

ASTROTECH Corp
Form 10-Q/A
February 12, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A
(Amendment No. 1)

(Mark One)

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

For the quarterly period ended September 30, 2017

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)

Washington 91-1273737

State or Other Jurisdiction of Incorporation or Organization I.R.S. Employer Identification No.

201 West 5th Street, Suite 1275, Austin, Texas 78701

Address of Principal Executive Offices Zip Code

(512) 485-9530

Registrant's Telephone Number, Including Area Code

Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report

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 and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) 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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

As of November 9, 2017, the number of shares of the registrant's common stock outstanding was: 4,506,473. Such number is adjusted to reflect the registrant's five-for-one reverse stock split effectuated on October 16, 2017.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A for the quarter ended September 30, 2017, amends the Form 10-Q that was originally filed with the U.S. Securities and Exchange Commission on November 9, 2017 (the "Original Filing"). The sole purpose of this Amendment No. 1 is to correct the calculation of "Net Loss per Common Share" in the Condensed Consolidated Statements of Operations and Comprehensive Loss for the three months ended September 30, 2017 and 2016. This was inadvertently caused by a reverse stock split occurring after the end of the quarter. The following financial statements and disclosures have been updated in this Form 10-Q/A:

Restatement of the Condensed Consolidated Statements of Operations and Comprehensive Loss for the Three Months Ended September 30, 2017 and 2016.

Updated Note 6 - Net Loss Per Share.

Except as described above, no other changes have been made to the Original Filing or any other exhibits. This Amendment speaks as of the filing date of the Original Filing and does not reflect events occurring after the filing date, or modify or update those disclosures that may be affected by subsequent events. As such, this form 10-Q/A should be read in conjunction with the Original Filing.

ASTROTECH CORPORATION AND SUBSIDIARIES
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PART I: FINANCIAL INFORMATION

ITEM 1. Condensed Consolidated Financial Statements

ASTROTECH CORPORATION AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(In thousands, except share data)

(Unaudited)

| | September 30, 2017 | June 30, 2017 |
|---|-----------------------|------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 95 | \$ 2,184 |
| Short-term investments | 10,062 | 10,900 |
| Accounts receivable, net of allowance | 80 | 146 |
| Inventory, net | 132 | 166 |
| Prepaid expenses and other current assets | 246 | 269 |
| Total current assets | 10,615 | 13,665 |
| Property and equipment, net | 3,001 | 3,180 |
| Long-term investments | 1,428 | 1,990 |
| Other assets, net | 81 | — |
| Total assets | \$ 15,125 | \$ 18,835 |
| Liabilities and stockholders' equity | | |
| Current liabilities | | |
| Accounts payable | \$ 200 | \$ 259 |
| Payroll related accruals | 414 | 907 |
| Accrued liabilities and other | 382 | 641 |
| Income tax payable | 2 | 2 |
| Total current liabilities | 998 | 1,809 |
| Other liabilities | 242 | 256 |
| Total liabilities | 1,240 | 2,065 |
| Commitments and contingencies (Note 13) | | |
| Stockholders' equity | | |
| Preferred stock, no par value, convertible, 2,500,000 shares authorized; no shares issued and outstanding, at September 30, 2017 and June 30, 2017, respectively | — | — |
| Common stock, no par value, 15,000,000 shares authorized; 4,506,473 and 4,508,509 shares issued at September 30, 2017 and June 30, 2017, respectively; 4,108,573 and 4,111,281 shares outstanding at September 30, 2017 and June 30, 2017, respectively | 190,437 | 190,382 |
| Treasury stock, 397,936 and 397,228 shares at cost at September 30, 2017 and June 30, 2017, respectively | (4,124) | (4,121) |
| Additional paid-in capital | 1,550 | 1,483 |
| Accumulated deficit | (173,919) | (170,913) |
| Accumulated other comprehensive loss | (59) | (61) |
| Total stockholders' equity | 13,885 | 16,770 |
| Total liabilities and stockholders' equity | \$ 15,125 | \$ 18,835 |

See accompanying notes to unaudited condensed consolidated financial statements.

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ASTROTECH CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Operations and Comprehensive Loss

(In thousands, except share data)

(Unaudited)

| | Three Months Ended September 30, | |
|--|--|------------------|
| | 2017 | 2016 |
| | (As Restated) | (As Restated) |
| Revenue | \$— | \$ 1,006 |
| Cost of revenue | — | 731 |
| Gross profit | — | 275 |
| Operating expenses: | | |
| Selling, general and administrative | 1,407 | 2,548 |
| Research and development | 1,669 | 1,292 |
| Total operating expenses | 3,076 | 3,840 |
| Loss from operations | (3,076) | (3,565) |
| Interest and other income, net | 70 | 98 |
| Loss before income taxes | (3,006) | (3,467) |
| Income tax benefit | — | — |
| Net loss | (3,006) | (3,467) |
| Less: Net loss attributable to noncontrolling interest | — | (52) |
| Net loss attributable to Astrotech Corporation | \$(3,006) | \$(3,415) |
| Weighted average common shares outstanding: | | |
| Basic and diluted | 4,057 | 4,126 |
| Basic and diluted net loss per common share: | | |
| Net loss attributable to Astrotech Corporation | \$(0.74) | \$(0.83) |
| Other comprehensive loss, net of tax: | | |
| Net loss attributable to Astrotech Corporation | \$(3,006) | \$(3,415) |
| Available-for-sale securities: | | |
| Net unrealized gain | \$1 | \$41 |
| Reclassification adjustment for realized loss | 1 | — |
| Total comprehensive loss | \$(3,004) | \$(3,374) |

See accompanying notes to unaudited condensed consolidated financial statements.

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ASTROTECH CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

| | Three Months Ended September 30, | |
|---|--|-----------|
| | 2017 | 2016 |
| Cash flows from operating activities: | | |
| Net loss | \$(3,006) | \$(3,467) |
| Adjustments to reconcile net loss from operations to net cash used in operating activities: | | |
| Stock-based compensation | 122 | 862 |
| Amortization | 12 | 16 |
| Depreciation | 186 | 171 |
| Net loss on sale of available-for-sale investments | 1 | — |
| Changes in assets and liabilities: | | |
| Accounts receivable | 66 | (862) |
| Cost, estimated earnings and billings, net on uncompleted contracts | — | 296 |
| Accounts payable | (59) | 29 |
| Other assets and liabilities | (790) | (161) |
| Net cash used in operating activities | (3,468) | (3,116) |
| Cash flows from investing activities: | | |
| Sale of available-for-sale investments | 889 | — |
| Maturities of available-for-sale securities | 500 | 2,592 |
| Purchases of property and equipment | (7) | (24) |
| Net cash provided by investing activities | 1,382 | 2,568 |
| Cash flows from financing activities: | | |
| Payments for purchase of treasury stock | (3) | (308) |
| Net cash used in financing activities | (3) | (308) |
| Net change in cash and cash equivalents | (2,089) | (856) |
| Cash and cash equivalents at beginning of period | 2,184 | 4,399 |
| Cash and cash equivalents at end of period | \$95 | \$3,543 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid for interest | \$— | \$— |
| Income taxes paid | \$— | \$— |

See accompanying notes to unaudited condensed consolidated financial statements.

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ASTROTECH CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

(1) General Information

Description of the Company – Astrotech Corporation (Nasdaq: ASTC) (“Astrotech,” “the Company,” “we,” “us” or “our”), a Washington corporation organized in 1984, is an innovative science and technology development and commercialization company that invents, acquires, and commercializes technological innovations sourced from internal research, universities, laboratories, and research institutions, and then funds, manages, and builds start-up companies for profitable divestiture to market leaders to maximize shareholder value.

Basis of Presentation – The accompanying unaudited condensed consolidated financial statements have been prepared by Astrotech Corporation in accordance with United States Generally Accepted Accounting Principles (“GAAP”) for interim financial information and the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the three months ended September 30, 2017 are not necessarily indicative of the results that may be expected for the year ending June 30, 2018. These financial statements should be read in conjunction with the financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended June 30, 2017. Certain prior year amounts have been reclassified to conform to the current year presentation. On Monday, October 16, 2017, the Company effectuated a reverse stock split of its shares of Common Stock whereby every five (5) pre-split shares of Common Stock were exchanged for one (1) post-split share of the Company’s Common Stock (the “Reverse Stock Split”). No fractional shares were issued in connection with the Reverse Stock Split. Stockholders who would otherwise have held a fractional share of the Common Stock received a cash payment in lieu thereof. In addition, the Company’s authorized Common Stock was reduced from 75 million to 15 million shares.

Restatement Effect on Financial Statements – During the preparation of its December 31, 2017 financial statements, management identified an error in the computation of net loss per common share in the Company’s previously filed financial statements for the quarter ended September 30, 2017. In connection with the Company’s reverse stock split, net loss per common share was incorrectly reported. Management evaluated the error and concluded it was material. As such, the consolidated financial statements have been restated. The following table illustrates the impact of the restatement:

| Condensed Consolidated Statements of Operations and Comprehensive Loss For | As | Adjustment | As |
|--|------------|------------|------------|
| the three months ended September 30, 2017: | Previously | | Restated |
| | Reported | | |
| Basic and diluted net loss per share attributable to Astrotech Corporation | \$ (0.15) | \$ (0.59) | \$ (0.74) |
| Condensed Consolidated Statements of Operations and Comprehensive Loss For | | | |
| the three months ended September 30, 2016: | | | |
| Basic and diluted net loss per share attributable to Astrotech Corporation | \$ (0.17) | \$ (0.66) | \$ (0.83) |

Accounting Pronouncements – In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers” (Topic 606) (“ASU 2014-09”), which supersedes the revenue recognition requirements in Accounting Standards Codification (“ASC”) 605, Revenue Recognition (as updated by ASU 2015-14 in August 2015, ASU 2016-08 in March 2016, and ASU 2016-20 in December 2016). The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides a five-step process to achieve that core principle. ASU 2014-09 requires disclosures enabling users of financial statements to understand the nature, amount,

timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. ASU 2014-09 was to be effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. ASU 2015-14 delayed the required adoption date for public entities to periods beginning after December 15, 2017, although early adoption to the original effective date under ASU 2014-09 is permitted. Once implemented, the Company can use one of two retrospective application methods for prior periods. Earlier application is not permitted.

The Company has been assessing the impact of the new revenue recognition standard on its relationships with its clients. We have hired an outside consultant to help with the adoption of this standard. The Company is nearly complete with its comprehensive diagnostic of the measurement and recognition provisions of the new standard and is in the process of finalizing its conclusions and policies. The Company plans to adopt this standard in fiscal year 2019.

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The Company has not yet determined the impacts of all the disclosure requirements and specifically is assessing the manner in which it will disaggregate its revenue to illustrate how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. Additionally, while the Company is in the process of assessing its accounting and forecasting processes to ensure its ability to record, report, forecast, and analyze results under the new standard, it is not expecting significant changes to its business processes or systems.

In January 2016, the FASB issued ASU 2016-01, “Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities” (“ASU 2016-01”). ASU 2016-01 modifies how entities measure equity investments and present changes in the fair value of financial liabilities. Under the new guidance, entities will have to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in net income unless the investments qualify for the new practicality exception. A practicality exception will apply to those equity investments that do not have a readily determinable fair value and do not qualify for the practical expedient to estimate fair value under ASC 820, “Fair Value Measurements,” and as such these investments may be measured at cost. ASU 2016-01 will be effective for the Company’s fiscal year beginning July 1, 2018, and subsequent interim periods. The adoption of ASU 2016-01 is not expected to have an impact on the Company’s financial statements. The Company will adopt this ASU in fiscal year 2019.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842)” (“ASU 2016-02”). The new standard establishes a right-of-use (“ROU”) model that requires a lessee to record an ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is assessing the impact the adoption of ASU 2016-02 will have on its financial statements and plans to adopt this ASU in fiscal year 2019.

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” (“ASU 2016-13”). ASU 2016-13 amends guidance on reporting credit losses for assets held at amortized cost basis and available-for-sale debt securities. For assets held at amortized cost basis, ASU 2016-13 eliminates the probable initial recognition threshold in current generally accepted accounting standards, and, instead, requires an entity to reflect its current estimate of all expected credit losses. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial assets to present the net amount expected to be collected. For available-for-sale debt securities, credit losses should be measured in a manner similar to current generally accepted accounting standards; however, ASU 2016-13 will require that credit losses be presented as an allowance rather than as a write-down. ASU 2016-13 affects entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. This amendment affects loans, debt securities, trade receivables, net investments in leases, off balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is currently evaluating the impact the adoption of this standard will have on its financial statements.

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments” (“ASU 2016-15”). ASU 2016-15 will make eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017. The new standard will require adoption on a retrospective basis unless it is impracticable to apply, in which case it would be required to apply the amendments prospectively as of the earliest date practicable. The Company is currently in the process of evaluating the impact of adoption on its consolidated

financial statements.

In May 2017, the FASB issued ASU 2017-09, “Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting” (“ASU 2017-09”). ASU 2017-09 clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as a modification. The new guidance is expected to reduce diversity in practice and result in fewer changes to the terms of an award being accounted for as a modification. Changes to the terms or conditions of a share-based payment award that do not impact the fair value of the award, vesting conditions and the classification as an equity or liability instrument will not need to be assessed under modification accounting. ASU 2017-09 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The amendments in this update should be applied prospectively to an award modified on or after the adoption date. Accordingly, the adoption of ASU 2017-09 will not have an effect on the Company's historical financial statements. The Company is currently evaluating the effect of this standard on future consolidated financial statements.

Our Business Units

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Astro Scientific

Astro Scientific is a technology incubator that commercializes innovative technologies. Subsidiaries 1st Detect Corporation (“1st Detect”) and Astrogenetix Inc. (“Astrogenetix”) currently reside in Astro Scientific:

1st Detect - 1st Detect develops, manufactures, and sells chemical analyzers for use in the airport security, military, and breath analysis markets. Our chemical analyzers can identify chemicals with more accuracy and precision than competing analyzers given their extreme sensitivity and specificity. By leveraging a concept from Oak Ridge National Laboratory and a preliminary design initiated by an engagement with the National Aeronautics and Space Administration (“NASA”) to develop a mass spectrometer for the International Space Station, the Company developed a chemical analyzer that enables real-time analytics that we believe to be significantly smaller, lighter, faster, and less expensive than competing analyzers. The majority of revenue in 1st Detect comes from working as a subcontractor on government contracts. The Company works with prime contractors in adapting our technology to be used in enhancing the government’s detection capabilities for a variety of applications.

Our product portfolio currently consists of the following products:

MMS-1000™ - the MMS-1000™ is a small, low-power desktop analyzer designed for the laboratory market.

OEM-1000 - the OEM-1000 is an original equipment manufacturer (“OEM”) component that drives the MMS-1000™. It is designed to be integrated into customers’ packaging and enclosures and to be integrated with application-specific sampling or separation technology. Variants of the OEM-1000 have been selected by our partners for integration with their ancillary instrumentation.

MMS-2000™ - the MMS-2000™ is a process gas monitor that provides real-time measurement of specific chemicals in a process stream. It 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.

Tracer 1000 MS-ETD™ - the Tracer 1000 MS-ETD™ is an explosives trace detector (“ETD”) with a linear ion trap mass spectrometer and a swab-based thermal desorption sample inlet system. It is designed to replace the current generation of ion mobility spectrometry-based ETD systems installed at airports and other high security facilities globally.

BreathDetect 1000™ - the BreathDetect 1000™ is a mass spectrometry-based instrument that is being used to analyze human breath in real-time, enabling detection of bacterial infections in the respiratory tract within minutes.

Astrogenetix - Astrogenetix is applying a fast-track, on-orbit discovery platform using the International Space Station to develop vaccines. The Center for Vaccine Development at the University of Maryland (“UMD”), one of the leading vaccinology institutions in the world, independently validated our target vaccine for Salmonella through funding provided by NASA. We are currently looking for funding to finance the pursuit of an Investigational New Drug (“IND”) application with the U.S. Food and Drug Administration (“FDA”).

Astral

Astral Images sells film-to-digital conversion, high-dynamic range conversion, image enhancement, defect removal, and color correction services. Astral uses its powerful artificial intelligence (“AI”) algorithms to provide automated conversion of television and feature 35mm and 16mm films to the new 4K HDR format, the standard for the latest generation of digital film distribution to the home. Due to a significant shift in the film scanning industry, most film assets will need to go through an upgrade to the new standard to remain relevant for over-the-top distribution (Netflix, Amazon, Hulu, etc.) as television manufacturers sell more 4K HDR televisions and consumer demand for such content accelerates. Astral is positioned to be a leader in the digital conversion of feature films, film-based television series, sporting events shot on film, film libraries, and film archives. Astral has introduced to the digital conversion market Black ICE™ for the conversion of black and white film, Color ICE™ for the conversion of color film, and HDR ICE™ for the conversion of color film or digital video to the new HDR format. Astral’s platform technology is also being designed to launch a targeted solution that will convert photographs, negatives, and slides to a digital format while employing its AI algorithms to remove defects and restore the color in automation.

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(2) Going Concern

Financial Condition

The Company's consolidated financial statements for the quarter ended September 30, 2017 have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As of September 30, 2017, the Company has working capital of \$9.6 million. For fiscal year 2017, the Company reported a net loss of \$11.6 million and net cash used in operating activities of \$8.8 million, which raises 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.

Management's Plans to Continue as a Going Concern

Management has engaged Chardan Capital Markets to pursue strategic alternatives for the Company. 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. Management continues to explore these strategic alternatives as we look to improve our liquidity and maximize shareholder value.

Astrotech's consolidated financial statements as of September 30, 2017 do not include any adjustments that might result from the inability to implement or execute the Company's plans to improve its ability to continue as a going concern.

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(3) Investments

We use the specific identification method when determining realized gains and losses on our available-for-sale securities. The following tables summarize unrealized gains and losses related to our investments:

| Available-for-Sale (In thousands) | September 30, 2017 | | | |
|--|--------------------|-----------------|-----------------|------------|
| | Adjusted Cost | Unrealized Gain | Unrealized Loss | Fair Value |
| Mutual Funds - Corporate & Government Debt | \$8,215 | \$ — | \$ (57) | \$8,158 |
| Fixed Income Bonds | 2,536 | — | (1) | 2,535 |
| Time Deposits | 798 | 1 | (2) | 797 |
| Total | \$11,549 | \$ 1 | \$ (60) | \$11,490 |
| | June 30, 2017 | | | |
| | Adjusted Cost | Unrealized Gain | Unrealized Loss | Fair Value |
| Mutual Funds - Corporate & Government Debt | \$9,104 | \$ — | —\$ (61) | \$9,043 |
| Fixed Income Bonds | 3,048 | — | — | 3,048 |
| Time Deposits | 799 | — | — | 799 |
| Total | \$12,951 | \$ — | —\$ (61) | \$12,890 |

For information on the unrealized holding losses on available-for-sale investments reclassified out of accumulated other comprehensive loss into the consolidated statements of income, see “Note 9: Other Comprehensive Loss.”

We have certain financial instruments on our condensed consolidated balance sheet related to interest-bearing time deposits and fixed income bonds. These time deposits are included in “Short-term Investments” if the maturities at the end of the reporting period were 360 days or less or “Long-term Investments” if the maturities at the end of the reporting period were over 360 days. Fixed income investments, maturing over the next one to three years, are comprised of investment-grade fixed income securities in various corporations with ratings of BB- or better.

The following table presents the carrying amounts of certain financial instruments as of September 30, 2017, and June 30, 2017:

| (In thousands) | Carrying Value | | | |
|--|------------------------|---------------|-----------------------|---------------|
| | Short-Term Investments | | Long-Term Investments | |
| | September 30, 2017 | June 30, 2017 | September 30, 2017 | June 30, 2017 |
| Mutual Funds - Corporate & Government Debt | \$8,158 | \$9,043 | \$— | \$— |
| Time deposits | | | | |
| Maturities from 1-90 days | — | — | — | — |
| Maturities from 91-360 days | 250 | 250 | — | — |
| Maturities over 360 days | — | — | 547 | 549 |
| Fixed Income Bonds | | | | |
| Maturities less than 1 year | 1,654 | 1,607 | — | — |
| Maturities from 1-3 years | — | — | 881 | 1,441 |
| Maturities from 3-5 years | — | — | — | — |
| Total | \$10,062 | \$10,900 | \$1,428 | \$1,990 |

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(4) Inventory

The following table summarizes the components of our inventory balances, net of allowance of \$107 thousand and \$116 thousand at September 30, 2017, and June 30, 2017, respectively:

| (In thousands) | September 30, 2017 | June 30, 2017 |
|-----------------|-----------------------|------------------|
| Raw materials | \$ 84 | \$ 109 |
| Work in process | 48 | 57 |
| Total inventory | \$ 132 | \$ 166 |

(5) Noncontrolling Interest

Astral was created in conjunction with a noncontrolling interest, resulting in Astrotech initially owning 72% of Astral; the Company now owns 100% of Astral. The following table details the contributions from the Company and the minority interest owner and the Company's ownership percentage of Astral:

| (In thousands) | ASTC Contribution | Minority Owner | ASTC Ownership (1) | |
|---|----------------------|-------------------|--------------------------|---|
| Initial investment | \$ 1,422 | \$ 422 | 72 | % |
| Additional contributions made in fiscal year 2015 | 1,000 | — | 83 | % |
| Additional contributions made in fiscal year 2016 | 3,000 | — | 92 | % |
| Additional contributions made in fiscal year 2017 | 3,500 | (422) | 100 | % |
| Total Contributions | \$ 8,922 | \$ — | | |

(1) Astrotech acquired full ownership of Astral Images in fiscal year 2017.

The Company previously applied noncontrolling interest accounting, which required us to clearly identify the noncontrolling interest in the consolidated statements of operations. The Company previously disclosed 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 our basic and diluted earnings per share calculations reflect net loss attributable to Astrotech Corporation.

The following table breaks down the changes in Stockholders' Equity for three months ended September 30, 2017:

| (In thousands) | Total Stockholders' Equity |
|--|----------------------------------|
| Balance at June 30, 2017 | \$ 16,770 |
| Stock based compensation | 122 |
| Share repurchases | (3) |
| Net change on available-for-sale investments | 2 |
| Net loss attributable to Astrotech Corporation | (3,006) |
| Balance at September 30, 2017 | \$ 13,885 |

(6) Net Loss per Share

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

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

| (In thousands, except share data) | Three Months Ended | |
|--|--------------------|--------------------|
| | September 30, 2017 | September 30, 2016 |
| | (As Restated) | (As Restated) |
| Numerator: | | |
| Amounts attributable to Astrotech Corporation, basic and diluted: | | |
| Loss before income taxes | \$(3,006) | \$(3,467) |
| Income tax benefit | — | — |
| Net loss | (3,006) | (3,467) |
| Less: Net loss attributable to noncontrolling interest | — | (52) |
| Net loss attributable to Astrotech Corporation | \$(3,006) | \$(3,415) |
| Denominator: | | |
| Denominator for basic and diluted net loss per share attributable to Astrotech Corporation — weighted average common stock outstanding | 4,057 | 4,126 |
| Basic and diluted net loss per common share: | | |
| Net loss attributable to Astrotech Corporation | \$(0.74) | \$(0.83) |

All unvested restricted stock awards for the three months ended September 30, 2017, are not included in diluted net loss per share, as the impact to net loss per share would be anti-dilutive. Options to purchase 365,252 shares of common stock at exercise prices ranging from \$1.60 to \$16.00 per share outstanding as of September 30, 2017, were not included in diluted net loss per share, as the impact to net loss per share would be anti-dilutive.

(7) Revenue Recognition

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

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Production Unit Sales

When revenue for sale of manufactured product is commenced, we will recognize it 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.

Construction-Type and Production-Type Contracts

Most of the Company's revenue is derived from contracts to manufacture mass spectrometers to a buyer's specification. These contracts are accounted for under the provisions of FASB 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 that are one to two years long. 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.

(8) Fair Value Measurement

The accounting standard for fair value measurements defines fair value, establishes a market-based framework or hierarchy for measuring fair value, and expands disclosures about fair value measurements. The standard is applicable whenever assets and liabilities are measured and included in the financial statements at fair value.

The fair value hierarchy established in the standard prioritizes the inputs used in valuation techniques into three levels as follows:

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

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

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

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The following tables present the carrying amounts, estimated fair values, and valuation input levels of certain financial instruments as of September 30, 2017, and June 30, 2017:

| (in thousands) | September 30, 2017 | | | | |
|--|--------------------|------------------------------|------------|------------|---------------|
| | Carrying Amount | Fair Value Measured Using | | | Fair Value |
| | | Level 1 | Level 2 | Level 3 | |
| Available-for-Sale Securities | | | | | |
| Mutual Funds - Corporate & Government Debt | \$8,158 | \$8,158 | \$— | \$— | —\$8,158 |
| Bonds: 0-1 year | 1,654 | — | 1,654 | — | 1,654 |
| Bonds: 1-3 years | 881 | — | 881 | — | 881 |
| Time deposits: 91-360 days | 250 | — | 250 | — | 250 |
| Time deposits: over 360 days | 547 | — | 547 | — | 547 |
| Total | \$11,490 | \$8,158 | \$3,332 | \$— | —\$11,490 |
| | | | | | |
| (in thousands) | June 30, 2017 | | | | |
| | Carrying Amount | Fair Value Measured Using | | | Fair Value |
| | | Level 1 | Level 2 | Level 3 | |
| Available-for-Sale Securities | | | | | |
| Mutual Funds - Corporate & Government Debt | \$9,043 | \$9,043 | \$— | \$— | —\$9,043 |
| Bonds: 0-1 year | 1,607 | — | 1,607 | — | 1,607 |
| Bonds: 1-3 years | 1,441 | — | 1,441 | — | 1,441 |
| Time deposits: 91-360 days | 250 | — | 250 | — | 250 |
| Time deposits: over 360 days | 549 | — | 549 | — | 549 |
| Total | \$12,890 | \$9,043 | \$3,847 | \$— | —\$12,890 |

The value of our available-for-sale investments is based on pricing from third-party pricing vendors, who may use quoted prices in active markets for identical assets (Level 1 inputs). The fair value of our bonds and time deposits with maturities less than 90 days is considered the amortized value; the fair value measurements used for bonds and time deposits with maturities greater than 90 days is considered Level 2 and uses pricing from third-party pricing vendors who use quoted prices for identical or similar securities in both active and inactive markets.

(9) Other Comprehensive Loss

Changes in the balances of each component included in accumulated other comprehensive loss for the three months ended September 30, 2017, are presented below.

| (In thousands) | Accumulated Other Comprehensive Loss |
|--|---|
| Unrealized Loss in Investments | |
| Balance at June 30, 2017 | \$ (61) |
| Current period change in other comprehensive loss before reclassifications | 1 |
| Reclassification to net loss for realized losses | 1 |
| Balance at September 30, 2017 | \$ (59) |

(10) Business Risk and Credit Risk Concentration Involving Cash

During the three months ended September 30, 2017, the Company did not recognize any revenue from customers. During the three months ended September 30, 2016, the Company had two customers that together comprised 100% of the Company's revenue. The following tables summarize the concentrations of sales and trade accounts receivable percentages for the Company's customers:

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| | Three Months Ended September 30, 2017 | Three Months Ended September 30, 2016 |
|--|---|---|
| Next Generation Chemical Detector Partner | —% | 62 % |
| Department of Homeland Security Science and Technology Directorate Partner | —% | 38 % |
| | September 30, 2017 | June 30, 2017 |
| | Percentage of Total Sales | Percentage of Total Sales |
| Department of Homeland Security Science and Technology Directorate Partner | —% | 100 % |
| | Percentage of Trade A/R | Percentage of Trade A/R |

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

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

Stock Option Activity Summary

The Company’s stock option activity for the three months ended September 30, 2017, is as follows:

| | Shares (in thousands) | Weighted Average Exercise Price |
|-----------------------------------|-----------------------------|--|
| Outstanding at June 30, 2017 | 365 | \$ 6.07 |
| Granted | — | — |
| Exercised | — | — |
| Canceled or expired | — | — |
| Outstanding at September 30, 2017 | 365 | \$ 6.07 |

The aggregate intrinsic value of options exercisable at September 30, 2017, was \$0.2 million as the fair value of the Company’s common stock is more than the exercise prices of these options. The remaining share-based compensation expense of \$0.5 million related to stock options will be recognized over a weighted-average period of 2.48 years.

The table below details the Company’s stock options outstanding as of September 30, 2017:

| Range of exercise prices | Number Outstanding | Options Outstanding Weighted- Average Remaining | Weighted- Average Exercise Price | Number Exercisable | Options Exercisable Weighted- Average Exercise |
|--------------------------|-----------------------|---|---|-----------------------|--|
|--------------------------|-----------------------|---|---|-----------------------|--|

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| | | Contractual Life (years) | | | Price |
|-----------------|---------|-----------------------------|---------|---------|---------|
| \$1.60 – 3.55 | 77,550 | 3.11 | \$ 3.11 | 77,550 | \$ 3.11 |
| \$5.03 – 8.35 | 270,702 | 8.43 | 6.29 | 86,000 | 6.59 |
| \$16.00 – 16.00 | 17,000 | 7.52 | 16.00 | 12,267 | 16.00 |
| \$1.60 – 16.00 | 365,252 | 7.26 | \$ 6.07 | 175,817 | \$ 5.56 |

Compensation costs recognized related to stock option awards were \$67 thousand and \$19 thousand for the three months ended September 30, 2017, and 2016, respectively.

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Restricted Stock

The Company's restricted stock activity for the three months ended September 30, 2017, is as follows:

| | Shares (in thousands) | Weighted Average Grant-Date Fair Value |
|-----------------------------------|-----------------------------|---|
| Outstanding at June 30, 2017 | 56 | \$ 9.95 |
| Granted | — | — |
| Vested | 6 | 9.22 |
| Canceled or expired | 2 | 8.35 |
| Outstanding at September 30, 2017 | 48 | \$ 10.12 |

Stock compensation expenses related to restricted stock were \$55 thousand and \$843 thousand for the three months ended September 30, 2017, and 2016, respectively. The remaining share-based compensation expense of \$193 thousand related to restricted stock awards granted will be recognized over a weighted-average period of 1.27 years.

Securities Repurchase Program

On December 13, 2014, the Board of Directors amended the share repurchase program to allow for the repurchase of up to \$5 million in Astrotech Corporation stock until December 31, 2015. On December 3, 2015, the Board of Directors authorized the extension of the share repurchase program through December 31, 2016. The share repurchase program ended as of December 31, 2016; as such, during the three months ended September 30, 2017, no shares were repurchased as part of the share repurchase program. As of September 30, 2017, the Company had repurchased 37,727 shares of common stock at a cost of \$492 thousand, which represents an average cost of \$13.05 per share.

Shares Repurchased from Related Parties

In August 2016, the Company repurchased 38,400 shares issued to the Chief Financial Officer and Chief Operating Officer related to their tax withholding obligations at a cost of \$308 thousand, which represents an average cost of \$8.00 per share. In December 2016, the Company repurchased 120,370 shares from the Chief Executive Officer at a cost of \$975 thousand, which represents an average cost of \$8.10 per share.

(12) Income Taxes

The Company accounts for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts. Valuation allowances are established, when necessary, to reduce deferred tax assets to amounts that are more likely than not to be realized. As of September 30, 2017, and June 30, 2017, the Company established a full valuation allowance against all of its net deferred tax assets.

For the three months ended September 30, 2017, and 2016, the Company incurred pre-tax losses in the amount of \$3.0 million and \$3.5 million, respectively. The total effective tax rate was approximately 0% for each of the three months ended September 30, 2017, and 2016.

For each of the three months ended September 30, 2017, and 2016, the Company's effective tax rate differed from the federal statutory rate of 35%, primarily due to recording of the valuation allowance placed against its net deferred tax assets.

FASB ASC 740, "Income Taxes" addresses the accounting for uncertainty in income tax recognized in an entity's financial statements and prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken or expected to be taken on a tax return. The Company had an unrecognized tax benefit of \$0 for each of the three months ended September 30, 2017, and 2016.

Loss carryovers are generally subject to modification by tax authorities until three years after they have been utilized; as such, the Company is subject to examination for the fiscal years ended 2000 through present for federal purposes and fiscal years ended

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2006 through present for state purposes. The reason for this extended examination period is due to the utilization of the loss carryovers generated by the sale of our Astrotech Space Operations business unit in fiscal year 2015.

(13) Commitments and Contingencies

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

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

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

(14) Segment Information

The Company currently has two reportable business units: Astro Scientific and Astral.

Astro Scientific

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

1st Detect - 1st Detect develops, manufactures, and sells chemical analyzers for use in the airport security, military, and breath analysis markets. Our chemical analyzers can identify chemicals with more accuracy and precision than competing analyzers given their extreme sensitivity and specificity. By leveraging a concept from Oak Ridge National Laboratory and a preliminary design initiated by an engagement with NASA to develop a mass spectrometer for the International Space Station, the Company developed a chemical analyzer that enables real-time analytics that we believe to be significantly smaller, lighter, faster, and less expensive than competing analyzers. The majority of revenue in 1st Detect comes from working as a subcontractor on government contracts. The Company works with prime contractors in adapting our technology to be used in enhancing the government's detection capabilities for a variety of applications.

Astrogenetix - Astrogenetix is applying a fast-track, on-orbit discovery platform using the International Space Station to develop vaccines. The Center for Vaccine Development at UMD, one of the leading vaccinology institutions in the world, independently validated our target vaccine for Salmonella through funding provided by NASA. We are currently looking for funding to finance the pursuit of an IND application with the FDA.

Astral

Astral Images sells film-to-digital conversion, high-dynamic range conversion, image enhancement, defect removal, and color correction services. Astral uses its powerful AI algorithms to provide automated conversion of television and feature 35mm and 16mm films to the new 4K HDR format, the standard for the latest generation of digital film distribution to the home. Due to a significant shift in the film scanning industry, most film assets will need to go through an upgrade to the new standard to remain relevant for over-the-top distribution (Netflix, Amazon, Hulu, etc.) as television manufacturers sell more 4K HDR televisions and consumer demand for such content accelerates. Astral

is positioned to be a leader in the digital conversion of feature films, film-based television series, sporting events shot on film, film libraries, and film archives. Astral has introduced to the digital conversion market Black ICE™ for the conversion of black and white film, Color ICE™ for the conversion of color film, and HDR ICE™ for the conversion of color film or digital video to the new HDR format. Astral's platform technology is also being designed to launch a targeted solution that will convert photographs, negatives, and slides to a digital format while employing its AI algorithms to remove defects and restore the color in automation.

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

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

| Revenue, Depreciation, and Income (In thousands) | Three Months Ended September 30, 2017 | | | Three Months Ended September 30, 2016 | | |
|---|--|--------------|--------------------------|--|--------------|--------------------------|
| | Revenue | Depreciation | Loss before Income Taxes | Revenue | Depreciation | Loss before Income Taxes |
| Astro Scientific | \$— | \$ 104 | \$(2,424) | \$1,006 | \$ 91 | \$(2,786) |
| Astral | — | 82 | (582) | — | 80 | (681) |
| Total | \$— | \$ 186 | \$(3,006) | \$1,006 | \$ 171 | \$(3,467) |

| Assets (In thousands) | September 30, 2017 | | | June 30, 2017 | | |
|-----------------------|--------------------|--------------------------------|--------------|-------------------|--------------------------------|--------------|
| | Fixed Assets, Net | Total Capital Expenditures (1) | Total Assets | Fixed Assets, Net | Total Capital Expenditures (2) | Total Assets |
| Astro Scientific | \$1,127 | \$ 7 | \$13,201 | \$1,224 | \$ 468 | \$16,833 |
| Astral | 1,874 | — | 1,924 | 1,956 | 31 | 2,002 |
| Total | \$3,001 | \$ 7 | \$15,125 | \$3,180 | \$ 499 | \$18,835 |

(1) Total capital expenditures are for the three months ended September 30, 2017.

(2) Total capital expenditures are for the twelve months ended June 30, 2017.

(15) Subsequent Events

On Monday, October 16, 2017, the Company effectuated a reverse stock split of its shares of Common Stock whereby every five (5) pre-split shares of Common Stock were exchanged for one (1) post-split share of the Company's Common Stock. 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.

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FORWARD-LOOKING STATEMENTS

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

- The 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;
- 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;
- Whether we will fully realize the economic benefits under our customer contracts;
- 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;
- Delays in the timing of performance under our contracts; and
- Our ability to meet technological development milestones and overcome development challenges.

Although we believe that the assumptions underlying our forward-looking statements are reasonable, any of the assumptions could be inaccurate, therefore we cannot assure you that the forward-looking statements included in this Quarterly Report on Form 10-Q will prove to be accurate. In light of the significant uncertainties inherent in our forward-looking statements, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved. Some of these and other risks and uncertainties that could cause actual results to differ materially from such forward-looking statements are more fully described in our 2017 Annual Report on Form 10-K, elsewhere in this Quarterly Report on Form 10-Q, or in the documents incorporated by reference herein. Except as may be required by applicable law, we undertake no obligation to publicly update or advise of any change in any forward-looking statement, whether as a result of new information, future events, or otherwise. In making these statements, we disclaim any obligation to address or update each factor in future filings with the Securities and Exchange Commission (“SEC”) or communications regarding our business or results, and we do not undertake to address how any of these factors may have caused changes to discussions or information contained in previous filings or communications. In addition, any of the matters discussed above may have affected our past results and may affect future results, so that our actual results may differ materially from those expressed in this Quarterly Report on Form 10-Q and in prior or subsequent communications.

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

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

Business Overview

Astrotech Corporation (Nasdaq: ASTC) ("Astrotech," the "Company," "we," "us," or "our"), a Washington corporation organized in 1984, is an innovative science and technology development and commercialization company that invents, acquires, and commercializes technological innovations sourced from internal research, universities, laboratories, and research institutions, and then funds, manages, and builds start-up companies for profitable divestiture to market leaders 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

1st Detect Corporation ("1st Detect") is a supplier of chemical detection and analysis instrumentation. Our next-generation solutions enable high performance trace detection of critical threats or compounds of interest to the security, defense, and healthcare markets using a small, fast, and inexpensive platform. The Company has engaged Chardan Capital Markets, LLC to help maximize shareholder value at 1st Detect by investigating strategic alternatives and these efforts are ongoing.

Astrogenetix, Inc. ("Astrogenetix") is developing next-generation vaccines using the unique environment of microgravity.

Astral Images Corporation

Astral Images Corporation ("Astral") restores, enhances, and digitizes film using its powerful artificial intelligence ("AI") algorithms to remove dust, scratches, and defects while restoring and enhancing the original color and optimizing the resolution to be viewed in ultra-high definition ("UHD" or "4K") high dynamic range ("HDR"). We are facilitating the shift from high definition ("HD," "2K," or "1080p") resolution to 4K HDR, the format in which the latest generation of digital video content is being distributed to the home.

Our Business Units

Astro Scientific

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

1st Detect - 1st Detect develops, manufactures, and sells chemical analyzers for use in the airport security, military, and breath analysis markets. Our chemical analyzers can identify chemicals with more accuracy and precision than competing analyzers given their extreme sensitivity and specificity. By leveraging a concept from Oak Ridge National Laboratory and a preliminary design initiated by an engagement with the National Aeronautics and Space Administration ("NASA") to develop a mass spectrometer for the International Space Station, the Company developed a chemical analyzer that enables real-time analytics that we believe to be significantly smaller, lighter, faster, and less

expensive than competing analyzers. The majority of revenue in 1st Detect comes from working as a subcontractor on government contracts. The Company works with prime contractors in adapting our technology to be used in enhancing the government's detection capabilities for a variety of applications.

Our efforts have resulted in a technology that has been or may be deployed in the following areas:

Security - Explosive device detection in airports: There are currently approximately 25,000 ion mobility spectrometer ("IMS") instruments installed today, with most 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 partnered with an incumbent provider of IMS instrumentation to airports to deliver an instrument to the Transportation and Security Administration ("TSA") with far greater capabilities than IMS. Together with our partner, we were awarded a grant for the Air Cargo and Next Generation Checkpoint program with the Department of Homeland Security Science and Technology Directorate ("DHS S&T"), whereby we delivered the mass spectrometer portion of the instrument. We recently completed the first phase of the program and our technology was well received by TSA, but there is no guarantee

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of subsequent phases. We have therefore launched efforts internally to create a full product solution for the TSA called the Tracer 1000 MS-ETD™ as we work toward having the world's first explosives trace detector ("ETD") driven by a mass spectrometer. With mass spectrometry being the gold standard of chemical detection, a mass spectrometry-based ETD will significantly reduce the number of false positives and allow for a much more expansive library of compounds of interest as compared to IMS-based ETDs.

Defense - Military: The military is also looking to enhance its chemical detection capabilities and, on September 11, 2014, we announced that, together with Battelle Memorial Institute ("Battelle"), one of the leading providers of instrumentation to the military, we were awarded a grant for the Next Generation Chemical Detector ("NGCD") program with the Department of Defense's ("DOD") Joint Program Executive Office for Chemical and Biological Defense ("JPEO-CBD") for one of the three variants in the NGCD program called the Multi-Sample Identifier/Multi-Sample Identifier Collector variant. The first stage of the three stage program was completed in the fourth quarter of fiscal year 2017. Our portion of the contract was successfully completed; however, Battelle has indicated that they do not plan to pursue the next phase of the program. We are currently evaluating our options for remaining in the competition.

Healthcare - Breath analysis: We have partnered with UT Health San Antonio ("UTHSA") in the development of the BreathDetect 1000, a mass spectrometry-based instrument that is being used to analyze human breath in real-time, enabling detection of bacterial infections in the respiratory tract within minutes. We have entered pre-clinical trials working with cystic fibrosis patients at UTHSA, focusing on identifying hospital-acquired pneumonia ("HAP"), one of the biggest and most expensive problems in hospitals with over 150,000 cases reported annually. Such identification can significantly enhance the physicians' ability to treat patients correctly. With current diagnosis methods, physicians wait up to three days for the lab to identify the organism, and another two days to receive the antibiotic resistance profile. In the meantime, they prescribe broad-spectrum antibiotics, leading to the urgent public health threat of antibiotic resistance and contributing to the re-emergence of deadly diseases such as methicillin-resistant Staphylococcus aureus ("MRSA"). The appropriate real-time diagnosis can lead to immediate administration of the appropriate antibiotics, reduce antibiotic resistance, decrease the length of hospital stays, and most importantly, save lives.

Our product portfolio currently consists of the following products:

MMS-1000™ - the MMS-1000™ is a small, low-power desktop analyzer designed for the laboratory market.

OEM-1000 - the OEM-1000 is an original equipment manufacturer ("OEM") component that drives the MMS-1000™. It is designed to be integrated into customers' packaging and enclosures and to be integrated with application-specific sampling or separation technology. Variants of the OEM-1000 have been selected by our partners for integration with their ancillary instrumentation.

MMS-2000™ - the MMS-2000™ is a process gas monitor that provides real-time measurement of specific chemicals in a process stream. It 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.

Tracer 1000 MS-ETD™ - the Tracer 1000 MS-ETD™ is an explosives trace detector with a linear ion trap mass spectrometer and a swab-based thermal desorption sample inlet system. It is designed to replace the current generation of ion mobility spectrometry-based ETD systems installed at airports and other high security facilities globally.

BreathDetect 1000™ - the BreathDetect 1000™ is a mass spectrometry-based instrument that is being used to analyze human breath in real-time, enabling detection of bacterial infections in the respiratory tract within minutes.

Astrogenetix - Astrogenetix is applying a fast-track, on-orbit discovery platform using the International Space Station to develop vaccines. The Center for Vaccine Development at the University of Maryland ("UMD"), one of the leading vaccinology institutions in the world, independently validated our target vaccine for Salmonella through funding provided by NASA. We are currently looking for funding to finance the pursuit of an Investigational New Drug ("IND") application with the U.S. Food and Drug Administration ("FDA").

Astral

Astral Images sells film-to-digital conversion, high-dynamic range conversion, image enhancement, defect removal, and color correction services. Astral uses its powerful artificial intelligence (“AI”) algorithms to provide automated conversion of television and feature 35mm and 16mm films to the new 4K HDR format, the standard for the latest generation of digital film distribution to the home. Due to a significant shift in the film scanning industry, most film assets will need to go through an upgrade to the new standard to remain relevant for over-the-top distribution (Netflix, Amazon, Hulu, etc.) as television manufacturers sell more

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4K HDR televisions and consumer demand for such content accelerates. Astral is positioned to be a leader in the digital conversion of feature films, film-based television series, sporting events shot on film, film libraries, and film archives. Astral has introduced to the digital conversion market Black ICE™ for the conversion of black and white film, Color ICE™ for the conversion of color film, and HDR ICE™ for the conversion of color film or digital video to the new HDR format. Astral's platform technology is also being designed to launch a targeted solution that will convert photographs, negatives, and slides to a digital format while employing its AI algorithms to remove defects and restore the color in automation.

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.

Management believes there have been no significant changes during the three months ended September 30, 2017 to the items that we disclosed as our critical accounting policies and estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2017 Annual Report on Form 10-K.

Results of Operations

Three months ended September 30, 2017, compared to three months ended September 30, 2016:

Selected consolidated financial data for the quarter ended September 30, 2017, and 2016 is as follows:

| (In thousands) | Quarter Ended | |
|--|---------------|-----------|
| | September 30, | |
| | 2017 | 2016 |
| Revenue | \$— | \$1,006 |
| Cost of revenue | — | 731 |
| Gross profit | — | 275 |
| Gross margin | — | % 27 % |
| Operating expenses: | | |
| Selling, general and administrative | 1,407 | 2,548 |
| Research and development | 1,669 | 1,292 |
| Total operating expenses | 3,076 | 3,840 |
| Loss from operations | (3,076) | (3,565) |
| Interest and other income, net | 70 | 98 |
| Income tax benefit | — | — |
| Net loss | (3,006) | (3,467) |
| Less: Net loss attributable to noncontrolling interest | — | (52) |
| Net loss attributable to Astrotech Corporation | \$(3,006) | \$(3,415) |

Revenue – Total revenue decreased \$1.0 million during the first quarter of fiscal 2018, compared to the first quarter of fiscal 2017. The majority of the revenue generated in the first quarter of fiscal 2017 was associated with research-based, fixed-price, government-related subcontract agreements. These subcontract agreements ended during

the last quarter of fiscal 2017; as such, no revenue was generated in the first quarter of fiscal 2018.

Gross Profit – Gross profit is comprised of revenue less cost of revenue. Cost of revenue is comprised of labor, materials, and overhead related to products manufactured for the subcontract agreements. During the first quarter of fiscal 2018, cost of revenues decreased to \$0 from \$731 thousand in the first quarter of fiscal 2017, and gross profit decreased \$275 thousand during the same period due to the decrease in revenue as described above.

Operating Expenses – Operating expenses decreased \$764 thousand during the first quarter of fiscal 2018, compared to the first quarter of fiscal 2017. Selling, general and administrative decreased \$1.1 million primarily driven by a decrease in equity

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compensation of \$740 thousand and payroll related decreases of \$375 thousand. This was partially offset by an increase of \$377 thousand as we focused on research and development after our government-related subcontract agreements ended.

Income Taxes – Income tax expense did not change during the first quarter of fiscal 2018, compared to the first quarter of fiscal 2017. The realization of tax benefits depends on the existence of future taxable income. Pursuant to Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) “Income Taxes” (“FASB ASC 740”), a valuation allowance has been established to reduce the deferred tax assets to the amounts that are more likely than not to be realized.

Liquidity and Capital Resources

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

| (In thousands) | Three Months Ended | | |
|---|--------------------|-----------|-----------|
| | 2017 | 2016 | change |
| Cash flows from operations: | | | |
| Net cash used in operating activities | \$(3,468) | \$(3,116) | \$(352) |
| Net cash provided by investing activities | 1,382 | 2,568 | (1,186) |
| Net cash used in financing activities | (3) | (308) | 305 |
| Net cash used in operations | \$(2,089) | \$(856) | \$(1,233) |

Cash and Cash Equivalents

As of September 30, 2017, we held cash and cash equivalents of \$0.1 million, and our working capital was approximately \$9.6 million. As of June 30, 2017, we had cash and cash equivalents of \$2.2 million, and our working capital was approximately \$11.9 million. Cash and cash equivalents decreased by approximately \$2.1 million as of September 30, 2017, as compared to June 30, 2017, due to funding our normal operating activities and research and development initiatives, partially offset by the sale and maturities of some of our available-for-sale securities. Including our cash management investment portfolio, our cash and investments balance as of September 30, 2017 was \$11.6 million.

Operating Activities

Cash used in operating activities increased \$0.4 million for the three months ended September 30, 2017, compared to the three months ended September 30, 2016. Our reduced losses of \$0.5 million were offset by payments on our year-end accruals related to payroll.

Investing Activities

Cash provided by investing activities decreased \$1.2 million for the three months ended September 30, 2017, compared to the three months ended September 30, 2016, primarily caused by a decrease in the amount of available-for-sale securities matured.

Financing Activities

Cash used in financing activities decreased \$0.3 million for the three months ended September 30, 2017, compared to the three months ended September 30, 2016, due to a decrease in payments for shares repurchased.

Liquidity

As of September 30, 2017, we had cash and cash equivalents and short-term investments of \$10.2 million, and our working capital was approximately \$9.6 million. Additionally, for fiscal year 2017, the Company reported a net loss of \$11.6 million and net cash used in operating activities of \$8.8 million. 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.

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

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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 September 2018.

Income Taxes

The Company accounts for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts. Valuation allowances are established, when necessary, to reduce deferred tax assets to amounts that are more likely than not to be realized. As of September 30, 2017, and June 30, 2017, the Company established a full valuation allowance against all of its net deferred tax assets.

For the three months ended September 30, 2017, and 2016, the Company incurred pre-tax losses in the amount of \$3.0 million and \$3.5 million, respectively. The total effective tax rate was approximately 0% for each of the three months ended September 30, 2017, and 2016.

For each of the three months ended September 30, 2017, and 2016, the Company's effective tax rate differed from the federal statutory rate of 35%, primarily due to recording of the valuation allowance placed against its net deferred tax assets.

FASB ASC 740 addresses the accounting for uncertainty in income tax recognized in an entity's financial statements and prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken or expected to be taken on a tax return. The Company had an unrecognized tax benefit of \$0 for each of the three months ended September 30, 2017 and 2016.

Loss carryovers are generally subject to modification by tax authorities until three years after they have been utilized; as such, the Company is subject to examination for the fiscal years ended 2000 through present for federal purposes and fiscal years ended 2006 through present for state purposes. The reason for this extended examination period is due to the utilization of the loss carryovers generated by the sale of our Astrotech Space Operations business unit in fiscal year 2015.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of September 30, 2017, and June 30, 2017.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable to smaller reporting companies.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures, as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and

reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as of the end of the period covered by this Quarterly Report. Based on that evaluation, and as a result of the material weakness described below, our Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are ineffective. Except as identified below, there have been no material changes in our internal controls over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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Management's Report on Internal Controls over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal controls over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our principal executive and financial officers, we conducted an evaluation of the effectiveness of our internal controls over financial reporting as of September 30, 2017, based on the frame-work in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013).

As a result of our assessment, we identified control deficiencies that constitute a material weakness in the design and operation of our internal control over financial reporting. The following material weakness was present at September 30, 2017:

- Our internal controls over the mathematical accuracy of disclosed amounts failed, resulting in an inadvertent error in the calculation of "Net Loss per Common Share" in the Condensed Consolidated Statements of Operations and Comprehensive Loss for the three months ended September 30, 2017 and 2016.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

Remediation

To remediate the material weakness described above, we are immediately implementing and/or plan to implement the following:

- Design a remediation action for the review and analysis of earnings per share and improve the related policy and procedures;
- Expand review of financial disclosures; and
- Further document our tie out to our internal calculations.

When fully implemented and operational, we believe the measures described above will remediate the material weakness we have identified and strengthen our internal control over financial reporting.

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PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

As of September 30, 2017, we are not involved in any pending or threatened legal proceedings that we believe could reasonably be expected to have a material adverse effect on our financial condition, results of operations, or cash flows. From time to time, we are subject to legal proceedings and business disputes involving ordinary routine legal matters and claims incidental to our business. The ultimate legal and financial liability with respect to such matters generally cannot be estimated with certainty and requires the use of estimates in recording liabilities for potential litigation settlements or awards against us. Estimates for losses from litigation are made after consultation with outside counsel. If estimates of potential losses increase or the related facts and circumstances change in the future, we may be required to record either more or less litigation expense.

ITEM 1A. RISK FACTORS

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information required under this Item.

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

The table below shows all Company shares repurchased during the current fiscal quarter:

| Fiscal Month | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans |
|--------------------------------------|---|---------------------------------------|---|
| August 1 through August 31, 2017 (1) | 708 | \$ 4.05 | — |
| Total | 708 | \$ 4.05 | — |

(1) These shares were surrendered by employees to cover tax withholding obligations.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

The following exhibits are filed herewith:

| Exhibit No. | Description | Incorporation by Reference |
|----------------|---|--|
| 4.1 | <u>Amendment Eight to Rights Agreement, dated as of July 20, 2017, between Astrotech Corporation and American Stock Transfer & Trust Company, LLC, as Rights Agent.</u> | Incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed July 25, 2017. |
| 31.1 | <u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.</u> | Filed herewith. |
| 31.2 | <u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.</u> | Filed herewith. |
| 32.1 | <u>Certification pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934.</u> | Filed herewith. |
| 101 | The following financial information from the Company's Quarterly Report on Form 10-Q, for the period ended September 30, 2017 formatted in eXtensible Business Reporting Language: (i) Unaudited Condensed Consolidated Balance Sheets, (ii) Unaudited Condensed Consolidated Statements of Operations, (iii) Unaudited Condensed Consolidated Statements of Cash Flows, (iv) Notes to Unaudited Condensed Consolidated Financial Statements. | Filed herewith. |

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

Astrotech Corporation

Date: February 12, 2018 /s/ Eric Stober
Eric Stober
Chief Financial Officer and Principal Accounting Officer