation solution for this market. We have launched the TRACER 1000, the world's first ETD driven by a mass spectrometer. With mass spectrometry being the gold standard of chemical detection, a mass spectrometry-based ETD can significantly improve detection capabilities, dramatically reduce the number of false positives, and allow for a much more expansive library of compounds of interest, yielding an instrument that we believe is far superior to the currently deployed IMS instruments, at a similar price point.

While most of our activities have been focused on delivering on explosives and narcotics detection for airports and cargo facilities, there is significant opportunity in other government agencies and in the industrial and commercial markets as well. Such markets are large and diverse, often requiring customized solutions to satisfy customer needs. Significant effort is therefore only reserved for customer-funded development programs or programs with large markets where our technology has a unique differentiator.

#### Astral Images

Astral provides the state-of-the-art software solution for image restoration and enhancement by deriving significant efficiencies through its powerful AI platform to an industry that traditionally relies on expensive manual labor for image correction and enhancement that can be inconsistent and fraught with errors and omissions. While the Company looks to optimize its resources by focusing primarily on 1<sup>st</sup> Detect, the Company remains intent on developing strategic partnerships, such as the recently announced agreement with ColorTime, a post-production house specializing in media content creation, restoration, and distribution. As part of this arrangement, ColorTime is incorporating Astral's ICE™ software and scanner hardware into their workflow, for which Astral receives a percentage of the revenue generated by ColorTime. Future revenue generated as part of this agreement, however, is uncertain and dependent upon ColorTime's sales efforts.

#### Products and Services

#### Astro Scientific

#### 1<sup>st</sup> Detect

We believe 1<sup>st</sup> Detect's advanced chemical detection technology significantly outperforms currently deployed competitive trace detection solutions. It also provides laboratory-quality, real-time analysis with a much smaller footprint and at a much lower price than traditional mass spectrometers. 1<sup>st</sup> Detect currently has 22 granted U.S.

patents, 12 granted foreign patents, and eight pending patent applications. Our product portfolio currently consists of the following products:

• **MMS 1000™** - The MMS 1000™ is a small, low-power desktop mass spectrometer with excellent selectivity, specificity, and confirmational analysis. The unique design of this instrument enables fast, quality chemical analysis and requires minimal benchtop space (about the size of a shoebox), requires less power than a typical light bulb, and, unlike traditional instruments, requires no consumables or special infrastructure.

• **OEM 1000** - The OEM 1000 is a mass spectrometer component that gives users the power of mass spectrometry in a small, easily customizable platform that can be integrated into customer specific packaging and equipment, and is well-suited to be integrated with application-specific sampling or separation technology. Variants of the OEM 1000 have been selected by our partners in development programs for the Department of Defense and the TSA.

• **MMS 2000** - The MMS 2000 is a highly selective and accurate process gas monitor designed to provide precise, real-time measurement of specific chemicals in a process stream. This instrument is built for continuous, autonomous monitoring and recording of any excursions or environmental anomalies that can continuously report the abundance of a set of chemicals in order to optimize yield or identify out-of-spec conditions. The data can be disseminated in accordance with a user-defined protocol which can be broadcast to control rooms or mobile phones.

• **TRACER 1000** - The TRACER 1000 is an explosives trace detector with a swab-based thermal desorption sample inlet system. It is designed to replace the current generation of IMS-based explosives trace detector systems installed at airports, cargo inspection depots, and other high security facilities globally. With its significantly reduced false positive rate and expandable library, the TRACER 1000 can enhance security while increasing security checkpoint throughput.

## Astral Images

Using its powerful AI algorithms, Astral provides efficient and high-quality film digitization, image correction, and enhancement technology. We offer complete systems containing customized off-the-shelf hardware with integrated Astral software, standalone software products, and scanning or enhancement services. Our four products include:

- Astral Black ICE™ - targeted mainly towards the black-and-white feature film and television series digitization and restoration markets, Astral Black ICE™ is a complete system with customized off-the-shelf hardware with purpose-built AI software and services. Our image correction and enhancement technology is integrated into the scanner while offering high-quality, real-time results at scan speed.
  - Astral Color ICE™ - a standalone AI software solution that can be integrated into most film scanners to enable color image correction and enhancement.
  - Astral HDR ICE™ - our HDR solution can be used in combination with our other ICE products or as a standalone HDR conversion software, upgrading digital and traditional films to the new HDR standards while taking advantage of the vibrancy of the enhanced color gamut and the brilliance of the dynamic range extension to optimize the content for viewing on 4K/HDR televisions.
  - Astral HSDR ICE™ - for content originally shot in HDR, like many of today's movies and shows, it must be reprocessed in standard-dynamic range ("SDR") before it can be displayed on older viewing platforms. HSDR ICE™ automatically converts HDR content to SDR while preserving the richest content possible.
- All of our ICE products provide for significant cost savings over the expensive, labor-intensive, and inconsistent manual process currently employed in the industry.

## Customers, Sales, and Marketing

### Astro Scientific

#### 1<sup>st</sup> Detect

Marketing efforts at 1<sup>st</sup> Detect are currently focused on U.S. and foreign government agencies and commercial companies in aviation, cargo, and border security.

### Astral Images

Astral is positioned to leverage the demand generated for 4K/HDR content by the release of the new 4K/HDR standard and the growth in sales of next-generation 4K/HDR televisions. Consumers are increasingly demanding content that is optimized for their new televisions, but the conversion of content lags the sale of televisions capable of displaying that content, similar to what we saw with the proliferation of HDTV and 3D. In order to remain relevant in over-the-top distribution (Netflix, Amazon, Hulu, etc.), content owners will need to convert their content to conform to the new standards. Astral is positioned to facilitate this market when investment in content conversion to 4K/HDR accelerates by partnering with established post-production houses. In fact, the Company announced a partnership with ColorTime in July and will continue to explore similar relationships.

## Competition

### Astro Scientific

### 1<sup>st</sup> Detect

Competition with 1<sup>st</sup> Detect's mass spectrometer comes from ion mobility spectrometers and traditional mass spectrometers.

There are several vendors that compete directly with 1<sup>st</sup> Detect. However, 1<sup>st</sup> Detect products combine a number of attributes in a single product not currently available in other products. While 1<sup>st</sup> Detect's focus is on replacing IMS-based explosives

trace detectors, it also competes with traditional mass spectrometry solutions and our products have a number of attractive features that give it a competitive advantage in an attractive market niche.

Ion Mobility Spectrometers

- High false alarms
- Lower probability of detection
- Limited library of compounds of interest
- Fixed library requiring hardware changes to update
- Causes delays at security/inspection checkpoints
- Low price chemical detector

1<sup>st</sup> Detect

- Near-zero false alarm rate
- Higher probability of detection
- Unlimited library of compounds of interest
- Instantaneous library updates
- Improves throughput at checkpoints
- Similar price as IMS

Traditional Mass Spectrometers

- Very high price
- Laboratory-quality sensitivity, specificity, and performance
- Cumbersome clear-out and recalibration process
- Large footprint
- Heavy
- Non-portable
- High power requirements
- Tandem mass spectrometry (“MS/MS”) available on high-end instruments
- Stored Waveform Inverse Fourier Transform (“SWIFT”) available on select instruments

1<sup>st</sup> Detect

- Much lower price
- Laboratory-quality sensitivity, specificity, and performance
- Automated calibration
- Small footprint
- Relatively light
- Portable
- Low power requirements
- MS/MS provided secondary confirmation of an analysis
- SMART (“Sinusoidal Multiplexed Array in Real Time”), an improved version of SWIFT, selectively eliminates specific chemicals to reduce false positives

Astral Images

Astral faces significant competition from several vendors in the scanning and restoration services industry. Our competitors are independent scanning boutiques at one end of the spectrum, and at the other end, fully-integrated post-production houses offering a breadth of services, including scanning and restoration, all of whom use the traditional manual restoration process that is laborious, non-exacting, inconsistent, and expensive. The level of automation provided by our AI algorithms gives us compelling cost advantages while maintaining the high image quality. Our solutions are scalable, cost effective, and more consistent when compared to competitors' traditional manual approaches.

## Research and Development

### Astro Scientific

#### 1<sup>st</sup> Detect

We invest considerable resources into our internal research and development functions. We conduct research to improve system functionality, streamline and simplify the user experience, and extend our capabilities into customer-defined, application-specific opportunities. Furthermore, we aggressively seek patent protection from the U.S. Patent & Trademark Office and foreign patent offices. Currently, the Company's focus is getting the TRACER 1000 to market. For the years ended June 30, 2018 and June 30, 2017, research and development expenses for 1<sup>st</sup> Detect were \$4.8 million and \$4.2 million, respectively.

### Astral Images

We have developed a suite of products through our research and development activities at Astral, but development of new products has been curtailed due to funding constraints and given that the 4K HDR conversion market has not developed as quickly as anticipated. We are now focused on supporting our current and potential future partnerships. We believe in protecting our intellectual property as Astral has five U.S. patents and one U.S. patent applications in process. For the years

ended June 30, 2018 and June 30, 2017, research and development expenses for Astral were \$1.2 million and \$1.4 million, respectively.

#### Certain Regulatory Matters

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

Federal regulations that impact our operations include the following:

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

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

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

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



## Regulatory Compliance and Risk Management

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

## Employees Update

As of June 30, 2018, we employed 33 employees, none of which were covered by any collective bargaining agreements.

## Item 1A. Risk Factors

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

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

As of June 30, 2018, we had an accumulated deficit of approximately \$184.2 million and reported a net loss of \$13.3 million for the fiscal year 2018. 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. Its 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 its 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, there can be no assurance that the business units will 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 approval prior to being made, marketed, sold, and used. There can be no assurance that regulatory approval of any products will be obtained.

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 develops. 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. There can be no assurance that licenses will 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 cannot be certain that additional financing will be available on reasonable terms when needed, or at all, which could seriously harm our business.

We have incurred net losses and negative cash flow from operations in recent prior periods, and we may not achieve or maintain profitability in the future. As a result, we may need additional financing. Our ability to obtain additional financing, if and when required, will depend on investor demand, our operating performance, the condition of the capital markets, and other factors. Therefore, we may need to raise additional funds and we cannot assure investors that additional financing will be available to us on favorable terms when required, or at all. If we raise additional funds through the issuance of equity, equity-linked, or debt securities, those securities may have rights, preferences, or privileges senior to the rights of our common stock, and our existing stockholders may experience dilution.

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.

As of June 30, 2018, the Company has working capital of \$3.3 million. For the fiscal year 2018, the Company reported a net loss of \$13.3 million and net cash used in operating activities of \$10.8 million. For the fiscal year 2017, the Company reported a net loss of \$11.6 million attributable to the Company and net cash used in operating activities of \$8.8 million. This raises substantial doubt about the Company's ability to continue as a going concern. Our ability to continue as a going concern is contingent upon, among other factors, the sale of the shares of our common stock or obtaining alternate financing.

Management continues to pursue many options for its capital requirements to maximize shareholder value. These include, but

are not limited to, selling the Company or a portion thereof, debt financing, equity financing, merging, or engaging in a strategic partnership. On July 3, 2018, management filed a Form S-3 shelf registration statement to raise possible funds through the capital markets. The Company is currently evaluating any combination of common stock, preferred stock, debt securities, warrants to purchase common stock, preferred stock or debt securities, or any combination of the foregoing, either individually or as units comprised of one or more of the other securities. Our consolidated financial statements as of June 30, 2018 do not include any adjustments that might result from the substantial doubt about the Company's ability to continue as a going concern.

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

We cannot make any assurances that any customer will require our services in the future. Therefore, we continue to work on diversifying our customer base, while going to great lengths to satisfy the needs of our current customer base.

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, earthquakes, or other natural disasters.

Our 1<sup>st</sup> 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. There can be no assurance that we will be able to achieve the necessary technological advances for us to remain competitive. Our failure to anticipate or respond adequately to changes in technological and market requirements, or delays in additional product development or introduction, could have a material adverse effect on our business and financial performance. Additionally, the cost of capital to fund these businesses will likely require dilution of shareholders.

We plan to develop new products and services. No assurances can be given that we will be able to successfully develop these products and 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 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.

As a U.S. Government contractor, we are subject to extensive Federal procurement rules and regulations as well as contractual obligations that are unique to doing business with the U.S. Government. Non-compliance with any such rules, regulations, or contractual obligations could negatively affect current programs, potential awards, and our ability to do business with the U.S. Government in the future.

U.S. Government contractors must comply with extensive procurement regulations and other requirements including, but not limited to, those appearing in the FAR and its supplements, as well as specific procurement rules and contractual conditions imposed by various U.S. Government agencies. Many of these types of requirements do not appear in our contracts with commercial customers or foreign governments. In particular, U.S. Government contracts typically contain provisions and are subject to laws and regulations that give the Government agencies rights and remedies not typically found in commercial contracts, including providing the Government agency with the ability to unilaterally:

- terminate our existing contracts;
- reduce the value of our existing contracts;
- modify some of the terms and conditions in our existing contracts;
- suspend or permanently prohibit us from doing business with the government or with any specific government agency;



- control and potentially prohibit the export of our products;
- cancel or delay existing multiyear contracts and related orders if the necessary funds for contract performance for any subsequent year are not appropriated;
- decline to exercise an option to extend an existing multiyear contract; and
- claim rights to technologies and systems invented, developed, or produced by us.

U.S. Government agencies and the agencies of certain other governments with which we contract can terminate their contracts with us for convenience, and in that event, we generally may recover only our incurred or committed costs, settlement expenses, and profit on the work completed prior to termination. If an agency terminates a contract with us for default, we may be denied any recovery and may be liable for excess costs incurred by the agency in procuring undelivered items from an alternative source. Decisions by an agency to terminate one of our contracts for default could negatively affect our ability to win future awards not only from such agency, but also from other government agencies and commercial customers, many of whom evaluate past performance, or are required to review past performance information, when making their procurement decisions.

U.S. Government agencies may also initiate civil False Claims Act litigation against us based on allegations related to our performance of contracts for the U.S. Government, or to our compliance with procurement regulations and other legal requirements to which such contracts are subject, or both. Such litigation can be expensive to defend and, if found liable, can result in treble damages and significant civil penalties. The U.S. Government may also initiate administrative proceedings that, if resulting in an adverse finding against us or any of our subsidiaries as to our present responsibility to be a U.S.

Government contractor or subcontractor, could result in our company or our subsidiaries being suspended for a period of time from eligibility for awards of new government contracts or task orders or in a loss of export privileges and, if satisfying the requisite level of seriousness, in our debarment from contracting with the U.S. Government for a specified term as well as being subject to other remedies available to the U.S. Government.

Our business could be adversely affected by a negative audit by the U.S. Government.

U.S. Government agencies routinely audit and investigate government contractors. These agencies review a contractor's performance under its contracts, cost structure, and compliance with applicable laws, regulations, and standards. The U.S. Government may also review the adequacy of, and a contractor's compliance with, its internal control systems and policies, including the contractor's purchasing, property, estimating, compensation, and management information systems. Any costs found to be improperly allocated to a specific contract will not be reimbursed, while such costs already reimbursed must be refunded. If an audit uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines, and suspension or prohibition from doing business with the U.S. Government. In addition, we could suffer serious reputational harm that may affect our non-governmental business if allegations of impropriety were made against us.

Certain of our U.S. Government contracts are dependent upon our employees obtaining and maintaining required security clearances, as well as our ability to obtain security clearances for the facilities in which we perform sensitive government work.

Certain of our U.S. Government contracts require our employees to maintain various levels of security clearances, and we are required to maintain certain facility security clearances. If we cannot maintain or obtain the required security clearances for our facilities and our employees, or obtain these clearances in a timely manner, we may be unable to perform certain U.S. Government contracts. Further, loss of a facility clearance, or an employee's failure to obtain or maintain a security clearance, could result in a U.S. Government customer terminating an existing contract or choosing not to renew a contract. Lack of required clearances could also impede our ability to bid on or win new U.S. Government contracts. This could damage our reputation and adversely affect our business, financial condition, and results of operations.

We incur substantial upfront, non-reimbursable costs in preparing proposals to bid on contracts that we may not be awarded.

Preparing a proposal to bid on a contract is labor-intensive and results in the incurrence of substantial costs that are generally not retrievable. Additionally, although we may be awarded a contract, work performance does not commence for several months following completion of the bidding process. If funding problems by the party awarding

the contract or other matters further delay our commencement of work, these delays may lower the value of the contract, 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 wide-spread 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.

The market price of our common stock may be volatile and adversely affected by several factors.

The market price of our common stock could fluctuate significantly in response to various factors and events, including:

- our ability to execute our business plan;
- operating results below expectations;

- our issuance of additional securities, including debt or equity or a combination thereof, necessary to fund our operating expenses;
- announcements of technological innovations or new products by us or our competitors;
- economic and other external factors;
- period-to-period fluctuations in our financial results; and
- whether an active trading market in our common stock develops and is maintained.

In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our common stock.

We have not paid cash dividends in the past and do not expect to pay cash dividends in the foreseeable future. Any return on investment in shares of common stock may be limited to the value of our common stock.

We have never paid cash dividends on our common stock and do not anticipate paying cash dividends on our common stock in the foreseeable future. The payment of dividends on our capital stock will depend on our earnings, financial condition, and other business and economic factors affecting us at such time as the Board of Directors may consider relevant. If we do not pay dividends, our common stock may be less valuable because a return on any investment in shares of our common stock will only occur if the common stock price appreciates.

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.

If we fail to comply with the continued minimum closing bid requirements of the NASDAQ Capital Market or other requirements for continued listing, 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.

On August 24, 2017, we received a written notice (the “Notice”) from the NASDAQ Stock Market LLC (“NASDAQ”) that we were not in compliance with NASDAQ Listing Rule 5550(a)(2), as the minimum bid price of our common stock had been below \$1.00 per share for 30 consecutive business days. The Notice had no immediate effect on the listing of our common stock, and our common stock continues to trade on the NASDAQ Capital Market under the symbol “ASTC”. In accordance with NASDAQ Listing Rule 5810(c)(3)(A), we had a period of 180 calendar days, or until February 20, 2018, to regain compliance with the minimum bid price requirement. To regain compliance, on

October 13, 2017, we filed Articles of Amendment to our Restated Articles of Incorporation, as amended (“Articles of Incorporation”) to effect a 1-for-5 reverse stock split of all of our outstanding shares of common stock and a proportional reduction in the number of our authorized shares of common stock such that the number of authorized shares was reduced from 75,000,000 shares authorized to 15,000,000 shares authorized. The closing bid price of our common stock met or exceeded \$1.00 per share for 10 consecutive business days following the effective date of our reverse stock split. In the event that our stock price declines below \$1.00 per share in the future and we fail to comply with NASDAQ Listing Rule 5550(a)(2), we may be eligible for an additional 180 calendar day grace period if we meet the initial listing standards, with the exception of bid price, for the NASDAQ Capital Market, and we provide written notice to NASDAQ of our intention to cure the deficiency during the second compliance period. If we do not regain compliance within the allotted compliance period(s), including any extensions that may be granted by NASDAQ, or fail to comply with other requirements for continued listing, 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. A delisting of our common stock from the NASDAQ Capital Market could materially reduce the liquidity of our common stock and result in a corresponding material reduction in the price of our common stock. In addition, delisting could harm our ability to raise capital through alternative financing sources on terms acceptable to us, or at all, and may result in the potential loss of confidence by investors and employees and fewer business development opportunities.

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 Articles of Incorporation authorizes 15,000,000 shares of common stock, of which 4,097,346 were outstanding as of June 30, 2018, and our Board is authorized to issue additional shares of our common stock. In addition, our Articles of Incorporation authorizes 2,500,000 shares of “blank check preferred stock,” none of which are currently outstanding and our Board is authorized to issue shares of preferred stock. Our Board has designated 300,000 shares as Series A Junior Preferred Stock, none of which are outstanding. The remaining 2,200,000 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. 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.

Item 1B. Unresolved Staff Comments

None.

## Item 2. Properties

Astrotech's corporate headquarters is in Austin, Texas. The leased office is 5,219 square feet and houses executive management, finance and accounting, marketing and communications, and the staff of our Astral subsidiary. The lease began in November 2016 and expires in December 2023, with a provision to renew and extend the lease for the entire premises, for one renewal term of five years. Astrotech must, in writing, advise the landlord of its intention to renew the lease at least eight months before the expiration of its current lease in order to renew the lease.

In May 2013, 1<sup>st</sup> Detect completed build-out of a new 16,540 square foot leased research and development and production facility in Webster, Texas. This new 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, 1<sup>st</sup> 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.

In July 2015, Astral subleased premises consisting of approximately 4,000 square feet in Austin, Texas. The lease terminated at the end of June 2018.

We believe that our current facilities and equipment are well maintained, in good condition, and are adequate for our present and foreseeable needs.

## Item 3. Legal Proceedings

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. As of June 30, 2018, 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.



Item 4. Mine Safety Disclosures

Not applicable.

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## PART II

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

## Market Information

Our common stock is principally traded on the NASDAQ Capital Market under the symbol ASTC. The following table sets forth the quarterly high and low intra-day bid prices, retroactively adjusted for the Reverse Stock Split, for the periods indicated:

Fiscal 2018	High	Low
First Quarter	\$5.45	\$3.30
Second Quarter	\$5.00	\$2.38
Third Quarter	\$3.59	\$2.02
Fourth Quarter	\$6.36	\$1.71

Fiscal 2017	High	Low
First Quarter	\$10.50	\$7.05
Second Quarter	\$9.10	\$7.30
Third Quarter	\$8.05	\$6.30
Fourth Quarter	\$6.65	\$4.55

We have never paid cash dividends.

## Issuer Repurchases of Equity Securities

On December 16, 2014, we announced a share repurchase program pursuant to which our Board of Directors authorized the repurchase of up to \$5 million of our outstanding common stock shares. On December 3, 2015, the Board authorized an extension of the share repurchase program through December 31, 2016. The share repurchase program ended as of December 31, 2016. At the conclusion of the share repurchase program, the Company had repurchased a post-split amount of 37,727 shares of common stock at a cost of \$492 thousand, which represents an average cost of \$13.04 per share.

The following table identifies all repurchases during the year ended June 30, 2018 of any of the Company's securities registered under Section 12 of the Exchange Act, as amended, by or on behalf of the Company or any affiliated purchaser. None of these shares were purchased as part of the aforementioned share repurchase program:

Fiscal Month	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares as Part of Publicly Announced Plans	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
August 1, 2017 through August 31, 2017 (1)	708	\$ 4.05	—	\$ —
April 1, 2018 through April 30, 2018 (1)	1,591	2.53	—	—
Total	2,299	\$ 3.00	—	—

(1) These shares were surrendered by employees to cover tax withholding obligations associated with equity compensation.

We have 15,000,000 shares of common stock authorized for issuance. As of September 24, 2018, we had 4,095,373 shares of common stock outstanding, which were held by approximately 5,500 holders. The last reported sale price of our common stock as reported by the NASDAQ Capital Market on September 24, 2018 was \$3.33 per share.

## Sales of Unregistered Securities

We did not make any unregistered sales of our securities in fiscal year 2018.

## Item 6. Selected Financial Data

The information called for under this item is not applicable to smaller reporting companies.

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

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

### Business Overview

Astrotech Corporation (NASDAQ: ASTC) ("Astrotech," the "Company," "we," "us," or "our"), a Delaware corporation organized in 1984, is a 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 currently operates two reportable business units, Astro Scientific and Astral Images Corporation, and their efforts are focused on the following:

#### Astro Scientific

- 1<sup>st</sup> Detect Corporation ("1<sup>st</sup> Detect") is a manufacturer of advanced chemical detection and analysis instrumentation.
- Astrogenetix, Inc. ("Astrogenetix") was developing next-generation vaccines but, due to recent developments, has been put on hold indefinitely.

#### Astral Images Corporation

- Astral Images Corporation ("Astral") is a developer of advanced film restoration and enhancement software.

### Our Business Units

#### Astro Scientific

Astro Scientific is a technology incubator that commercializes innovative technologies. Subsidiaries 1<sup>st</sup> Detect and Astrogenetix currently reside in Astro Scientific:

1<sup>st</sup> Detect - 1<sup>st</sup> Detect is a manufacturer of advanced chemical detection technology that detects and identifies trace amounts of explosives and narcotics. The Company offers technology that we believe outperforms currently deployed competitive trace detection solutions by offering:

- A higher probability of detection with a near-zero false alarm rate
- A considerably expanded library of explosives, narcotics, and other compounds of interest
- A target library that can be instantaneously updated or expanded in the field without requiring hardware configuration changes
- Improved throughput at security or inspection checkpoints
- Competitive pricing to current solutions

Our efforts have resulted in a platform technology that has many diverse market opportunities, with the initial focus remaining on the explosives and narcotics trace detection market where ion mobility spectrometers (“IMS”) are the leading incumbent technology. Of the 25,000 IMS instruments installed in the field, many are nearing their end of life. We believe these IMS systems have many shortcomings — most notably their limited library of detectable compounds, inability to adapt

quickly to emerging threats, limited probability of detection, and significant false positive rates that reduce the user's confidence in the machine's efficacy and extends security or inspection checkpoint wait times.

As the current generation of IMS technology is replaced, we are positioning the Company to be the best next-generation solution for this market. Following a successful demo of our technology to U.S. Department of Homeland Security ("DHS") and Transportation Security Administration ("TSA") personnel in late 2017, we recently announced that the TRACER 1000 entered the Developmental Testing and Evaluation ("DT&E") process at the DHS's Transportation Security Laboratory ("TSL"). Successful completion and passing of the DT&E phase would lead to TSL Certification. TSL Certification is a significant endorsement that foreign governments and other U.S. government agencies consider when procuring explosives trace detector ("ETD") instrumentation. Certification is also a major step towards being listed on the TSA's Qualified Products List ("QPL"), and subsequently being deployed in airports throughout the U.S. In addition, we also recently announced that the TRACER 1000 has been accepted into the TSA's Air Cargo Screening Technology Qualification Test ("ACSQT") program, representing a major step toward inclusion on TSA's exclusive Air Cargo Screening Technology List ("ACSTL") and having the TRACER 1000 deployed at airports and cargo facilities worldwide to screen checked luggage and other air cargo. The instrument is designed to enable air carriers, freight forwarders, shippers, and independent cargo facilities to stay ahead of evolving threats while optimizing cargo throughput. Finally, the Company also announced that the TRACER 1000 was accepted into the European Civil Aviation Conference's ("ECAC") evaluation process for both passenger and cargo screening in airports. ECAC is the European equivalent to the U.S. TSA. The ECAC Certification would be a significant milestone that will allow us to begin selling to airports and governments internationally.

There is no assurance that any of the further steps detailed in the milestones mentioned above will be achieved or that our technology will be approved by any of the programs listed.

Astrogenetix - Astrogenetix was developing a fast-track, on-orbit discovery platform using the International Space Station to develop vaccines. We were working with Texas A&M University to obtain additional funding from NASA, which was declined subsequent to year-end. Future efforts at Astrogenetix have therefore been halted due to the lack of funding.

#### Astral Images Corporation

Astral Images - Astral is a developer of advanced film restoration and enhancement software. The Company offers significant cost savings to content owners who traditionally employ a laborious, inconsistent, and expensive manual frame-by-frame restoration process. At 24 frames-per-second, a full-length movie can easily have in excess of 200,000 frames, making manual conversion prohibitively expensive in some instances. At some point, we believe film studios will need to convert their film assets to 4K and/or high-dynamic range ("HDR") (collectively known as ultra-high definition ("UHD")). Astral will continue to position itself to support this shift using its powerful artificial intelligence ("AI")-driven algorithms that remove dust, scratches, and defects from film while converting the content to a digital format with significantly enhanced resolution.

The Company is at a point whereby its resources must be carefully allocated to optimize the primary objective – setting 1<sup>st</sup> Detect on a path to meaningful sales by getting through testing and certification. Although we believe Astral has developed valuable technology fortified by patents and trade secrets, the potential market has not evolved as quickly as anticipated. Due to funding constraints, the Company’s main focus remains on the 1<sup>st</sup> Detect opportunity. Consequently, headcount at Astral has been reduced, the Astral office was consolidated with the corporate office, expenditures have been reduced, and new development is exclusively focused on strategic initiatives that would facilitate the realization of Astral’s value.

#### Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with United States Generally Accepted Accounting Principles (“U.S. GAAP”). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosure of contingent assets and liabilities. 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.

## Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that directly affect the amounts reported in the Company's consolidated financial statements and accompanying notes. Management continuously evaluates its critical accounting policies and estimates, including those used in evaluating the recoverability of long-lived assets, recognition of revenue, valuation of inventory, and the recognition and measurement of loss contingencies, if any.

## Revenue Recognition

Astrotech recognizes revenue employing two generally accepted revenue recognition methodologies. The methodology used is based on contract type and the manner in which products and services are provided.

## Production Unit Sales and Software Licensing Agreements

When revenue for sale of manufactured product is commenced or when we license our software for use, we will recognize revenue when it is realized or realizable and earned. The Company considers revenue realized or realizable and earned when a firm sales contract or invoice is in place, delivery has occurred or services have been provided, and collectability is reasonably assured. In fiscal year 2018, we had two revenue sources and, in both arrangements, there were no undelivered elements at June 30, 2018.

## Construction-Type and Production-Type Contracts

In the prior year, most of the Company's revenue was derived from contracts to manufacture mass spectrometers to a buyer's specification. These contracts are accounted for under the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 605-35 "Revenue Recognition: Construction-Type and Production-Type Contracts." These contracts are fixed-price and are recorded on the percentage-of-completion basis using the ratio of costs incurred to estimated total costs at completion as the measurement basis for progress toward completion and revenue recognition. Any losses identified on contracts are recognized immediately. Contract accounting requires significant judgment relative to assessing risks, estimating contract costs, and making related assumptions for schedule and technical issues. With respect to contract change orders, claims, or similar items, judgment must be used in estimating related amounts and assessing the potential for realization. These amounts are only included in contract value when they can be reliably estimated and realization is probable.



The Company enters into fixed-priced subcontracts on government projects. Revenue from certain long-term, integrated project management contracts to provide new prototypes and completion services is reported on the percentage-of-completion method of accounting. At the outset of each contract, we prepare a detailed analysis of our estimated cost to complete the project, and our progress is based on the percentage of projected cost incurred. Risks related to service delivery, usage, productivity, and other factors are considered in the estimation process. The recording of profits and losses on long-term contracts requires an estimate of the total profit or loss over the life of each contract. This estimate requires consideration of total contract value, change orders, and claims, less costs incurred and estimated costs to complete. Anticipated losses on contracts are recorded in full in the period in which they become evident. Profits are recorded based upon the total estimated contract profit times the current percentage complete for the contract. The Company did not recognize any revenue from contracts to manufacture mass spectrometers to a buyer's specification in fiscal year 2018. As of June 30, 2018, there were not any unrecognized contract revenues or costs.

### Research and Development

Research and development costs are expensed as incurred. Research and development expenses for the fiscal years ended June 30, 2018 and 2017 were \$6.1 million and \$5.6 million, respectively, after adjusting for \$19 thousand and \$787 thousand in research and development expenses that were reclassified to cost of sales due to certain activities being associated with revenue recognition.

#### Net Loss per Common Share

Basic net loss per common share is calculated by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted net loss per common share is the same as basic net loss per common share as the potential dilutive shares are considered to be anti-dilutive (see Note 13 to the consolidated financial statements).

#### Cash and Cash Equivalents

The Company considers short-term investments with original maturities of three months or less to be cash equivalents. Cash equivalents are comprised primarily of operating cash accounts, money market investments, and certificates of deposit.

#### Accounts Receivable

The carrying value of the Company's accounts receivable, net of the allowance for doubtful accounts, represents their estimated net realizable value. Astrotech estimates the allowance for doubtful accounts based on type of customer, age of outstanding receivable, historical collection trends, and existing economic conditions. If events or changes in circumstances indicate that a specific receivable balance may be unrealizable, further consideration is given to the collectability of those balances, and the allowance is adjusted accordingly. Receivable balances deemed uncollectible are written off against the allowance. The Company anticipates collecting all unreserved receivables within one year. As of June 30, 2018 and 2017, there was no allowance for doubtful accounts deemed necessary.

#### Inventory

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

#### Property and Equipment

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

#### Impairment of Long-Lived Assets

The Company continuously evaluates its long-lived assets for impairment to assess whether the carrying amount of an asset may not be recoverable. Our evaluation is based on an assessment of potential indicators of impairment, such as an adverse change in the business climate that could affect the value of an asset, current or forecasted operating or cash flow losses that demonstrate continuing losses associated with the use of an asset, and a current expectation that, more likely than not, an asset will be disposed of before the end of its previously estimated useful life. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Recoverability of long-lived assets is dependent on a number of conditions, including uncertainty about future events and demand for our services.

During the fourth quarter of fiscal year 2018, the Company determined that there was an impairment indicator associated with the Color ICE™ software platform and scanner of Astral (“Astral assets”). During the quarter, management’s push to sell a newer version of Astral’s Color ICE™ software to a major scanning company was postponed, possibly indefinitely. In addition, even though the Company secured its first contract subsequent to year-end that utilizes Astral’s latest software, the expectations under the contract remain unclear and the contract could yield limited, or possibly no, additional revenue. In light of the Company’s limited resources, expenses in Astral have been reduced and efforts have been scaled back until the market begins to develop. Due to the delay in the development of the market which has to date not yielded significant revenues, management believes that, for the foreseeable future, it is probable that Astral net cash flows will continue to fall short of the value of the Astral assets. Management therefore recorded an impairment charge of \$1.6 million in fiscal year 2018. As of June 30, 2018, the fair value of these assets was immaterial.

On June 1, 2018, the Company entered into its third amendment of the original lease for the 1<sup>st</sup> Detect facility removing 8,118 square feet from its leased space. Management therefore wrote-off the leasehold improvements and other assets associated with this reduction of square footage. The total amount associated with this impairment is \$114 thousand. See Note 15 to the consolidated financial statements for more information relating to the amended lease agreement.

#### Fair Value of Financial Instruments

Astrotech's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities. The Company's management believes the carrying amounts of these assets and liabilities approximates their fair value. For more information about the Company's accounting policies surrounding fair value investments, see Note 9 to the consolidated financial statements.

#### Available-for-Sale Investments

Investments that are designated as available-for-sale are reported at fair value, with unrealized gains and losses recorded in accumulated other comprehensive loss. The Company determines the cost of investments sold based on a first-in, first-out cost basis at the individual security level. The Company's investments are subject to a periodic impairment review and are evaluated based on the specific facts and circumstances present at the time of assessment, which include the consideration of general market conditions, the duration and extent to which the fair value is below cost, and the Company's ability and intent to hold the investment for a sufficient period of time to allow for recovery of value in the foreseeable future. The Company also considers specific adverse conditions related to the financial health of, and the business outlook for, the investee, which may include industry and sector performance, changes in technology, operational and financing cash flow factors, and changes in the investee's credit rating. The Company records other than temporary impairments on marketable equity securities and marketable equity method investments in gains (losses) on equity investments, net of previously recorded gains (losses). For more information on investments, see Note 4 to the consolidated financial statements.

#### Operating Leases

The Company leases space under operating leases. Lease agreements often include tenant improvement allowances, rent holidays, and rent escalation clauses, as defined in the respective lease agreements. Most of the Company's lease agreements include renewal periods at the Company's option. The Company recognizes rent holiday periods, tenant improvement allowances, and scheduled rent increases on a straight-line basis over the lease term beginning with the date the Company takes possession of the leased property. The Company records tenant improvement allowances and rent holidays as deferred rent liabilities on the consolidated balance sheets and amortizes the deferred rent over the terms of the lease to rent expense on the consolidated statements of operations.

## Share-Based Compensation

The Company accounts for share-based awards to employees based on the fair value of the award on the grant date. The fair value of stock options is estimated using the expected dividend yields of the Company's stock, the expected volatility of the stock, the expected length of time the options remain outstanding, and the risk-free interest rates. Changes in one or more of these factors may significantly affect the estimated fair value of the stock options. The Company recognizes forfeitures as they occur. The fair value of awards that are likely to meet goals, if any, are recorded as an expense over the vesting period. For more information on share-based compensation, see Note 11 to the consolidated financial statements.

## Noncontrolling Interest

Noncontrolling interest accounting is applied for any entities where the Company maintains more than 50% and less than 100% ownership. The Company clearly identifies the noncontrolling interest in the balance sheets and income statements. The Company also discloses three measures of net loss: net loss, net loss attributable to noncontrolling interest, and net loss attributable to Astrotech Corporation. The Company's operating cash flows in its consolidated statements of cash flows reflect net loss, while basic and diluted loss per share calculations reflect net loss attributable to Astrotech Corporation. The Company eliminated all noncontrolling interest as of June 30, 2017. See Note 5 to the consolidated financial statements for more information.

## Income Taxes

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

## Treasury Stock

The Company records treasury stock at the cost to acquire it and includes treasury stock as a component of stockholders' equity.

## Results of Operations for the Years Ended June 30, 2018 and 2017

Selected financial data for the fiscal years ended June 30, 2018 and 2017 of our operations are as follows:

(In thousands)	Years Ended June 30,		
	2018	2017	Variance
Revenue	\$86	\$2,328	\$(2,242 )
Cost of revenue	36	1,293	(1,257 )
Gross profit	50	1,035	(985 )
Gross margin percentage	58	% 44	% 14
Operating expenses			
Selling, general and administrative	5,629	7,508	(1,879 )
Research and development	6,065	5,587	478
Loss on impairment of long-lived assets	1,693	-	1,693
Total operating expenses	13,387	13,095	292
Interest and other income, net	86	306	(220 )
Income tax expense	—	(2 )	2
Net loss	(13,251)	(11,756)	(1,495 )
Less: net loss attributable to noncontrolling interest	—	(174 )	174
Net loss attributable to Astrotech Corporation	\$(13,251)	\$(11,582)	\$(1,669 )

Revenue – Total revenue decreased by \$2.2 million, or 96%, for the year ended June 30, 2018, compared to the year ended June 30, 2017. Of the fiscal year 2018 revenue, \$41 thousand was from a software license agreement with a large post-production film company and \$45 thousand was associated with space-grade handrail manufacturing sales, an opportunity born from our legacy space business for which the Company has unique expertise. The fiscal year 2017 revenue of \$2.3 million was associated with research-based, fixed-price, government-related subcontract agreements. The decrease was primarily due to the two government-related subcontract agreements coming to an end during fiscal year 2017.

Cost of Revenue and Gross Profit – Cost of revenue is comprised of labor, materials, depreciation, and overhead. Gross profit is comprised of revenue less cost of revenue. Cost of revenue decreased \$1.3 million, or 97%, for the year ended June 30, 2018, compared to the year ended June 30, 2017. Gross profit decreased \$1.0 million, or 95%, during the year ended June 30, 2018, compared to the year ended June 30, 2017, due to the decrease in revenue described above.

Operating Expenses – Our operating expenses increased \$0.3 million, or 2%, during the year ended June 30, 2018, compared to the year ended June 30, 2017. Significant changes to operating expenses include the following:

**Selling, General and Administrative Expenses** – Our selling, general and administrative expenses decreased \$1.9 million, or 25%, for the year ended June 30, 2018, compared to the year ended June 30, 2017, driven by decreases in compensation and related expenses caused by a reduction in workforce of \$0.9 million, reduced equity compensation expense of \$0.7 million, reduced marketing expenses of \$0.1 million, reduced directors fees of \$0.1 million, and a \$0.1 million decrease in legal costs.

**Research and Development Expenses** – Research and development expenses prior to a reclassification of \$19 thousand and \$787 thousand to cost of sales in fiscal years 2018 and 2017, respectively, were \$6.1 million and \$6.4

million. The reason for this decrease was reduced compensation and related expenses caused by a reduction in workforce, partially offset by an increase in material expenditures as we produce TRACER 1000 units for airport security.

**Loss on Impairment of Long-Lived Assets** – During the fourth quarter of fiscal year 2018, the Company determined that there was an impairment indicator associated with the Color ICE™ software platform and scanner of the Astral assets. During the quarter, management’s push to sell a newer version of Astral’s Color ICE™ software to a major scanning company was postponed, possibly indefinitely. In addition, even though the Company secured its first contract subsequent to year-end that utilizes Astral’s latest software, the expectations under the contract remain unclear and the contract could yield limited, or possibly no, additional revenue. In light of the Company’s limited resources, expenses in Astral have been reduced and efforts have been scaled back until the market begins to develop. Due to the delay in the development of the market which has to date not yielded significant revenues, management believes that, for the foreseeable future, it is probable that Astral net cash flows will continue to fall short of the value of the Astral assets. Management therefore recorded an impairment charge of \$1.6 million in fiscal year 2018. As of June 30, 2018, the fair value of these assets was immaterial. In addition, on June 1, 2018, the Company entered into its third amendment of the original lease for the 1<sup>st</sup> Detect facility removing 8,118 square feet from its leased space. Management therefore wrote-off the leasehold improvements and other assets associated with this reduction of square footage. The total amount associated with this impairment is \$114 thousand.

**Income Taxes** – Our income tax expense decreased \$2.0 thousand, or 100%, due to a reduction in state income tax owed.

## FINANCIAL CONDITION, CAPITAL RESOURCES AND LIQUIDITY

### Balance Sheet

Total assets for the year ended June 30, 2018 were \$5.1 million compared to total assets of \$18.8 million as of the end of fiscal year 2017. The following table sets forth the significant components of the balance sheet as of June 30, 2018, compared with 2017:

(In thousands)	Years Ended June 30,		
	2018	2017	Variance
<b>Assets:</b>			
Current assets	\$4,276	\$13,665	\$(9,389 )
Property and equipment, net	733	3,180	(2,447 )
Long-term investments	50	1,990	(1,940 )
Other assets, net	81	—	81
<b>Total</b>	<b>\$5,140</b>	<b>\$18,835</b>	<b>\$(13,695)</b>
<b>Liabilities and stockholders’ equity:</b>			
Current liabilities	\$960	\$1,809	\$(849 )
Other long-term liabilities	188	256	(68 )



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Stockholders' equity	3,992	16,770	(12,778)
Total	\$5,140	\$18,835	\$(13,695)

Current assets – Current assets decreased \$9.4 million as of June 30, 2018, compared to June 30, 2017, as a result of funding our normal operating activities and furthering our research and development initiatives at 1<sup>st</sup> Detect and Astral.

Property and equipment, net – Property and equipment decreased \$2.4 million as of June 30, 2018, compared to June 30, 2017, due to the impairment of Astral's Color ICE™ software platform and scanner as market opportunities have not materialized as quickly as planned, continuing depreciation, and the write-off of assets associated with 1<sup>st</sup> Detect's releasing a portion of their leased space.

Long-term investments – Long-term investments decreased \$1.9 million due to reclassification from long-term to short-term investments as certain investments became current.

Current liabilities – Current liabilities decreased \$0.8 million as of June 30, 2018, compared to June 30, 2017, primarily due to a reduction in payroll related accruals, a decrease in payables, and the reduction of certain liabilities associated with 1<sup>st</sup> Detect’s releasing a portion of their leased space.

Other long-term liabilities – Other long-term liabilities decreased \$68 thousand for the year ended June 30, 2018, compared to June 30, 2017, due to amortization of tenant improvement allowances associated with the corporate and 1<sup>st</sup> Detect offices.

## Liquidity and Capital Resources

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

	Years Ended June 30,		
	2018	2017	Variance
Change in cash and cash equivalents:			
Net cash used in operating activities	\$(10,784)	\$(8,821)	\$(1,963 )
Net cash provided by investing activities	9,159	7,881	1,278
Net cash used in financing activities	(7 )	(1,275)	1,268
Net change in cash and cash equivalents	\$(1,632 )	\$(2,215)	\$ 583

## Cash and Cash Equivalents

At June 30, 2018, we held cash and cash equivalents of \$0.6 million and our net working capital was approximately \$3.3 million. At June 30, 2017, we held cash and cash equivalents of \$2.2 million and our net working capital was approximately \$11.9 million. Cash and cash equivalents decreased by approximately \$1.6 million during the year ended June 30, 2018.

## Operating Activities

Net cash used in operating activities was \$10.8 million for the year ended June 30, 2018, compared to cash used in operating activities of \$8.8 million for the year ended June 30, 2017. The increase in cash used in operating activities was due to receipts of cash in fiscal year 2017 related to contracts from prior years, but limited receipts of cash in fiscal year 2018.

## Investing Activities

Net cash provided by investing activities for the year ended June 30, 2018 was \$9.2 million, compared to cash provided by investing activities from operations of \$7.9 million for the year ended June 30, 2017. The increase in cash provided by investing activities was due to an increase in sales of investments to fund operations and a decrease in purchases of property and equipment. This increase was partially offset by fewer investments maturing.

## Financing Activities

Cash used in financing activities decreased \$1.3 million for the year ended June 30, 2018, compared to the year ended June 30, 2017 due to fewer shares repurchased.

## Debt

As of June 30, 2018 and 2017, the Company had no credit facilities.

## Liquidity

As of June 30, 2018, we had cash and cash equivalents and short-term investments of \$4.1 million and our working capital was approximately \$3.3 million. The Company reported a net loss of \$13.3 million for the fiscal year 2018 and a net loss of \$11.6 million for the fiscal year 2017, along with net cash used in operating activities of \$10.8 million for the fiscal year 2018 and net cash used in operating activities of \$8.8 million for the fiscal year 2017. These factors raise substantial doubt about the Company's ability to continue as a going concern, but the Company remains resolute in identifying the optimal solution to the liquidity issue. The Company is currently evaluating several potential sources for additional liquidity. These include, but are not limited to, selling the Company or a portion thereof, debt financing, equity financing, merging, or engaging in a strategic partnership. On July 3, 2018, management filed Form S-3 to raise possible funds through the capital

markets. The Company is currently evaluating potential offering of any combination of common stock, preferred stock, debt securities, warrants to purchase common stock, preferred stock or debt securities, or any combination of the foregoing, either individually or as units comprised of one or more of the other securities. However, additional funding may not be available when needed or on terms acceptable to us. If we are unable to generate funding within a reasonable timeframe, we may have to delay, reduce, or terminate our research and development programs, limit strategic opportunities, or curtail our business activities. Astrotech's consolidated financial statements as of June 30, 2018 do not include any adjustments that might result from the outcome of this uncertainty.

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, the need to acquire licenses to new technology, costs associated with increasing our manufacturing and development capabilities, costs associated with strategic acquisitions including integration costs and assumed liabilities, and the status of competitive products and potential costs associated with both protecting and defending our intellectual property. 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 believe we have sufficient liquidity to continue to fund our operating expenses, capital requirements, and other expected liquidity requirements through November 2018.

#### Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of June 30, 2018.

#### Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Not applicable to smaller reporting companies.

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders

Astrotech Corporation

Austin, TX

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Astrotech Corporation (the “Company”) and subsidiaries as of June 30, 2018 and 2017, the related consolidated statements of operations, changes in stockholders’ equity, and cash flows for the years then ended, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at June 30, 2018 and 2017, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Going Concern Uncertainty

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 3 to the consolidated financial statements, the Company has suffered recurring losses from operations and has net cash flows deficiencies that raise substantial doubt about its ability to continue as a going concern. Management’s plans in regard to these matters are also described in Note 3. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

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

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

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial

statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BDO USA, LLP

We have served as the Company's auditor since 2015.

Austin, Texas

September 25, 2018

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## ASTROTECH CORPORATION

## Consolidated Balance Sheets

(In thousands, except share data)

	June 30, 2018	2017
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$552	\$2,184
Short-term investments	3,551	10,900
Accounts receivable	12	146
Inventory, net	7	166
Prepaid expenses and other current assets	154	269
<b>Total current assets</b>	<b>4,276</b>	<b>13,665</b>
Property and equipment, net	733	3,180
Long-term investments	50	1,990
Other assets, net	81	—
<b>Total assets</b>	<b>\$5,140</b>	<b>\$18,835</b>
<b>Liabilities and stockholders' equity</b>		
<b>Current liabilities</b>		
Accounts payable	\$112	\$259
Payroll related accruals	412	907
Accrued and other liabilities	434	641
Income tax payable	2	2
<b>Total current liabilities</b>	<b>960</b>	<b>1,809</b>
Other liabilities	188	256
<b>Total liabilities</b>	<b>1,148</b>	<b>2,065</b>
<b>Commitments and contingencies (Note 15)</b>		
<b>Stockholders' equity</b>		
Preferred stock, \$0.001 par value, convertible, 2,500,000 shares authorized, no shares issued and outstanding at June 30, 2018 and June 30, 2017	—	—
Common stock, \$0.001 par value, 15,000,000 shares authorized; 4,496,873 and 4,508,509 shares issued at June 30, 2018 and June 30, 2017, respectively; 4,097,346 and 4,111,281 shares outstanding at June 30, 2018 and June 30, 2017, respectively	190,570	190,382
Treasury stock, 399,527 and 397,228 shares at cost at June 30, 2018 and June 30, 2017, respectively	(4,128 )	(4,121 )
Additional paid-in capital	1,745	1,483
Accumulated deficit	(184,164)	(170,913)
Accumulated other comprehensive loss	(31 )	(61 )
<b>Total stockholders' equity</b>	<b>3,992</b>	<b>16,770</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$5,140</b>	<b>\$18,835</b>

See accompanying notes to consolidated financial statements.





## ASTROTECH CORPORATION

## Consolidated Statements of Operations and Comprehensive Loss

(In thousands, except per share data)

	June 30,	
	2018	2017
Revenue	\$86	\$2,328
Cost of revenue	36	1,293
Gross profit	50	1,035
Operating expenses:		
Selling, general and administrative	5,629	7,508
Research and development	6,065	5,587
Loss on impairment of long-lived assets	1,693	—
Total operating expenses	13,387	13,095
Loss from operations	(13,337)	(12,060)
Interest and other income, net	86	306
Loss from operations before income taxes	(13,251)	(11,754)
Income tax expense	—	(2 )
Net loss	(13,251)	(11,756)
Less: Net loss attributable to noncontrolling interest	—	(174 )
Net loss attributable to Astrotech Corporation	\$(13,251)	\$(11,582)
Weighted average common shares outstanding:		
Basic and diluted	4,061	4,084
Basic and diluted net loss per common share:		
Net loss attributable to Astrotech Corporation	\$(3.26 )	\$(2.84 )
Other comprehensive loss, net of tax:		
Net loss attributable to Astrotech Corporation	\$(13,251)	\$(11,582)
Available-for-sale securities		
Net unrealized losses, net of zero tax expense	(94 )	(20 )
Reclassification adjustment for realized losses included in net loss, net		
of zero tax expense	124	60
Total comprehensive loss attributable to Astrotech Corporation	\$(13,221)	\$(11,542)

See accompanying notes to consolidated financial statements.

## ASTROTECH CORPORATION

## Consolidated Statement of Changes in Stockholders' Equity

(In thousands)

	Common Stock			Accumulated			Total	
	Number of Shares	Treasury Stock	Additional Paid-In Capital	Accumulated Deficit	Other Comprehensive Loss	Non- Controlling Interest		
	Outstanding	Amount	Amount	Capital	Deficit	Loss	Interest	Equity
Balance at June 30, 2016	4,125	\$ 189,294	\$ (2,828 )	\$ 1,419	\$ (159,117 )	\$ (101 )	\$ (40 )	\$ 28,627
Net change in available-for-sale debt and marketable equity securities	—	—	—	—	—	40	—	40
Stock-based compensation	—	—	—	98	—	—	—	98
Forfeiture of stock-based compensation	(12 )	(4 )	—	(3 )	—	—	—	(7 )
Exercise of stock options	9	49	—	(31 )	—	—	—	18
Share repurchases	(160 )	—	(1,293 )	—	—	—	—	(1,293 )
Restricted stock issuance	149	1,043	—	—	—	—	—	1,043
Acquisition of non-controlling interest	—	—	—	—	—	—	—	—