







For the six months ended December 31, 2024, and 2023, the Company incurred pre-tax losses in the amount of \$7.3 million and \$5.5 million, respectively. The total effective tax rate was approximately 0% for six months ended December 31, 2024, and 2023. For each of the six months ended December 31, 2024, and 2023, the Company's effective tax rate differed from the federal statutory rate of 21%, primarily due to the valuation allowance placed against its net deferred tax assets. The Inflation Reduction Act and the Chips and Science Act were enacted in August 2023. There is no material impact to the Company from these new tax laws. A 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 currently has approximately \$593 thousand of uncertain tax positions as of December 31, 2024, all of which are accounted as contra-deferred tax assets. The Company does not expect any significant changes to its uncertain tax positions in the coming 12 months. Loss carryovers are generally subject to modification by tax authorities until three years after they have been utilized; as such, the Company is subject to examination for the fiscal years ended 2001 through present for federal purposes and fiscal years ended 2006 through present for state purposes. A 16 Table of Contents A (13) Commitments and Contingencies A The Company is not subject to any litigation at the present time. A From time to time, the Company is subject to legal and administrative proceedings, settlements, investigations, claims and actions. The Company's assessment of the likely outcome of litigation matters is based on its judgment of several factors including experience with similar matters, history, precedents, relevant financial and other evidence and facts specific to the matter. Notwithstanding the uncertainty as to the outcome, based upon the information currently available, management does not believe any matters, individually or in aggregate, will have a material adverse effect on the Company's financial position or results of operations. A 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. A However, we cannot predict the outcome or effect of any of the potential litigation, claims or disputes. A (14) Subsequent Events A On January 7, 2025, Jaime Hinojosa informed the Company of his resignation from the positions of Chief Financial Officer, Treasurer and Secretary, effective February 14, 2025. Mr. Hinojosa's resignation is not in connection with any disagreement with the Company on any matter relating to the Company's operations, policies, or practices. The Company entered into a consulting agreement with Mr. Hinojosa on January 21, 2025, effective February 15, 2025, pursuant to which he will provide transition services to the Company on an as needed basis beginning on February 15, 2025 and terminating on June 30, 2025, unless extended. A On January 14, 2025, the Company appointed Ryan Polk as interim Chief Financial Officer, Treasurer and Secretary of the Company, effective as of February 14, 2025. A On January 14, 2025, our wholly owned subsidiary, 1st Detect Corporation, issued a press release announcing that it has been awarded research and development contract 70RSAT24CB000015A with the U.S. Department of Homeland Security (DHS) to research, develop and mature the TRACER 1000 for DHS next generation explosives trace detection. A On January 20, 2025, we entered into an extension of the Donley facilities effective May 1, 2025 and terminating June 30, 2025 with an option to continue the lease on a month-to-month basis. We intend to exit the Donley facilities at the end of the initial term. The monthly rent for the Donley facilities is \$14,186A during the initialA term. A On January 23, 2025, we announced that 1st Detect received a purchase order for its TRACER 1000A explosive trace detectors (ETDs) from Intuitive Research and Technology Corporation a TSA contractor. The purchase order is valued at \$429 thousand and should be recognized as revenue during fiscal year 2025. A On January 29, 2025, we entered into a new lease agreement for a facility of approximately 17,628A square feet in Austin, Texas (the Metric facility). The Metric facility is intended to support and encompass all Austin based functions during the initial term, beginningA August 31, 2025. Our total contractual base rent obligation for the Metric facility is approximatelyA \$3.2 million. Our first lease payment will be forA AugustA 2025A and the financial impact of the Metric facility lease will be reflected in our balance sheet on our Quarterly Report on Form 10-Q for the period ended September 30, 2025. A 17 Table of Contents A FORWARD-LOOKING STATEMENTS A 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: A A The adverse impact of recent inflationary pressures, including significant increases in fuel costs, global economic conditions and events related to these conditions, including the ongoing wars in Ukraine and the middle east region, and the COVID-19 pandemic; A A Our ability to successfully pursue our business plan and execute our strategy, including our collaboration with Cleveland Clinic; A A 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; A A Product demand and market acceptance risks, including our ability to develop and sell products and services to be used by governmental or commercial customers; A A The impact of trade barriers imposed by the U.S. government, such as import/export duties and restrictions, tariffs and quotas, and potential corresponding actions by other countries in which we conduct our business; A A Technological difficulties and potential legal claims arising from any technological difficulties; A A The risks related to the availability of, and cost inflation in, supply chain inputs, including labor, raw materials, commodities, packaging, and transportation; A A Uncertainty in government funding and support for key programs, grant opportunities, or procurements; A A The impact of competition on our ability to win new contracts; A A Our ability to meet technological development milestones and overcome development challenges; and A A Our ability to successfully identify, complete and integrate acquisitions. A While we do not intend to directly harvest, manufacture, distribute or sell cannabis or cannabis products, we may be detrimentally affected by a change in enforcement by federal or state governments and we may be subject to additional risks in connection with the evolving regulatory area and associated uncertainties. Any such effects may give rise to risks and uncertainties that are currently unknown or amplify others identified herein. A These forward-looking statements are based on management's current expectations. These statements are neither promises nor guarantees, but involve known and unknown risks, uncertainties, and other important factors that may cause our actual results, performance, or achievements to be materially different from any future results, performance, or achievements expressed or implied by the forward-looking statements. A A 18 Table of Contents A 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 2024 Annual Report on Form 10-K (Form 10-K), elsewhere in this Quarterly Report on Form 10-Q, or those discussed in other documents we filed with the SEC. 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. A A ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS A 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. A Business Overview A The terms "Astrotech," "the Company," "we," "our" or "we" refer to Astrotech Corporation (Nasdaq: ASTC), a Delaware corporation organized in 1984. Our use of "products" and "devices" refer to the TRACER 1000A, BreathTest-1000A, AGLAB 1000A, and Pro-Control 1000A, along with related accessories and consumables. A A Our mission is to expand access to mass spectrometry (MS) and its use through the deployment of devices designed specifically for the appropriate levels of precision required in high-volume, real-time testing environments such as airports, border checkpoints, cargo hubs, infrastructure security, correctional facilities, military bases, law enforcement centers, and industrial locations. We achieve our mission through simplifying the user interface, automating the complicated calibration process, ruggedizing the critical components to endure MS field work, and enabling multiple configurations for sample intake options. A A We are commercializing the Astrotech Mass Spectrometer Technology platform (AMS Technology) through application specific, wholly owned subsidiaries. A A Astrotech Technologies, Inc. A A ATI owns and licenses the AMS Technology, the platform MS technology originally developed by 1st Detect. The AMS Technology has been designed to be inexpensive, smaller, and easier to use when compared to traditional mass spectrometers. A Unlike other technologies, the AMS Technology works under ultra-high vacuum, which eliminates competing molecules, yielding higher resolution and fewer false alarms. The intellectual property includes 16 patents granted along with extensive trade secrets. With several diverse market opportunities for the core technology, ATI is structured to license the intellectual property for different fields of use. ATI currently licenses the AMS Technology to four wholly owned subsidiaries of Astrotech on an exclusive basis, including to 1st Detect for use in security and detection applications, to AgLAB for use in the agriculture application, to BreathTech for use in breath analysis applications, and to Pro-Control for use in production applications. A 19 Table of Contents A 1st Detect Corporation A A 1st Detect, a licensee of ATI for security and detection applications, has developed the TRACER 1000A, the world's first MS based ETD certified by the ECAC and approved by TSA for air cargo. The TRACER 1000 was designed to outperform the ETDs currently used at airports, cargo and other secured facilities, and borders worldwide. The Company believes that ETD customers are unsatisfied with the currently deployed ETD technology, which is driven by ion mobility spectrometry (IMS). The Company further believes that some IMS-based ETDs have issues with false positives, as they often misidentify personal care products and other common household chemicals as explosives, causing facility shutdowns, unnecessary delays, frustration, and significant wasted security resources. In addition, there are hundreds of different types of explosives, but IMS-based ETDs have a very limited threat detection library reserved only for those few explosives of largest concern. Adding additional compounds to the detection library of an IMS-based ETD fundamentally reduces the instrument's performance, further increasing the likelihood of false alarms. In contrast, adding additional compounds to the TRACER 1000A's detection library does not degrade its detection capabilities, as it has a virtually unlimited and easily expandable threat library. A A We obtained European Civil Aviation Conference (ECAC) certification in 2019 which allows us to sell the TRACER 1000 to airport and cargo security customers in the European Union and certain other countries. The Company is currently selling the TRACER 1000 to customers who accept ECAC certification. A As of December 31, 2024, the Company has deployed the TRACER 1000 in approximately 30A locations in 14A countries throughout Europe and Asia. A In June of 2024, the TSA approved 1st Detect's TRACER 1000 for the Air Cargo Security Technology List, which advanced the TRACER 1000 to Stage II testing and permits air cargo companies in the United States to use our equipment in their operations. During Stage II testing, the Company is conducting field trials with the TSA. A If field trials are successful, the TRACER 1000 will be added to the "qualified" list. A The Company has also started the process to pass TSA checkpoint testing. A This process involves Developmental Test and Evaluation in which the Transportation Security Laboratory ("TSL") will test the TRACER 1000 and work with 1st Detect to ensure its readiness to enter certification testing. The certification test is then completed by the Independent Test & Evaluation department of TSL. A As of the fiscal year 2023 budget the government had over 6,000 ETD units at checkpoint and baggage screening points for which we believe that the TSA would benefit from utilizing our AMS Technology. A A In May 2023, we successfully delivered a purchase order for 14 ETDs from a Romania-based company focused on research and innovation in the security and telecommunications space. A A During the second fiscal quarter of 2024, we delivered a purchase order for seven of our TRACER 1000A explosives trace detectors for an airport security checkpoint, which were deployed in an airport in Romania. A A A We are currently accepting orders for the TRACER 1000 ETD and NTD which are listed in the U.S. General Services Administration ("GSA") IT Schedule 70 under Contract No. GS-35F-250GA with SRI Group LLC, Special Item Number 334290 in April 2024. The TRACER 1000 ETD and NTD are high-performance laboratory instruments capable of rapid detection of trace levels of explosive and narcotic compounds in seconds. The TRACER 1000 ETD and NTD both provide a ruggedized platform that can be applied across various markets including airports, border security, checkpoint, cargo, and infrastructure security, correctional facilities, military, and law enforcement. A A IT Schedule 70 is a long-term contract issued by the GSA to commercial technology vendors that allows sales to the U.S. federal government, one of the largest buyers of goods and services in the world. A A On January 14, 2025, our wholly owned subsidiary, 1st Detect Corporation, issued a press release announcing that it has been awarded research and development contract 70RSAT24CB000015A with the U.S. Department of Homeland Security (DHS) to research, develop and mature the TRACER 1000 for DHS next generation explosives trace detection. A On January 23, 2025, we announced that 1st Detect received a purchase order for its TRACER 1000A explosive trace detectors (ETDs) from Intuitive Research and Technology Corporation a TSA contractor. The purchase order is valued at \$429 thousand and should be recognized as revenue during fiscal year 2025. A We continue to showcase the TRACER 1000 NTD and ETD at the trade events in the U.S. A 20 Table of Contents A AgLAB Inc. A A AgLAB, an exclusive licensee of ATI for the use in the agriculture industry to analyze complex chemical compounds found in organic plant material and extracts, has developed the AgLAB 1000A series of mass spectrometers for use in the hemp and cannabis markets with the initial focus on optimizing yields in the distillation process. The AgLAB product line is a derivative of the Company's core AMS Technology. AgLAB continues to conduct field trials demonstrating that the AgLAB 1000-D2A, can be used in the distillation process to significantly improve the yields of tetrahydrocannabinol (THC) and cannabidiol (CBD) oil during distillation. The AgLAB 1000-D2A, uses the Maximum Value Process solution (MVP) to analyze samples in real-time and assist the equipment operator determining the ideal settings required to maximize yields. A A A Production and processing of hemp and cannabis is a huge, worldwide industry. In the U.S., for example, the wholesale value of the cannabis crop from just the U.S. states permitting adult-use and medical cannabis exceeds \$6 billion annually. We believe growth in the U.S. and in the worldwide market is likely fed in part by the growing acceptance of medicinal cannabis products and anticipated legislative changes in various jurisdictions worldwide. We also believe this growth is due in part to the passage of the 2018 Farm Bill, which legalized hemp production in the U.S. A A As the CBD and hemp market continues to grow, there has been an influx of new companies entering the CBD and THC supply chains, ranging from large corporations to small startups. These companies comprise AgLAB's target market. The competition within the supply chain is fierce, with companies investing heavily in research and development to create innovative products and differentiate themselves from their competitors. However, the market remains highly fragmented, with many products of varying quality and efficacy, making it challenging for consumers to navigate. Overall, the CBD and hemp market in the U.S. is a rapidly growing industry with significant potential for continued expansion. As more research is conducted and regulations are established, we believe it is likely that the market will become more standardized and regulated, leading to increased consumer confidence and demand. Stakeholders in the industry are likely to face challenges as it matures, including increased competition and potential regulatory hurdles. A Management believes the AgLAB 1000-D2A, will deliver a compelling combination of cost and time savings while enhancing product quality and quantity for distillation processors of hemp and cannabis. The use of the AgLAB 1000-D2A, should reduce waste from current distillation practices and result in a significantly improved product. Due in large part to the Company's proprietary technology, the Company believes it is the only provider of a mass spectrometry system that gives it a distinct advantage in the industry. Sales efforts for the AgLAB 1000-D2 are currently underway. A A AgLAB announced the presentation of the AgLAB Maximum Value Processing at MJBizCon. A The AgLAB MVP is an innovative process control system proven to increase the potency of ending-weight yields and increase revenue. A The AgLAB MVP process provides real-time data, allowing distillers to adjust parameters to optimize the quality and quantity of each batch of oil. A A During our field trials of the AgLAB MVP, we were able to improve ending-weights yields by 20% or more. We believe these ongoing field trials demonstrate the solution can be a valuable tool for cannabis and hemp oil processors worldwide. A A On June 13, 2024, AgLAB and SC Laboratories (SC Labs) entered into a master lease agreement providing for the joint marketing of the AgLAB 1000-D2A, mass spectrometer and the AgLAB Maximum Value Process method to SC Labs' clients. A A A BreathTech Corporation A A BreathTech, an exclusive licensee of ATI for use in breath analysis applications, is developing the BreathTest-1000A, a breath analysis tool to screen for VOCs found in a person's breath that could indicate they may have compromised condition including but not limited to a bacterial or viral infection. A In October 2020, we entered into a Joint Development Agreement with The Cleveland Clinic Foundation (CCF) to develop a rapid breath test for coronavirus infection or related indicators using

BreathTech's license for the AMS Technology and collection of data through a clinical study. Amendments to the CCF JDA extended the expiration date to April 30, 2025. In conjunction with the CCF JDA, BreathTech entered into an Investigator-Initiated Study Agreement with The Cleveland Clinic Foundation (âœCCF IISAA), effective March 31, 2021, to expand the application of breath analysis by collecting and studying the gaseous portion of exhaled breath for markers of lung and systemic diseases. The pilot study concluded and the CCF IIS terminated in accordance with its terms on February 7, 2025. We believe additional studies will be required to continue exploration of technologies which may provide non-invasive methods of monitoring and studying lung and systemic diseases. 21 Table of Contents While the CCF JDA remains active, we believe the work to commercialize this application of the AMS Technology will require many years and significant investment due to regulatory requirements and have determined to deploy capital instead to our other subsidiaries. We are also exploring how the advancements and knowledge derived from our research on the BreathTech use case can be applied in our other existing and potential new business units. A Pro-Control, Inc. A âœ On December 12, 2023, we announced the formation of our new wholly owned subsidiary, Pro-Control, and ATIâ™s entry into an exclusive license with Pro-Control to utilize our AMS Technology for industrial process control applications involving chemical distillation outside of the agriculture industry. Pro-Control uses advanced mass spectrometer instrumentation to monitor and control the production and operations of manufacturing processes using real-time, in-process samples. Pro-Control provides the vital spectral qualitative and quantitative data needed to control the production parameters (temperatures, flow, speed, and pressure) while significantly improving efficiency. A A Pro-Controlâ™ has introduced its proprietary Pro-Control Maximum Value Processingâ™ and the Pro-Control 1000-D2â™ mass spectrometer, which in combination are designed to test, measure and increase reaction intermediates, purity and percent yields in industrial processes. A Critical Accounting Estimates A 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 (âœU.S. GAAPâ®). The preparation of these financial statements requires us to make estimates and judgments that directly affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosure of contingent assets and liabilities in the Companyâ™s consolidated financial statements and accompanying notes. A critical accounting estimate is one that involves a significant level of estimation uncertainty and have had or are reasonably likely to have a material impact on our financial condition or results of operations. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Management continuously evaluates its critical accounting policies and estimates, including those used in evaluating the recoverability of long-lived assets, recognition of revenue, valuation of inventory, and the recognition and measurement of loss contingencies, if any. Actual results may differ from these estimates under different assumptions or conditions. A We believe that the following accounting policies require us to make significant judgments and estimates in the preparation of our consolidated financial statements. A Results of Operations A Three months ended December 31, 2024, compared to three months ended December 31, 2023: A Selected consolidated financial data for the quarters ended December 31, 2024, and A 2023A is as follows: A A Three Months Ended December 31, A (In thousands) A 2024 A 2023 A Revenue A \$ 261 A \$ 1,115 A Cost of revenue A 106 A A 583 A Gross profit A 155 A A 532 A Gross margin A 59 % A 48 % Operating expenses: A A A A A A A Selling, general and administrative A 2,039 A A 2,022 A Research and development A 2,437 A A 1,578 A Total operating expenses A 4,476 A A 3,600 A Loss from operations A (4,321 ) A A (3,068 ) Other income and expense, net A 312 A A 427 A Net loss A \$( 4,009 ) A \$ ( 2,641 ) A 22 Table of Contents A Revenue â™ Total revenue decreased by \$854 thousandA during the second quarter of fiscal yearA 2025, compared to the second quarter of fiscal yearA 2024. InA the second quarter of fiscal yearA 2025 revenue wasâ™ related to sales of our TRACER 1000, a government grant andA ongoing consumableâ™ and recurring maintenance services of the TRACER 1000. In the second quarter of fiscal year 2024, revenue was related to the sales of our TRACER 1000 along with ongoing consumable and recurring maintenance services of the TRACER 1000.â™ The decrease in revenue is the result of selling fewerA devices during the secondA quarter of fiscal year 2025 thanA sold in the second quarter of fiscal year 2024. A Cost of Revenue â™A Gross profit is comprised of revenue less cost of revenue. Our costs of revenue include materials, overhead, warranty expenses,â™ shipping, and labor. Cost of revenue decreased by \$477A thousand during the secondA quarter of fiscal yearA 2025, compared to the secondA quarter of fiscal yearA 2024,â™ because of the decrease in device sales. Gross margin increased by 11%â™ in the secondA quarter of fiscal yearA 2025, compared to the secondA quarter of fiscal yearA 2024. TheA device sales in fiscal year 2025 had a higher margin compared to the device sales in fiscal year 2024A which resulted in an increase in gross margin. A In addition, grant revenue had a minimalA cost of revenue and lower costs of revenueA due to a sales mix. A These factors resulted in an increase in gross margin. A Operating Expenses â™ Operating expenses increased \$876 thousand, or 24.3%, during the second quarter of fiscal yearA 2025, compared to the second quarter of fiscal yearA 2024. Significant changes to operating expenses include the following: A A â— Selling, general and administrative expenses remained consistentA during the second quarter of fiscal yearA 2025, compared to the second quarter of fiscal yearA 2024. A A â— Research and development expenses increased \$859 thousand, or 54.4%, during the second quarter of fiscal yearA 2025, compared to the second quarter of fiscal yearA 2024,â™ largely driven by increased spending onA contractors and employeesA to support the development of our mass spectrometry offering and expenses related to cross-platform improvements to our technology. A Other IncomeA and Expense, net A A Other income and expense, net decreased \$115A thousandA during the secondA quarter of fiscal yearA 2025, compared to theA secondA quarter of fiscal yearA 2024, due to less investments earning interest income. A Six months ended December 31, 2024, compared to six months ended December 31, 2023: A Selected consolidated financial data for the six months ended December 31, 2024, and A 2023A is as follows: A A Six Months Ended December 31, A (In thousands) A 2024 A 2023 A Revenue A \$ 295 A A \$ 1,540 A Cost of revenue A 131 A A 825 A Gross profit A 164 A A 715 A Gross margin A 56 % A 46 % Operating expenses: A A A A A A A Selling, general and administrative A 3,727 A A 3,668 A Research and development A 4,386 A A 3,450 A Total operating expenses A 8,113 A A 7,118 A Loss from operations A (7,949 ) A A (6,403 ) Other income and expense, net A A 662 A A 850 A Net loss A \$( 7,287 ) A \$ ( 5,553 ) A Revenue â™ Total revenue decreased by \$1.2A millionA during theA six months ended December 31, 2024, compared to the six months ended December 31, 2023. InA theA six months ended December 31, 2024, revenue wasâ™ relatedA to sales of our TRACER 1000, a government grant andA ongoing consumableâ™ and recurring maintenance services of the TRACER 1000. In the six months ended December 31, 2023, revenue was related to the sales of our TRACER 1000 along with ongoing consumable and recurring maintenance services of the TRACER 1000.â™ The decrease in revenue is the result of selling fewer devices duringA fiscal year 2025 compared to fiscal year 2024. A 23 Table of Contents A Cost of Revenue â™A Gross profit is comprised of revenue less cost of revenue. Our costs of revenue include materials, overhead, warranty expenses,â™ shipping, and labor. Cost of revenue decreased by \$694A thousand duringA six months ended December 31, 2024, compared to the six months ended December 31, 2023,â™ because of the decrease in device sales. Gross margin increased by 10%â™ in the duringA six months ended December 31, 2024, compared to the six months ended December 31, 2023. A TheA device sales in fiscal year 2025 had a higher margin compared to the device sales in fiscal year 2024A. In addition, grant revenue had a minimalA cost of revenue and lower costs of revenue due to a sales mix. A These factors resulted in an increase in gross margin. A Operating Expenses â™ Operating expenses increased \$1 million, or 14.0%, during the six months ended December 31, 2024, compared to the six months ended December 31, 2023. Significant changes to operating expenses include the following: A A â— Selling, general and administrative expenses remained consistentA during the six months ended December 31, 2024, compared to theA six months ended December 31, 2023. A A â— Research and development expenses increased \$936A thousand, or 27.1%, during the six months ended December 31, 2024, compared to the six months ended December 31, 2023,â™ largely driven by increases in contractors personnel count to support the development of our mass spectrometry offering and expenses related to cross-platform improvements to our technology. A Other IncomeA and Expense, net A A Other income and expense, net decreased \$188A thousandA during the six months ended December 31, 2024,â™ compared to the six months ended December 31, 2023, due to less investments earning interest income. A A Liquidity and Capital Resources A Cash Flows A The following is a summary of the change in our cash and cash equivalents: A A A Six Months Ended December 31, A (In thousands) A 2024 A A 2023 A A Change A Change in cash and cash equivalents: A A A A A A A A Net cash used in operating activities A \$( 6,730 ) A \$ ( 4,850 ) A \$ ( 1,880 ) Net cash used in investing activities A A ( 472 ) A A 1,828 A A ( 2,300 ) Net cash used in financing activities A A ( 79 ) A A ( 90 ) A A 11 A Net change in cash and cash equivalents A \$( 7,281 ) A \$ ( 3,112 ) A \$ ( 4,169 ) A Cash and Cash Equivalents A As of December 31, 2024, we held cash and cash equivalents of \$3.2 million, and our working capital was approximately \$25.5 million. As of June 30, 2024, we had cash and cash equivalents of \$10.4 million, and our working capital was approximately \$32.2 million. Cash and cash equivalents decreased \$7.2A millionA as of December 31, 2024, compared to June 30, 2024, due to funding our continuing operating expenses. A Operating Activities A Cash used in operating activities increasedA \$1.9 millionA for the six months ended December 31, 2024, compared to the six months ended December 31, 2023, due toA increased use of cash to fund operating losses and working capital. A Investing Activities A Cash used in investing activities increasedA \$2.3 millionA for the six months ended December 31, 2024, compared to the six months ended December 31, 2023, due primarily to not selling short-term time depositA investments. A A Financing Activities A Cash used in financing activities was slightly lowerA for the six months ended December 31, 2024, compared to the six months ended December 31, 2023. A A We did not have any material off-balance sheet arrangements as of December 31, 2024. A 24 Table of Contents A Liquidity A There have been no material updates to our expectations for our short- and long-term liquidity and operating capital requirements since our Annual Report on Form 10-K for the year ended June 30, 2024. A A Income Taxes A Provision for Income Tax A The Companyâ™s effective tax rate is 0% for income tax for the six months ended December 31, 2024, and the Company expects that its effective tax rate for the full fiscal year 2025A will be 0%. A Based on the weight of available evidence, including net cumulative losses and expected future losses, the Company has determined that it is more likely than not that its U.S. federal and state deferred tax assets will not be realized and therefore a full valuation allowance has been provided on the U.S. federal and state net deferred tax assets. A In general, if the Company experiences a greater than 50 percentage point aggregate change in ownership over a three-year period (a Section 382 ownership change), utilization of its pre-change net operating loss (NOL) A carryforwards are subject to an annual limitation under Section 382 of the Internal Revenue Code. Generally, U.S. state laws have laws similar to Internal Revenue Code Section 382. The annual limitation generally is determined by multiplying the value of the Companyâ™s stock at the time of such ownership change (subject to certain adjustments) by the applicable long-term tax-exempt rate. Such limitations may result in expiration of a portion of the NOL carryforward before utilization. A The Company files U.S. federal and state income tax returns. A The Company is not currently subject to any income tax examinations. The Company has net operating loss carryovers dating back to the June 2002 year, which generally allows all tax years to remain open to income tax examinations for all years for which there are loss carryforwards. A Uncertain Tax Positions A The Company recognizes the financial statement effects of a tax position when it becomes more likely than not, based upon the technical merits, that the position will be sustained upon examination. The Company currently has approximately \$593 thousand of uncertain tax positions as of December 31, 2024, all of which are accounted as contra-deferred tax assets. The Company does not expect any significant changes to its uncertain tax positions in the coming 12 months. A Income Taxes A There is a \$1 thousand provision for state minimum tax expense during the six months ended December 31, 2024. A There was \$2 thousand provision for state minimumA tax expenseA during the six months ended December 31, 2023. A A A ITEM 3. A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK A Not applicable to smaller reporting companies. A 25 Table of Contents A ITEM 4. A CONTROLS AND PROCEDURES A Disclosure Controls and Procedures A We maintain disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed by us in the reports we file or submit under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SECâ™s rules and forms, and that such information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management was required to apply its judgment in evaluating and implementing possible controls and procedures. Management, including our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our principal executive officer and principal financial officer have concluded that the Companyâ™s disclosure controls and procedures were effective as ofA December 31, 2024, at the reasonable assurance level. A Changes in Internal Controls over Financial Reporting A There have been no changes in our internal controls over financial reporting that occurred during our last fiscal quarter ended December 31, 2024, that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting. A 26 Table of Contents A PART II: OTHER INFORMATION A ITEM 1. A LEGAL PROCEEDINGS A From time to time, the Company is subject to legal and administrative proceedings, settlements, investigations, claims and actions. The Companyâ™s assessment of the likely outcome of litigation matters is based on its judgment of a number of factors including experience with similar matters, past history, precedents, relevant financial and other evidence and facts specific to the matter. Notwithstanding the uncertainty as to the final outcome, based upon the information currently available, management does not believe any matters, individually or in aggregate, will have a material adverse effect on the Companyâ™s financial position or results of operations. A ITEM 1A. RISK FACTORS A Our business, financial condition, results of operations, and cash flows may be impacted by a number of factors, many of which are beyond our control, including those set forth in our Form 10-K and our Form 10-Qs, the occurrence of any one of which could have a material adverse effect on our actual results. A Except as set forth below, thereA haveA beenA noA materialA changesA toA the risk factors and other cautionary statements described under the heading âœItem 1A Risk Factorsâœ included in our Form 10-K for the fiscal year ended June 30, 2024. A Our manufacturing operations are dependent upon third party suppliers, including single source suppliers, making us vulnerable to external factors such as trade restrictions, supply shortages and price fluctuations, which could harm our business. A We are subject to the risks inherent in the manufacturing of our products, including industrial accidents, environmental events, strikes and other labor disputes, capacity constraints, as well as tariffs and other trade restrictions, global shortages, disruptions in supply chain and loss or impairment of key suppliers, as well as natural disasters and other external factors over which we have no control. Our products contain several critical components, including certain electrical components such as specialized cables and specialized pumps. Some of the suppliers of critical components or materials are single source suppliers. Although we believe there are suitable alternative suppliers for these components, the replacement of existing suppliers or the identification and qualification of suitable second sources may require significant time, effort and expense, and could result in delays in production, which could negatively impact our business operations and revenue. We do not have supply agreements with certain suppliers of these critical components and materials beyond purchase orders and, although we maintain a safety stock inventory for certain critical components, forecasted amounts may be inaccurate and we may experience shortages as a result of serious supply problems with these suppliers. Additionally, the U.S. has recently enacted and proposed to enact significant new tariffs on certain goods or countries, and may have new or retaliatory tariffs imposed on the U.S., which could increase the cost of raw materials and components we purchase. There can be no assurance that our supply of components will not be limited, interrupted, or of satisfactory quality or continue to be available at acceptable prices. In addition, loss of any critical component provided by a single source supplier could require us to change the design of our manufacturing process based on the functions, limitations, features and specifications of the replacement components. A In addition, several other non-critical components and materials that comprise our products are currently manufactured by a single supplier or a limited number of suppliers. In certain of these cases, we have not yet qualified alternate suppliers. A supply interruption or an increase in demand beyond our current suppliersâ™ capabilities could harm our ability to manufacture our products unless and until new sources of supply are identified and qualified. Our reliance on these suppliers subjects us to a number of risks that could harm our business, including: A A A interruption of supply resulting from modifications to or discontinuation of a supplierâ™s operations; A A A A A A a— trade disputes or other political conditions or economic conditions; A A A A A A a— delays in the manufacturing operations of our suppliers, or in the delivery of parts and components to support such manufacturing operations, due to the impact of public health issues, epidemics or pandemics, such as COVID-19; A A A A A A a— delays in product shipments resulting from uncorrected defects, reliability issues, or a supplierâ™s variation in a component; A A A A A A a— a lack of long-term supply arrangements for key components with our suppliers; A A A A A A a— inability to obtain adequate supply in a timely manner, or to obtain adequate supply on commercially reasonable terms; A A A A A A a— difficulty and cost associated with locating and qualifying alternative suppliers for our components in a timely manner; A A A A A A a— a modification or change in a manufacturing process or part that unknowingly or unintentionally negatively impacts the operation of our platform; A A A A A A a— production delays related to the evaluation and testing of products from alternative suppliers, and corresponding regulatory qualifications; A A A A A A a— delay in delivery due to our

