

ASTROTECH Corp \WA\  
Form 10-Q  
February 14, 2013

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

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended December 31, 2012**

**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 this charter)

**Washington**  
(State or other jurisdiction of

**91-1273737**  
(I.R.S. Employer

incorporation or organization)

Identification No.)

**401 Congress Avenue, Suite 1650**

**Austin, Texas 78701**

(Address of principal executive offices and zip code)

**(512) 485-9530**

(Registrant's telephone number, including area code)

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 (§229.405 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, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☒  
(Do not check if a smaller reporting company)

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

As of February 8, 2013, there were 19,486,727 shares of the registrant's common stock outstanding.



**ASTROTECH CORPORATION AND SUBSIDIARIES**

**QUARTERLY REPORT ON FORM 10-Q**

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**PART I: FINANCIAL INFORMATION**

## ITEM 1. Condensed Consolidated Financial Statements

**ASTROTECH CORPORATION AND SUBSIDIARIES****Condensed Consolidated Balance Sheets**

(In thousands, except share data)

	<b>December 31,</b>	<b>June 30,</b>
	<b>2012</b>	<b>2012</b>
	(unaudited)	
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 4,938	\$ 10,177
Accounts receivable, net	3,727	1,926
Prepaid expenses and other current assets	797	592
<b>Total current assets</b>	<b>9,462</b>	<b>12,695</b>
Property & equipment, net	36,848	37,270
Other assets, net	62	84
<b>Total assets</b>	<b>\$ 46,372</b>	<b>\$ 50,049</b>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities		
Accounts payable	\$ 971	\$ 3,033
Accrued liabilities	2,430	1,634
Deferred revenue	3,055	2,836
Term note payable	380	372
<b>Total current liabilities</b>	<b>6,836</b>	<b>7,875</b>
Term note payable, net of current portion	5,849	6,042
<b>Total liabilities</b>	<b>12,685</b>	<b>13,917</b>
Stockholders' equity		
Preferred stock, no par value, convertible, 2,500,000 authorized shares, 0 issued and outstanding shares, at December 31, 2012 and June 30, 2012		
Common stock, no par value, 75,000,000 shares authorized; 19,769,765 and 19,134,907 shares issued at December 31, 2012 and June 30, 2012	183,782	183,712
Treasury stock, 311,660 shares at cost	(237)	(237)
Additional paid-in capital	1,314	1,582
Accumulated deficit	(153,882)	(151,655)

Noncontrolling interest		2,710		2,730
<b>Total stockholders' equity</b>		<b>33,687</b>		<b>36,132</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$</b>	<b>46,372</b>	<b>\$</b>	<b>50,049</b>

*See accompanying notes to unaudited condensed consolidated financial statements.*

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**ASTROTECH CORPORATION AND SUBSIDIARIES**

**Condensed Consolidated Statements of Operations**

(In thousands, except per share data)

	Three Months Ended				Six Months Ended			
	December 31,		December 31,		December 31,		December 31,	
	2012	2011	2012	2011	2012	2011	2012	2011
	(unaudited)		(unaudited)		(unaudited)		(unaudited)	
Revenue	\$	4,122	\$	3,676	\$	10,251	\$	8,516
Cost of revenue		3,125		3,108		8,032		6,034
<b>Gross profit</b>		<b>997</b>		<b>568</b>		<b>2,219</b>		<b>2,482</b>
Operating expenses:								
Selling, general and administrative		1,484		1,708		3,583		3,637
Research and development		393		746		1,035		1,504
Total operating expenses		1,877		2,454		4,618		5,141
<b>Loss from operations</b>		<b>(880)</b>		<b>(1,886)</b>		<b>(2,399)</b>		<b>(2,659)</b>
Interest and other expense, net		(46)		(59)		(85)		(133)
<b>Loss before income taxes</b>		<b>(926)</b>		<b>(1,945)</b>		<b>(2,484)</b>		<b>(2,792)</b>
Income tax expense				(7)				(12)
<b>Net loss</b>		<b>(926)</b>		<b>(1,952)</b>		<b>(2,484)</b>		<b>(2,804)</b>
Less: Net loss attributable to noncontrolling interest		(116)		(166)		(257)		(352)
<b>Net loss attributable to Astrotech Corporation</b>	\$	<b>(810)</b>	\$	<b>(1,786)</b>	\$	<b>(2,227)</b>	\$	<b>(2,452)</b>
Net loss per share attributable to Astrotech Corporation, basic	\$	(0.04)	\$	(0.10)	\$	(0.12)	\$	(0.13)
Weighted average common shares outstanding, basic		19,428		18,445		19,189		18,285
Net loss per share attributable to Astrotech Corporation, diluted	\$	(0.04)	\$	(0.10)	\$	(0.12)	\$	(0.13)
Weighted average common shares outstanding, diluted		19,428		18,445		19,189		18,285

*See accompanying notes to unaudited condensed consolidated financial statements.*





**ASTROTECH CORPORATION AND SUBSIDIARIES****Condensed Consolidated Statements of Cash Flows**

(In thousands)

	<b>Six Months Ended</b>	
	<b>December 31,</b>	
	<b>2012</b>	<b>2011</b>
	<b>(unaudited)</b>	
<b>Cash flows from operating activities</b>		
Net loss	\$ (2,484)	\$ (2,804)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Stock-based compensation		600
Asset impairment		200
Depreciation and amortization	1,032	1,186
Changes in assets and liabilities:		
Accounts receivable	(1,801)	(1,743)
Deferred revenue	219	2,038
Accounts payable	(2,062)	(463)
Other assets and liabilities	590	(26)
Net cash used in operating activities	(4,506)	(1,012)
<b>Cash flows from investing activities</b>		
Purchases of property, equipment and leasehold improvements	(588)	(253)
Net cash used in investing activities	(588)	(253)
<b>Cash flows from financing activities</b>		
State of Texas Funding		900
Term loan payment	(185)	(177)
Proceeds for common stock issuance	40	
Net cash provided by (used in) financing activities	(145)	723
<b>Net change in cash and cash equivalents</b>	<b>(5,239)</b>	<b>(542)</b>
Cash and cash equivalents at beginning of period	10,177	14,994
<b>Cash and cash equivalents at end of period</b>	<b>\$ 4,938</b>	<b>\$ 14,452</b>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid for interest	\$ 127	\$ 134

*See accompanying notes to unaudited condensed consolidated financial statements.*



## ASTROTECH CORPORATION AND SUBSIDIARIES

### Notes to Unaudited Condensed Consolidated Financial Statements

#### (1) Description of the Company and Liquidity

Astrotech Corporation (Nasdaq: ASTC) ( Astrotech, the Company, we, us or our ), a Washington corporation, is a commercial aerospace company that was formed in 1984 to leverage the environment of space for commercial purposes. For nearly 30 years, the Company has remained a crucial player in space commerce activities. We have supported the launch of 23 shuttle missions and more than 300 spacecraft; built space hardware and processing facilities; constructed and operated world-class processing facilities; and prepared and processed scientific research for microgravity.

#### *Our Business Units*

##### *Astrotech Space Operations ( ASO )*

ASO provides support to its government and commercial customers as they successfully process complex communication, earth observation and deep space satellites in preparation for their launch on a variety of launch vehicles. Processing activities include satellite ground transportation; pre-launch hardware integration and testing; satellite encapsulation, fueling, launch pad delivery; and communication linked launch control. Our ASO facilities can process five meter class satellites accommodating the majority of U.S. based satellites. ASO's service capabilities include designing and building spacecraft processing equipment and facilities. In addition, ASO provides propellant services including designing, building and testing propellant service equipment for fueling spacecraft. ASO accounted for 99% of our consolidated revenues for the period ended December 31, 2012. Revenue for our ASO business unit is generated primarily from various fixed-priced contracts with launch service providers in both the government and commercial markets and the design, fabrication and use of critical space launch equipment. The services and facilities we provide to our customers support the final assembly, checkout, and countdown functions required to launch a spacecraft. The revenue and cash flows generated from our ASO operations are primarily related to the number of spacecraft launches and the fabrication of the Ground Support Equipment ( GSE ) for the U.S. Government.

#### *Spacetech*

Our other business unit is a technology incubator designed to commercialize space-industry technologies. This business unit is currently pursuing two distinct opportunities:

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

1<sup>st</sup> Detect designs, manufactures and sells miniature mass spectrometer equipment. 1<sup>st</sup> Detect launched the MMS-1000<sup>TM</sup> during March 2012. The MMS-1000<sup>TM</sup> is a low power, miniature mass spectrometer device designed initially for the laboratory testing market. The unique design of this unit is the result of the Company's work with the National Aeronautics and Space Administration ( NASA ) on the International Space Station. 1<sup>st</sup> Detect has been awarded a Developmental Testing and Evaluation designation from the U.S. Department of Homeland Security as a promising anti-terrorism technology, and is the recipient of a Phase I and Phase II award from the U.S. Army's Chemical and Biological Defense ( CBD ) Small Business Innovation Research ( SBIR ) Program. Following the successful execution of the Phase I SBIR, 1<sup>st</sup> Detect was awarded a \$0.8 million Phase II SBIR contract from the Joint Science and Technology Office for Chemical and Biological Defense. Additionally, 1<sup>st</sup> Detect received a \$1.8 million award from the Texas Emerging Technology Fund in March 2010.

### **Astrogenetix**

Astrogenetix is a biotechnology company formed to commercialize products developed in the unique environment of microgravity. Astrogenetix pursued an aggressive space access strategy to take advantage of the Space Shuttle program prior to its retirement in 2011. This strategy gave Astrogenetix unprecedented access to research in microgravity, as the Company flew experiments twelve times over a three-year period. Astrogenetix is currently researching a Salmonella vaccine as part of its ongoing commercialization strategy. Concurrently, Astrogenetix is evaluating a vaccine target for MRSA based on discoveries made in microgravity. In December 2011, the Company negotiated a Space Act Agreement with NASA for a minimum of twenty-eight future space flights.

## Liquidity and Capital Resources

Our future capital requirements will depend on a number of factors, including our success in developing and expanding markets for our products, payments under possible future strategic arrangements, continued progress of our research and development of potential products, the need to acquire licenses to new technology, costs associated with increasing our manufacturing and development facilities, costs associated with strategic acquisitions including integration costs and assumed liabilities, litigation expense, the status of competitive products and potential cost associated with both protecting and defending our intellectual property. Additionally, actions taken as a result of the ongoing internal evaluation of our business could result in expenditures not currently contemplated in our estimates for 2013. We believe, however, that our existing cash and cash equivalents are sufficient to fund our operating expenses, capital equipment requirements and other expected liquidity requirements for the coming twelve months.

Factors that could affect our capital requirements, in addition to those listed above include continued collections of accounts receivable consistent with our historical experience, uncertainty surrounding mission launch schedules, and our ability to manage product development efforts.

### (2) 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 (consisting of normal recurring entries) considered necessary for a fair presentation have been included. Operating results for the six months ended December 31, 2012 are not necessarily indicative of the results that may be expected for the year ending June 30, 2013. 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, 2012.

### (3) Noncontrolling Interest

In January 2010, restricted shares of Astrotech subsidiaries, 1<sup>st</sup> Detect and Astrogenetix, were granted to certain employees, directors and officers, resulting in Astrotech owning less than 100% of the subsidiaries. The Company applied noncontrolling interest accounting for the period ended December 31, 2012, which requires us to clearly identify the noncontrolling interest in the balance sheets and income statements. We disclose three measures of net income (loss): net loss, net loss attributable to noncontrolling interest, and net loss attributable to Astrotech Corporation. Our operating cash flows in our consolidated statements of cash flows reflect net loss, while our basic and diluted net loss per share calculations reflect net loss attributable to Astrotech Corporation.

	<b>(In thousands)</b>
<b>Beginning balance at June 30, 2012</b>	<b>\$ 2,730</b>

Net loss attributable to noncontrolling interest		(257)
Capital contribution		237
<b>Ending balance at December 31, 2012</b>	<b>\$</b>	<b>2,710</b>

As of December 31, 2012, the Company's share of income and losses is 86% for ~~1~~ Detect and 84% for Astrogenetix.

**(4) 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 on the basis of the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method and the if-converted method. Dilutive potential common shares include outstanding stock options and shared-based awards. Reconciliation and the components of basic and diluted net loss per share are as follows (in thousands, except per share data):

	Three Months Ended		Six Months Ended	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
<b>Numerator:</b>				
Net loss attributable to Astrotech Corporation, basic and diluted	\$ (810)	\$ (1,786)	\$ (2,227)	\$ (2,452)
<b>Denominator:</b>				
Denominator for basic net loss per share attributable to Astrotech Corporation weighted average common stock outstanding	19,428	18,445	19,189	18,285
Dilutive common stock equivalents common stock options and share-based awards				
Denominator for diluted net loss per share attributable to Astrotech Corporation weighted average common stock outstanding and dilutive common stock equivalents	19,428	18,445	19,189	18,285
Basic net loss per share attributable to Astrotech Corporation	\$ (0.04)	\$ (0.10)	\$ (0.12)	\$ (0.13)
Diluted net loss per share attributable to Astrotech Corporation	\$ (0.04)	\$ (0.10)	\$ (0.12)	\$ (0.13)

Options to purchase 1,184,150 and 1,147,850 shares of common stock at exercise prices ranging from \$0.32 to \$24.10 per share outstanding for the three and six month periods ended December 31, 2012 and 2011 respectively, were not included in diluted net loss per share, as the impact to net loss per share is anti-dilutive.

**(5) Revenue Recognition**

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

Revenue generated by Astrotech's payload processing facilities is recognized ratably over the occupancy period of the satellite while in the Astrotech facilities. The percentage-of-completion method is used for all contracts where incurred costs can be reasonably estimated and successful completion can be reasonably assured at inception. Changes in estimated costs to complete and provisions for contract losses are recognized in the period they become known. Revenue for the sale of commercial products is recognized at shipment.

#### A Summary of Revenue Recognition Methods

<b>Services/Products Provided</b>	<b>Contract Type</b>	<b>Method of Revenue Recognition</b>
Payload Processing Facilities	Firm Fixed Price    Mission Specific	Ratably, over the occupancy period of a satellite  within the facility from arrival through launch
Construction Contracts	Firm Fixed Price	Percentage-of-completion based on costs incurred
Engineering Services	Cost Reimbursable  Award/Fixed Fee	Reimbursable costs incurred plus award/fixed fee
Commercial Products	Specific Purchase  Order Based	At shipment
Grant	Cost Reimbursable  Award	As costs are incurred for related research and development expenses





Under certain contracts, we make expenditures for specific enhancements and/or additions to our facilities where the customer agrees to pay a fixed fee to deliver the enhancement or addition. We account for such agreements as a reduction in the cost of such investments and recognize any excess of amounts collected above the expenditure as revenue.

## **(6) Debt**

### ***Credit Facilities***

In October 2010, we entered into a financing facility with a commercial bank providing a \$7.0 million term loan note and a \$3.0 million revolving credit facility. The \$7.0 million term loan terminates in October 2015, and the \$3.0 million revolving credit facility expired in October 2012. The term loan requires monthly payments of principal plus interest at the rate of prime plus 0.25%, but not less than 4.0%. The revolving credit facility allowed multiple advances not to exceed \$3.0 million, based on eligible accounts receivable, and incurred interest at the rate of prime plus 0.25%, but not less than 4.0%. The bank financing facilities are secured by the assets of ASO, including accounts receivable, and require us to comply with designated covenants. The balance of the \$7.0 million term loan at December 31, 2012 was \$6.2 million. In October 2012 the Company's \$3.0 million revolving credit facility expired. The Company had no outstanding balance on the revolving credit facility.

The Company was in compliance with all covenants as of December 31, 2012.

## **(7) 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 that are significant to the fair value of the assets or liabilities.

The following table presents the carrying amounts, estimated fair values and valuation input levels of certain of the Company's financial instruments as of December 31, 2012 and June 30, 2012 (in thousands):

		<b>December 31, 2012</b>		<b>June 30, 2012</b>		<b>Valuation Inputs</b>
		<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Carrying Amount</b>	<b>Fair Value</b>	
Debt	\$	6,229	\$ 6,229	\$ 6,414	\$ 6,414	Level 2

The carrying value of the Company's debt at December 31, 2012 approximates fair value based on rates available for similar debt available to comparable companies in the marketplace. The carrying amounts of cash and cash equivalents, accounts receivable, notes receivable and accounts payable approximate their fair market value due to the relatively short duration of these instruments.

## **(8) Business and Credit Risk Concentration**

A substantial portion of our revenue has been generated under contracts with the U.S. Government. During the six months ended December 31, 2012 and 2011, approximately 58% and 63%, respectively, of our revenues were generated under U.S. Government contracts. Accounts receivable totaled \$3.7 million at December 31, 2012, of which 15% was attributable to the U.S. Government.

The Company maintains funds in bank accounts that may exceed the limit insured by the Federal Deposit Insurance Corporation, or FDIC. In October 2008, the FDIC increased its insurance to \$250,000 per depositor, and to an unlimited amount for non-interest bearing accounts. 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.

## (9) Segment Information

Management's primary financial and operating reviews focus on ASO, the core business unit. All intercompany transactions between business units have been eliminated in consolidation.

Key financial metrics for the six months ended December 31, 2012 are as follows (in thousands):

	Six Months Ended December 31, 2012		Six Months Ended December 31, 2011	
	Revenue	Loss before income taxes	Revenue	Loss before income taxes
Revenue and Income				
ASO	\$ 10,118	\$ (641)	\$ 8,418	\$ (350)
Spacetechn	\$ 133	\$ (1,843)	\$ 98	\$ (2,442)
	\$ 10,251	\$ (2,484)	\$ 8,516	\$ (2,792)

  

	December 31, 2012		June 30, 2012	
	Fixed		Fixed	
Assets	Assets, net	Total Assets	Assets, net	Total Assets
ASO	\$ 36,528	\$ 45,388	\$ 36,997	\$ 48,867
Spacetechn	\$ 320	\$ 984	\$ 273	\$ 1,182
	\$ 36,848	\$ 46,372	\$ 37,270	\$ 50,049

## (10) State of Texas Funding

In March 2010, the Texas Emerging Technology Fund awarded 1<sup>st</sup> Detect \$1.8 million for the development and marketing of the Miniature Chemical Detector, a portable mass spectrometer designed to serve the security, healthcare and industrial markets. In exchange for the award, 1<sup>st</sup> Detect granted a common stock purchase right and a note payable to the State of Texas. As of December 31, 2012, 1<sup>st</sup> Detect has received \$1.8 million in disbursements. The proceeds from the award can only be used to fund development of the Miniature Chemical Detector at 1<sup>st</sup> Detect, not for repaying existing debt or for use in other Company subsidiaries.

The common stock purchase right is exercisable at the first Qualifying Financing Event ( QFE ), which is essentially a change in control or third party equity investment in 1<sup>st</sup> Detect. The number of shares available to the State of Texas, at the price of par value, is calculated as the total disbursements (numerator) divided by the stock price established in the QFE (denominator). If the first QFE does not occur within 18 months of the agreement's effective date, which has been extended to March 31, 2013 as a result of recent extensions granted by the State of Texas, the number of shares available for purchase will equal the total disbursements (numerator) divided by \$100 (denominator). As of December 31, 2012 no QFE has occurred.

The note equals the disbursements to 1<sup>st</sup> Detect to date, accrues interest at 8% per year and cancels automatically at the earlier of (1) selling substantially all of the assets of 1<sup>st</sup> Detect, (2) selling more than 50% of common stock of 1<sup>st</sup> Detect or (3) March 2020. No payments of interest or principal are due on the note unless there is a default, which would occur if 1<sup>st</sup> Detect moves its operations or headquarters outside of Texas at any time before March 2020. 1<sup>st</sup> Detect has the option to pay back the principal plus accrued interest by March 31, 2013, but repayment does not cancel the State of Texas' common stock purchase right.

Management considers the likelihood of voluntarily repaying the note or of a default event as remote due to the fact that the covenants that would necessitate repayment are within the control of the Company. As such, the \$1.8 million, which was received in two installments of \$0.9 million and \$0.9 million, was accounted for as a contribution to equity in the period ended December 31, 2012. As of December 31, 2012, no default events have occurred.

**(11) Equity and Other Long Term Incentive Plans**

***The 1994 Plan ( 1994 Plan )***

Under the terms of the 1994 Plan, the number and price of the stock incentive awards granted to employees is determined by the Board of Directors and such grants vest, in most cases, incrementally over a period of four years and expire no more than ten years after the date of grant. At the time of approval, 395,000 shares of our common stock were reserved for issuance under this plan. As of December 31, 2012, there are no shares available for grant. Based on the Articles of the 1994 stock incentive plan, no awards shall be granted more than ten years after the effective date of the plan unless amended.

***The Directors' Stock Option Plan ( Director's Plan )***

Options under the Director's Plan vest after one year and expire seven years from the date of grant. At the time of approval, 50,000 shares of our common stock were reserved for issuance under this plan. As of December 31, 2012, there are 41,500 shares available for future grant.

***2008 Stock Incentive Plan ( 2008 Plan )***

The 2008 Plan was created to promote growth of the Company by aligning the long-term financial success of the Company with the employees, consultants and directors. At the time of approval, 5,500,000 shares of our common stock were reserved for issuance under this plan. The 2008 Plan, administered by the Compensation Committee of the Board of Directors, provides for granting of incentive awards in the form of stock options, stock appreciation rights (SARs) and restricted stock to employees, directors and consultants of the Company. Stock options awarded will vest upon the Company's stock achieving a closing price of \$1.50 and expire ten years from grant date or upon employee or director termination. Restricted shares awarded will vest 33.33% a year over a three year period and expire upon employee or director termination. There have been no SARs granted from the 2008 Plan. As of December 31, 2012, there are 333,501 shares available for grant under the 2008 Plan.

***2011 Stock Incentive Plan ( 2011 Plan )***

The 2011 Plan was designed to increase shareholder value by compensating employees over the long term. The plan is to be used to promote long-term financial success and execution of our business strategy. At the time of approval, 1,750,000 shares of our common stock were reserved for issuance under this plan. The 2011 Plan, administered by the Compensation Committee of the Board of Directors, provides for granting of incentive awards in the form of stock options, stock appreciation rights (SARs) and restricted stock to employees, directors and consultants of the Company. Stock options awarded will vest upon the Company's stock achieving a closing price of \$1.50 and expire ten years

from the grant date or upon employee or director termination. Additionally, a single 200,000 stock option grant was awarded to a third party consultant intended to provide incentive which is aligned with management and the shareholders. Vesting for these option shares will occur once certain performance conditions have been fulfilled. There have been no SARs or restricted stock granted from the 2011 Plan. As of December 31, 2012, there are 1,056,000 shares available for grant under the 2011 Plan.

At December 31, 2012, 1,431,001 shares of Common Stock were reserved for future grants of stock incentive grants under the Company's four stock incentive plans.

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

On January 19, 2010, an independent committee of the Board of Directors of 1<sup>st</sup> Detect, a subsidiary of the Company, approved a grant of 1,180 restricted stock shares and 1,820 stock purchase warrants to certain officers, directors and employees of 1<sup>st</sup> Detect, of which 75 and 45, respectively, have subsequently been cancelled. The awards vest 50% a year over a two-year period. The restricted stock awards are equal to the fair market value of 1<sup>st</sup> Detect's common stock on the date of grant as determined by an independent valuation firm. The Company utilized the Black-Scholes methodology in determining the fair market value of the warrants.

*1<sup>st</sup> Detect 2011 Stock Incentive Plan*

The 2011 Plan was designed to increase shareholder value by compensating employees over the long term. The plan is to be used to promote long-term financial success and execution of our business strategy. At the time of approval, 2,500 shares of 1<sup>st</sup> Detect stock were reserved for issuance under this plan. The 2011 Plan, administered by the Board of Directors of 1<sup>st</sup> Detect, provides for granting of incentive awards in the form of stock options to certain directors, officers and employees of 1<sup>st</sup> Detect. The awards vest upon certain performance conditions being met and expire ten years from the grant date. The stock options have an exercise price equal to the fair market value of 1<sup>st</sup> Detect's common stock on the date of grant as determined by an independent valuation firm. As of December 31, 2012, there are 1,765 shares available for grant under the 2011 Plan.

*Astrogenetix*

On January 19, 2010, an independent committee of the Board of Directors of Astrogenetix, a subsidiary of the Company, approved a grant of 1,550 restricted stock shares and 2,050 stock purchase warrants to certain officers, directors and employees of Astrogenetix, of which 375 and 50 have subsequently been cancelled. The awards vest 50% a year over a two-year period. The restricted stock awards are equal to the fair market value of Astrogenetix's common stock on the date of grant as determined by an independent valuation firm. The Company utilized the Black-Scholes methodology in determining the fair market value of the warrants.

**(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 December 31, 2012, the Company has established a full valuation allowance against all of its net deferred tax assets.

FASB ASC 740, *Income Taxes* (FASB ASC 740) addresses the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken or expected to be taken on a tax return. As of December 31, 2012, the Company has a liability of \$64,000 (\$42,000 net of federal benefit) for unrecognized tax benefits.

For the three and six months ended December 31, 2012 and 2011, the Company's effective tax rate differed from the federal statutory rate of 35%, primarily due to recording changes to the valuation allowance placed against its net deferred tax assets.



The Company files consolidated returns for federal, California, Florida, and Texas income and franchise taxes.

The Company is currently under examination by the Internal Revenue Service for the fiscal years ended June 30, 2008 through 2010. Loss carryovers are generally subject to modification by tax authorities until 3 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.

### **(13) Purchase of Common Stock**

Common stock repurchases under the Company's securities repurchase program may be made from time to time, in the open market, through block trades or otherwise in accordance with applicable regulations of the Securities and Exchange Commission. Depending on market conditions and other factors, these purchases may be commenced or suspended at any time or from time to time without prior notice. Additionally, the timing of such transactions will depend on other corporate strategies and will be at the discretion of the management of the Company.

As of December 31, 2012, we had repurchased 311,660 shares of common stock at a cost of \$0.2 million, which represents an average cost of \$0.76 per share, and \$1.1 million of Senior Convertible Notes payable. All of these repurchases were made prior to December 31, 2012. As a result, the Company is authorized to repurchase an additional \$5.7 million of securities under this program. Additionally, on November 1, 2012, Thomas B. Pickens III and Winn Interests, Ltd. purchased 1,783,746 and 594,581 shares of common stock of the Company, respectively, at an average price of \$0.90 per share.

**(14) Commitments and Contingencies**

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

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

On January 10, 2013, a lawsuit was filed in a district court in Travis County against Astrotech Corporation by John Porter, the former Senior Vice President, Chief Financial Officer, Treasurer and Secretary of the Company. While the Company intends to vigorously defend any such actions by Mr. Porter, the Company recorded a liability at December 31, 2012 for its estimate of the probable loss in this matter.

**(15) Subsequent Events**

On January 10, 2013, a lawsuit was filed against Astrotech Corporation by John Porter, the former Senior Vice President, Chief Financial Officer, Treasurer and Secretary of the Company. In the lawsuit, Mr. Porter alleges various breaches of contract claims in connection with his termination from the Company on August 3, 2012. Mr. Porter seeks monetary damages of at least \$639,808. The Company intends to vigorously defend the lawsuit filed by Mr. Porter.

## **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. 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 conditions in the United States or other space faring nations that could impact our ability to access space and support or gain customers;

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 NASA and other 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 space programs;

The impact of competition on our ability to win new contracts;

Uncertainty in securing reliable and consistent access to space, including the International Space Station;

Delays in the timing of performance of our contracts;

Our ability to meet technological development milestones and overcome development challenges; and

Risks described in the Risk Factors section of our 2012 Annual Report on Form 10-K.

Although we believe that the assumptions underlying our forward-looking statements are reasonable, any of the assumptions could be inaccurate, and, 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 the Risk Factors included in Part II Item 1A of this Report and Part I, Item 1A of our 2011 Annual Report on 10-K and elsewhere in this Quarterly Report on Form 10-Q or in the documents incorporated by reference herein. Except as may be required by applicable law, we undertake no obligation to publicly update or advise of any change in any forward-looking statement, whether as a result of new information, future events or otherwise. In making these statements, we disclaim any obligation to address or update each factor in future filings with the Securities and Exchange Commission ( SEC ) or communications regarding our business or results, and we do not undertake to address how any of these factors may have caused changes to discussions or information contained in previous filings or communications. In addition, any of the matters discussed above may have affected our past results and may affect future results, so that our actual results may differ materially from those expressed in this Quarterly Report on Form 10-Q and in prior or subsequent communications.

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

The following information should be read in conjunction with the unaudited condensed consolidated financial statements and the accompanying notes included in Part I, Item 1 of this Report, and the Risk Factors included in Part II Item 1A of this Report and Part I, Item 1A of our 2012 Annual Report on Form 10-K.

### **Overview**

Astrotech was formed in 1984 to leverage the environment of space for commercial purposes. For nearly 30 years, the Company has remained a crucial player in space commerce activities. We have supported the launch of 23 shuttle missions and more than 300 spacecraft, built space hardware and processing facilities; constructed and operated world-class processing facilities; and prepared and processed scientific research for microgravity.

Our efforts are focused on:

Providing world-class facilities and related support services necessary for the preparation of satellites and payloads.

Providing satellite and payload processing and integration services and support.

Designing, fabricating and utilizing equipment and hardware for launch activities.

Supplying propellant and associated services for spacecraft.

Managing launch logistics and support.

Commercializing unique space-based technologies.

## **Our Business Units**

### ***Astrotech Space Operations (ASO)***

ASO provides support to its government and commercial customers as they successfully process complex communication, earth observation and deep space satellites in preparation for their launch on a variety of launch vehicles. Processing activities include satellite ground transportation; pre-launch hardware integration and testing; satellite encapsulation, fueling, launch pad delivery; and communication linked launch control. Our ASO facilities can accommodate five meter class satellites, encompassing the majority of U.S.-based satellites. ASO's service capabilities include designing and building spacecraft processing equipment and facilities. Additionally, ASO provides propellant services including designing, building and testing propellant service equipment for servicing spacecraft. ASO accounted for 99% of our consolidated revenues for the six months ended December 31, 2012. Revenue for our ASO business unit is generated primarily from various fixed-priced contracts with launch service providers in both the government and commercial markets and the design and fabrication of space launch equipment. The services and facilities we provide to our customers support the final assembly, checkout, and countdown functions associated with preparing and launching spacecraft. The revenue and cash flows generated from our ASO operations are primarily related to the number of spacecraft launches and the fabrication of the GSE for the U.S. Government. Other factors that have impacted, and are expected to continue to impact, earnings and cash flows for this business include:

The continuing limited availability of competing facilities at the major domestic launch sites that can offer comparable services, leading to an increase in government and commercial use of our services.

Our ability to design and fabricate spacecraft preparation and processing equipment.

Our ability to control our capital expenditures, which are primarily limited to modifications required to accommodate payload processing for new launch vehicles and upgrading building infrastructure.

Our ability to complete customer specified facility modifications within budgeted costs and time commitments.

Uncertainty in government funding and support for key space programs.

The impact of competition and industry consolidation and our ability to win new contracts.

## ***Spacetech***

Our other business unit is a technology incubator designed to commercialize space-industry technologies. This business unit is currently pursuing two distinct opportunities:

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

1<sup>st</sup> Detect designs, manufactures and sells miniature mass spectrometer equipment. 1<sup>st</sup> Detect launched the MMS-1000™ during March 2012. The MMS-1000™ is a low power, miniature mass spectrometer device designed initially for the laboratory testing market. The unique design of this unit is the result of the Company's work with the National Aeronautics and Space Administration ( NASA ) on the International Space Station. 1st Detect has been awarded a Developmental Testing and Evaluation designation from the U.S. Department of Homeland Security as a promising anti-terrorism technology, and is the recipient of a Phase I and Phase II award from the U.S. Army's Chemical and Biological Defense ( CBD ) Small Business Innovation Research ( SBIR ) Program. Following the successful execution of the Phase I SBIR, 1<sup>st</sup> Detect was awarded a \$0.8 million Phase II SBIR contract from the Joint Science and Technology Office for Chemical and Biological Defense. Additionally, 1<sup>st</sup> Detect received a \$1.8 million award from the Texas Emerging Technology Fund in March 2010.

### **Astrogenetix**

Astrogenetix is a biotechnology company formed to commercialize products processed in the unique environment of microgravity. Astrogenetix pursued an aggressive space access strategy to take advantage of the Space Shuttle program prior to its retirement in 2011. This strategy gave Astrogenetix unprecedented access to research in microgravity, as the Company flew experiments twelve times over a three-year period. Astrogenetix is currently researching a Salmonella vaccine as part of its ongoing commercialization strategy. Concurrently, Astrogenetix is evaluating a vaccine target MRSA based on discoveries made in microgravity. In December 2011, the Company negotiated a Space Act Agreement with NASA for a minimum of twenty-eight future space flights.

### **Critical Accounting Policies**

The discussion and analysis of our financial condition and results of operations are based upon our unaudited condensed consolidated financial statements, which have been prepared in accordance with GAAP for interim financial statements. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and 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 period ended December 31, 2012 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 2012 Annual Report on Form 10-K.

**Results of Operation****Three months ended December 31, 2012 compared to three months ended December 31, 2011:**

Selected consolidated financial data for the three months ended December 31, 2012 and 2011 is as follows (dollars in thousands):

	<b>Three Months Ended</b>	
	<b>December 31,</b>	<b>2011</b>
	<b>2012</b>	
Revenue	\$ 4,122	\$ 3,676
Cost of revenue	3,125	3,108
<b>Gross profit</b>	<b>997</b>	<b>568</b>
<b>Gross margin</b>	<b>24 %</b>	<b>15 %</b>
Selling, general and administrative	1,484	1,708
Research and development	393	746
<b>Operating expenses</b>	<b>\$ 1,877</b>	<b>\$ 2,454</b>
Interest and other expense, net	(46)	(59)
Income tax expense	-	(7)
<b>Consolidated net loss</b>	<b>\$ (926)</b>	<b>\$ (1,952)</b>
Less: Net loss attributable to noncontrolling interest	(116)	(166)
<b>Net loss attributable to Astrotech Corporation</b>	<b>\$ (810)</b>	<b>\$ (1,786)</b>

**Revenue.** Total revenue increased to \$4.1 million for the three months ended December 31, 2012 from \$3.7 million for the three months ended December 31, 2011. This increase is primarily attributable to the timing of mission launch dates.

**Gross Profit.** Gross profit increased to \$1.0 million for the three months ended December 31, 2012 from \$0.6 million for the three months ended December 31, 2011. This is attributable to our increase in revenue as our cost of revenue is generally near-term fixed-price for satellite payload processing.

**Selling, General and Administrative Expense.** Selling, general and administrative expense decreased to \$1.5 million for the three months ended December 31, 2012 from \$1.7 million for the three months ended December 31, 2011. The decrease was primarily attributable a reduction in headcount and employee incentive compensation expense.

**Research and Development Expense.** Research and development expense decreased to \$0.4 million for the three months ended December 31, 2012 from \$0.7 million for the three months ended December 31, 2011. This decrease is

a result of the delivery and installation of two 1<sup>st</sup> Detect evaluation units to potential customers, which were recorded as an offset to research and development expense.

**Six months ended December 31, 2012 compared to six months ended December 31, 2011:**

Selected consolidated financial data for the six months ended December 31, 2012 and 2011 is as follows (dollars in thousands):

	<b>Six Months Ended</b>	
	<b>December 31,</b>	
	<b>2012</b>	<b>2011</b>
Revenue	\$ 10,251	\$ 8,516
Cost of revenue	8,032	6,034
<b>Gross profit</b>	<b>2,219</b>	<b>2,482</b>
<b>Gross margin</b>	<b>22 %</b>	<b>29 %</b>
Selling, general and administrative	3,583	3,637
Research and development	1,035	1,504
<b>Operating expenses</b>	<b>\$ 4,618</b>	<b>\$ 5,141</b>
Interest and other expense, net	(85)	(133)
Income tax expense	-	(12)
<b>Consolidated net loss</b>	<b>\$ (2,484)</b>	<b>\$ (2,804)</b>
Less: Net loss attributable to noncontrolling interest	(257)	(352)
<b>Net loss attributable to Astrotech Corporation</b>	<b>\$ (2,227)</b>	<b>\$ (2,452)</b>

**Revenue.** Total revenue increased to \$10.3 million for the six months ended December 31, 2012 from \$8.5 million for the six months ended December 31, 2011. This increase is primarily attributable to revenue earned on the fabrication of the GSE for the U.S. Government and propellant related services.

**Gross Profit.** Gross profit decreased to \$2.2 million for the six months ended December 31, 2012 from \$2.5 million for the six months ended December 31, 2011. The decline is the result of an increase in projects that contain lower profit margins.

**Selling, General and Administrative Expense.** Selling, general and administrative expense remained relatively the same at \$3.6 million for the six month periods ended December 31, 2012 and 2011.

**Research and Development Expense.** Research and development expense decreased to \$1.0 million for the six months ended December 31, 2012 from \$1.5 million for the six months ended December 31, 2011. This decrease is a result of the delivery and installation of two 1<sup>st</sup> Detect evaluation units to potential customers, which was recorded as an offset to research and development expense.

## **Liquidity and Capital Resources**

Our future capital requirements will depend on a number of factors, including our success in developing and expanding markets for our products, payments under possible future strategic arrangements, continued progress of our research and development of potential products, the need to acquire licenses to new technology, costs associated with increasing our manufacturing and development facilities, costs associated with strategic acquisitions including integration costs and assumed liabilities, litigation expense, the status of competitive products and potential cost associated with both protecting and defending our intellectual property. Additionally, actions taken as a result of the ongoing internal evaluation of our business could result in expenditures not currently contemplated in our estimates for 2013. We believe, however, that our existing cash and cash equivalents are sufficient to fund our operating expenses, capital equipment requirements and other expected liquidity requirements for the coming twelve months. Factors that could affect our capital requirements, in addition to those listed above include continued collections of accounts receivable consistent with our historical experience, uncertainty surrounding mission launch schedules, and our ability to manage product development efforts. See also the Risk Factors described in our 2012 Annual Report on Form 10-K filed with the Securities and Exchange Commission.

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

**Six Months Ended**

**December 31,**

	<b>2012</b>	<b>2011</b>
Net cash used in operating activities	\$ (4,506)	\$ (1,012)
Net cash used in investing activities	(588)	(253)
Net cash provided by (used in) financing activities	(145)	723
<b>Net change in cash and cash equivalents</b>	<b>\$ (5,239)</b>	<b>\$ (542)</b>

### *Cash and Cash Equivalents*

At December 31, 2012, we had cash and cash equivalents of \$4.9 million and our working capital was approximately \$2.6 million. As of December 31, 2011, we had cash and cash equivalents of \$14.5 million and our working capital was approximately \$5.9 million. Cash and cash equivalents have decreased by approximately \$5.2 million during the six months ended December 31, 2012.

### *Operating Activities*

Cash used in operations was \$4.5 million for the six months ended December 31, 2012 compared to cash provided by operations of \$1.0 million for the six months ended December 31, 2011. This decrease in cash flow was primarily attributable to an increase in accounts receivable and the timing of payments in accounts payable, which was attributable to the GSE project.

### *Investing Activities*

Cash used in investing activities was \$0.6 million for the six months ended December 31, 2012 compared to \$0.3 million for the six months ended December 31, 2011. This increase was the result of capital expenditures for our payload processing facilities.

### ***Financing Activities***

Cash used by financing activities for the six months ended December 31, 2012 was \$0.1 million compared to \$0.7 million of cash provided by financing activities for the six months ended December 31, 2011. The cash provided through financing for the six months ended December 31, 2011 was the result of receiving the second installment of \$0.9 million from the Texas Emerging Technology Fund, which did not reoccur in the six months ended December 31, 2012.

### **Debt**

#### ***Credit Facilities***

In October 2010, we entered into a financing facility with a commercial bank providing a \$7.0 million term loan note and a \$3.0 million revolving credit facility. The \$7.0 million term loan terminates in October 2015, and the \$3.0 million revolving credit facility expired in October 2012. The term loan requires monthly payments of principal plus interest at the rate of prime plus 0.25%, but not less than 4.0%. The revolving credit facility allowed multiple advances not to exceed \$3.0 million, based on eligible accounts receivable, and incurred interest at the rate of prime plus 0.25%, but not less than 4.0%. The bank financing facilities are secured by the assets of ASO, including accounts receivable, and require us to comply with designated covenants. The balance of the \$7.0 million term loan at December 31, 2012 was \$6.2 million. In October 2012 the Company's \$3.0 million revolving credit facility expired. The Company had no outstanding balance on the revolving credit facility.

The Company was in compliance with all covenants as of December 31, 2012.

### **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 December 31, 2012, the Company has established a full valuation allowance against all of its net deferred tax assets.

FASB ASC 740, *Income Taxes* (FASB ASC 740) addresses the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken or expected to be taken on a tax return. As of December 31, 2012, the

Company has a liability of \$64,000 (\$42,000 net of federal benefit) for unrecognized tax benefits.

For the six months ended December 31, 2012 and 2011, the Company's effective tax rate differed from the federal statutory rate of 35%, primarily due to recording changes to the valuation allowance placed against its net deferred tax assets.

The Company files consolidated returns for federal, California, Florida, and Texas income and franchise taxes.

The Company is currently under examination by the Internal Revenue Service for the fiscal years ended June 30, 2008 through 2010. Loss carryovers are generally subject to modification by tax authorities until 3 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.

#### **Off-Balance Sheet Arrangements**

We do not have any significant off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

#### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We have no material changes to the disclosure made on this matter in our 2012 Annual Report on Form 10-K.

## **ITEM 4. CONTROLS AND PROCEDURES**

### **(a) 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 (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 Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as of the end of the period covered by this Quarterly Report. Based on the evaluation and criteria of these disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

### **(b) Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Exchange Act Rule 13a-15(d) during the quarter ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II: OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

On January 10, 2013, a lawsuit was filed against Astrotech Corporation by John Porter, the former Senior Vice President, Chief Financial Officer, Treasurer and Secretary of the Company. In the lawsuit, Mr. Porter alleges various breaches of contract claims in connection with his termination from the Company on August 3, 2012. Mr. Porter seeks monetary damages of at least \$639,808. The Company intends to vigorously defend the lawsuit filed by Mr. Porter.

### **ITEM 1A. RISK FACTORS**



Other than the substitution of the following risk factor for the final risk factor in our 2012 Annual Report on Form 10-K, there have been no material changes in the risk factors described in our 2012 Annual Report on Form 10-K.

*If our common stock ceases to be listed for trading on the NASDAQ Capital Market it may harm our stock price and make it more difficult to sell shares.*

On November 13, 2012, we received written notification from NASDAQ indicating that the minimum bid price of our common stock had fallen below \$1.00 for 30 consecutive trading days and that we were therefore not in compliance with NASDAQ Listing Rule 5550(a)(2). In order to regain compliance, the closing bid price of our common stock must be at least \$1.00 per share for a minimum of ten consecutive business days. We cannot provide any assurance that we will be able to regain compliance with this requirement. Any delisting of our common stock from the NASDAQ Capital Market could adversely affect our ability to attract new investors, decrease the liquidity of our outstanding shares of common stock, reduce our flexibility to raise additional capital, reduce the price at which our common stock trades and increase the transaction costs inherent in trading such shares with overall negative effects for our shareholders. In addition, delisting of our common stock could deter broker-dealers from making a market in or otherwise seeking or generating interest in our common stock, and might deter certain institutions and persons from investing in our securities at all. For these reasons and others, delisting could adversely affect our business, financial condition and results of operations.

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

During the quarter ended December 31, 2012, we did not issue any unregistered securities or repurchase any of our securities.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

**ITEM 4. MINE SAFETY DISCLOSURE**

Not applicable.

**ITEM 5. OTHER INFORMATION**

Not applicable.

**ITEM 6. EXHIBITS**

The following exhibits are filed herewith:

<b>Exhibit No.</b>	<b>Description</b>
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
31.2	

Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.

32 Certification pursuant to Rule 13a-14(b) of the Securities and Exchange Act of 1934.

101 The following financial information from the Company's Quarterly Report on Form 10-Q, for the period ended December 31, 2012, 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, (v) Notes to Unaudited Condensed Consolidated Financial Statements.<sup>(1)</sup>

(1) Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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 14, 2013

/s/ Thomas B. Pickens III  
Thomas B. Pickens III  
Chief Executive Officer

/s/ Carlisle Kirkpatrick  
Carlisle Kirkpatrick  
Chief Financial Officer