

ASTROTECH Corp \WA\  
Form 10-K  
October 15, 2013

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

**FORM 10-K**

(Mark One)

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

**For the fiscal year ended June 30, 2013**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 001-34426**

**Astrotech Corporation**

(Exact name of registrant as specified in its charter)

**Washington**  
(State or other jurisdiction of  
incorporation or organization)

**91-1273737**  
(I.R.S. Employer  
Identification No.)

**401 Congress Ave. Suite 1650**

**Austin, Texas 78701**

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(Address of principal executive offices) (Zip code)

**(512) 485-9530**

(Registrant's telephone number, including area code)

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

*Title of each class*

*Name of each exchange*

**Common Stock**

*on which registered*

(no par value)

**NASDAQ Capital Market**

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

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

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

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

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

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

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

The aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates of the registrant, based upon the closing price of such stock on the NASDAQ Capital Market on such date of \$0.90 was approximately \$17,512,295 as of December 31, 2012.

As of October 7, 2013, 19,486,727 shares of the registrant's Common Stock, no par value, were outstanding, including 8,333 shares of restricted stock with voting rights.



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## FORWARD-LOOKING STATEMENTS

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

The effect of economic 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 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 ( ISS );

Delays in the timing of performance under our contracts;

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

Risks described in the Risk Factors section of this Form 10-K.

Although we believe that the assumptions underlying our forward-looking statements are reasonable, any of the assumptions could be inaccurate, therefore we cannot assure you that the forward-looking statements included in this Form 10-K will prove to be accurate. In light of the significant uncertainties inherent in our forward-looking statements, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved. Some of these and other risks and uncertainties that could cause actual results to differ materially from such forward-looking statements are more fully described in Item 1A Risk Factors of this Form 10-K and elsewhere in this Form 10-K, or in the documents incorporated by reference herein. Except as may be required by applicable law, we undertake no obligation to publicly update or advise of any change in any forward-looking statement, whether as a result of new information, future events or otherwise. In making these statements, we disclaim any obligation to address or update each factor in future filings with the Securities and Exchange Commission ( SEC ) or communications regarding our business or results, and we do not undertake to

address how any of these factors may have caused changes to discussions or information contained in previous filings or communications. In addition, any of the matters discussed above may have affected our past results and may affect future results, so that our actual results may differ materially from those expressed in this Form 10-K and in prior or subsequent communications.

## **PART I**

### **Item 1.**

#### **Business.**

##### **Our Company**

Astrotech Corporation (Nasdaq: ASTC) ( Astrotech, the Company, we, us or our ), a Washington corporation and 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. We've designed and built space hardware and processing facilities and constructed world-class processing facilities. We currently own, operate and maintain world-class spacecraft processing facilities; prepare and process scientific research from microgravity and develop and manufacture sophisticated chemical sensor equipment.

Our efforts are focused on:

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

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.

Working with development partners to build industry specific applications using our sensor equipment.

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 year ended June 30, 2013. 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 Ground Support Equipment ( 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 develops, manufactures and sells ultra small mass spectrometers and related equipment. Mass spectrometers, in general, measure the mass and relative abundance of ions in a sample to create a mass spectrum. This resulting mass spectrum is a unique fingerprint for each chemical that can be compared to a reference library of mass spectra to verify the identity of a sample. Mass spectrometers can identify chemicals with more accuracy and precision than competing instruments given their extreme sensitivity and specificity and they are a staple of almost all analytical laboratories. By leveraging technology initiated by an engagement with the National Aeronautics and Space Administration ( NASA ) to develop a mass spectrometer for the ISS, the Company has developed a series of instruments that are significantly smaller, lighter, faster and less expensive than competing mass spectrometers, and significantly more sensitive and accurate than other competing chemical detectors. Our efforts have resulted in a technology that can provide mass spectrometry performance in real-time or in the field.

The MMS-1000™ is a small, low power mass spectrometer designed initially for the laboratory market. The unique design of this unit enables mass spectrometric quality chemical analysis in a small package (about the size of a shoebox) that operates off less power than a typical light bulb. This allows high quality chemical analysis to be performed in locations where mass spectrometers have not been used before, such as directly on the factory floor or in the battlefield, without compromising the quality of the analysis.

The OEM-1000 is a mass spectrometer component that was developed for applications where customers need the high quality analysis provided by a mass spectrometer but in a platform that can be integrated into customer specific packages. The OEM-1000 uses the same high performance analyzer as the MMS-1000<sup>TM</sup>, but is provided as an open platform for customers and development partners to integrate with their complementary technologies, with application-specific sample preparation, inlets and software.

### **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 and its partners ( the team ) are currently researching a Salmonella vaccine as part of its ongoing commercialization strategy. Concurrently, the team is evaluating a vaccine target for Methicilin-Resistant Staphylococcus Aureus ( 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 additional space flights.

## **Business Strategy**

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

As a leading commercial supplier of satellite processing and launch services in the United States, ASO strives to provide our government and commercial customers with the most advanced facilities and customer support. ASO's spacecraft processing capabilities are among the finest in the industry, with ideally located facilities that can support the largest five-meter class satellites accommodating the needs of the majority of U.S. based satellites. With that mission in mind, ASO is continuously working to secure additional government and commercial customers that require our unique capabilities. In addition, ASO works to further grow the business by designing, building, and operating spacecraft processing equipment and facilities that are unique in our industry.

### ***Spacetech***

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

With the recent introduction of the OEM-1000 platform technology, 1<sup>st</sup> Detect is integrating the mass spectrometer technology with a number of existing complementary technologies and instruments. Market development strategies are focused on product development with channel partners who will enhance the analytical capability of their own product offerings by exploiting the attributes of the OEM-1000 to enable their own competitive advantage. Due to the high speed performance, analytical capability and flexibility of the product, the Company's best opportunities involve applications where real-time monitoring is required. There are also significant opportunities in the industrial research environment where the mass spectrometer technology allows partners to offer high performance analytical capabilities on their own sample preparation systems while improving their margins and reducing their customers' bench top space requirements.

### **Astrogenetix**

From 2008 to 2011, Astrogenetix pursued an aggressive space access strategy to take advantage of the Space Shuttle program prior to its retirement. This strategy gave Astrogenetix unprecedented access to research in microgravity, as the Company flew twelve times with experiments in this three year period. Astrogenetix and the team are currently focused on developing a Salmonella vaccine as part of the ongoing commercialization strategy. Concurrently, the team is working on the continued development of 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 additional space flights.

## **Products and Services**

### *Astrotech Space Operations*

From our state of the art facilities in Titusville, Florida and Vandenberg Air Force Base ( VAFB ) in California, ASO has provided support for spacecraft pre-launch ground based operations for nearly 30 years for both government and commercial satellites, and we are the leader in this sector. Our service offering includes logistic planning and support; use of our unique facilities; and spacecraft checkout, encapsulation, fueling, and transport. In addition, ASO has extensive experience in designing, building, and operating spacecraft processing equipment and facilities. ASO also provides propellant services including designing, building and testing propellant service equipment for servicing spacecraft.

### *Spacetech*

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

1<sup>st</sup> Detect s ultra small mass spectrometer is a chemical analyzer that provides near laboratory quality, real-time analysis. The Company s proprietary technology utilizes advances in low power electronics and miniaturization technologies developed for the space program and it is capable of detecting a wide range of chemicals quickly with very high sensitivity, specificity and reliability. The instrument provides near laboratory quality performance in a much smaller footprint at a cost well below traditional mass spectrometers. The Company has two granted U.S. patents, one pending U.S. patent application that will soon be granted, and numerous other patent applications now pending before the U.S. Patent & Trademark Office and foreign patent offices.

1<sup>st</sup> Detect instruments are based on the following key technology components:

Cylindrical Ion Trap ( CIT ): The CIT is the core analyzer element of the Company s mass spectrometer technology. The CIT is a series of rings that hold ( traps ) ions in a resonant pattern with an applied RF voltage. By carefully adjusting the RF voltage, the ions are ejected ( scanned ) onto a detector according to their mass, which results in a mass spectrum. In addition, the CIT can be operated in MS/MS mode where targeted chemicals of interest can be isolated and further fragmented in the trap to provide a secondary confirmation, improving the specificity of the instrument without the need for additional hardware.

Pre-concentrator: To improve the sensitivity of the MMS-1000™, 1<sup>st</sup> Detect developed a novel pre-concentrator under a contract with the Defense Threat Reduction Agency and the U.S. Army Dugway Proving Ground. The pre-concentrator can improve the sensitivity of the mass spectrometer by over 1000x, enabling detection to extremely low concentrations (parts per trillion). In addition, the pre-concentrator can be operated in a temperature ramped mode to separate chemicals in time similar to a gas chromatograph ( GC ), a competing technology. This can improve the quality of the analysis without the need for a large, slow, power hungry GC.

Conductor Software ( Conductor ): 1<sup>st</sup> Detect has written a software package that allows users to control the instrument with a simple, feature rich, graphical user interface. Conductor also allows users to monitor the mass spectrum and export the data to industry standard formats. The highly customizable software also contains an advanced mode where users can write custom scripts in a simple JAVA based format for developing custom methods for unique analysis.

## **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 and the team are currently focused on developing a Salmonella vaccine as part of the ongoing commercialization strategy. Concurrently, the team is working on the continued development of 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 additional space flights.

## **Customers, Sales and Marketing**

### *Astrotech Space Operations*

ASO services a variety of domestic and international government and commercial customers sending satellites and spacecraft to low-earth-orbit, geosynchronous orbit, or on planetary missions. ASO has long-term contracts in place with NASA and other U.S. Governmental agencies. ASO continues to look for opportunities to support spacecraft processing for government and commercial customers. During fiscal year 2013, ASO accounted for 99% of our consolidated revenues.

### *Spacetech*

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

1<sup>st</sup> Detect's customers primarily include universities, government agencies and other research organizations. Customers have also purchased or leased the MMS-1000<sup>TM</sup> to evaluate the core technology in anticipation of partnering with 1<sup>st</sup> Detect to develop a follow on custom solution. Significant progress has also been made with a number of established instrument manufactures who have integrated the Company's OEM-1000 component with their products, including those for industrial research applications and a modified OEM-1000 (the OEM-1000GC) for compatibility with GC's for security and petrochemical applications. This partnering strategy enables a scalable distribution strategy where our products will leverage the brand names of established, high quality partners.

The broadband nature of the 1<sup>st</sup> Detect technology, as well as the high performance provided by our unique ion trap architecture, makes the 1<sup>st</sup> Detect technology applicable to a variety of applications. Market opportunities that 1<sup>st</sup> Detect is exploring include Security and Defense, Food and Beverage, Pharmaceutical, Industrial Processing, Healthcare and Diagnostics, Environment Testing and Research.

### **Astrogenetix**

Astrogenetix and the team are currently focused on developing a Salmonella vaccine as part of the ongoing commercialization strategy. Concurrently, the team is working on the continued development of a vaccine target for MRSA based on discoveries made in microgravity.

### **Competition**

#### *Astrotech Space Operations*

The majority of the Company's revenue is derived from ASO, which processes satellites for U.S. launch locations. The only significant competition to ASO's facilities is from commercial competitor Spaceport Systems International ( SSI ) and certain U.S. Government facilities. However, we believe that the majority of domestic satellites, including many government satellites, are processed at ASO due to the state-of-the-art, professionally managed, full-service facilities we operate.

#### *Commercial*

SSI operates and manages a commercial spaceport at VAFB and is a provider of payload processing and launch services for both government and commercial users. The SSI facility throughput capability is significantly less than that of ASO at VAFB. ASO's most recently constructed building at VAFB, the five-meter high bay, significantly improves ASO's competitive advantage. SSI does not provide payload processing services in support of the Cape Canaveral Air Force Station ( CCAFS ) / Kennedy Space Center ( KSC ) launch site, and therefore, does not compete with ASO in Florida.

#### *Governmental*



NASA and the United States Air Force own and operate payload processing facilities at both the CCAFS/KSC and VAFB launch sites. These facilities, however, are used to process select government spacecraft only. They are not used to process commercial spacecraft. Therefore, ASO's competition from the U.S. Government is limited in scope.

## *Spacetech*

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

Competition with 1<sup>st</sup> Detect's mass spectrometer technology will come from two types of instruments. There are a number of mass spectrometer vendors that supply primarily into the laboratory market and a number of vendors that supply small, portable instrumentation based on other technologies (e.g., Ion Mobility Spectrometry). 1<sup>st</sup> Detect is not expected to feel pressure from incumbent mass spectrometer vendors as their offerings are typically too large, expensive and complex to be used outside of the laboratory. Additionally, 1<sup>st</sup> Detect is not expected to feel competition from other technologies as the analytical capability of our ultra small mass spectrometer far exceeds the capabilities of these other technologies.

There are several incumbent vendors that compete directly with 1<sup>st</sup> Detect's ultra small mass spectrometer. However, 1<sup>st</sup> Detect products combine a number of attributes in a single product not currently available in other products. 1<sup>st</sup> Detect's competitive advantages include:

1.

The 1<sup>st</sup> Detect offering is significantly smaller, lighter and more portable than other mass spectrometers.

2.

The combination of the pre-concentrator technology and MS/MS capability eliminates the need for slow, power hungry GC separation.

3.

Developed as a platform technology, 1<sup>st</sup> Detect is able to be adapted to a wider variety of applications than competing purpose-built instruments.



## Astrogenetix

There are many developers of vaccines, including most large pharmaceutical companies and many smaller biotechnology firms. However, there are no known competitors to Astrogenetix's microgravity vaccine development platform. With final construction complete on the ISS, and focus shifting to operation of the national laboratory through 2020, competition from foreign governments, academia and commercial companies is anticipated.

## Research and Development

We invest considerable resources into our internal research and development functions. In addition, we work collaboratively with our development partners to define and deliver additional capabilities to our customers. We conduct research to improve system functionality, streamline and simplify the user experience, and extend our capability into customer defined, application-specific, opportunities. We aggressively seek patent protection from the U.S. Patent & Trademark Office and foreign patent offices.

We incurred \$2.1 million and \$2.6 million in research and development expense during fiscal years 2013 and 2012, respectively. Research and development in fiscal year 2013 has been primarily directed towards development of 1<sup>st</sup> Detect's ultra small mass spectrometer.

## Backlog

The Company's 18-month rolling backlog at June 30, 2013, which includes contractual backlog, scheduled but uncommitted missions, is \$25.5 million.

(In thousands)

| <b>Contract Backlog</b> |    | <b>18-Month Rolling</b> |
|-------------------------|----|-------------------------|
| ASO Missions            | \$ | 22,230                  |
| ASO Facility Programs   |    | 3,251                   |
| <b>Total Backlog</b>    | \$ | <b>25,481</b>           |

The 18-month rolling backlog for ASO consists of pre-launch satellite processing services, which include hardware launch preparation, advance planning, use of unique satellite preparation facilities and spacecraft checkout, encapsulation, fueling and transport, and design and fabrication of equipment and hardware for space launch activities at our Titusville, Florida and VAFB locations.

## **Certain Regulatory Matters**

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

Significant federal regulations impacting our operations include the following:

*Federal Regulation of International Business.* We are subject to various federal regulations as it relates to the export of certain goods, services, and technology. These regulations, which include the Export Administration Act of 1979 administered by the Commerce Department and the Arms Export Control Act administered by the State Department, impose substantial restrictions on the sharing or transfer of technology to foreign entities. Our activities in the development of space technology and in the processing of commercial satellites deal with the type of technology subject to these regulations. Our operations are conducted pursuant to a comprehensive export compliance policy that provides close review and documentation of activities subject to these laws and regulations.

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

*Iran Nonproliferation Act of 2000.* This act includes specific prohibitions on commercial activities with certain specified Russian entities engaged in providing goods or services to the International Space Station. Our activities with RSC Energia of Russia are not subject to this act.

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

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

*Defense Security Service.* Occasionally, we are requested to process government spacecraft payloads that must be handled under federal security clearances. To accommodate these requirements, we maintain facility security clearances within certain subsidiaries of the Company and have persons engaged by the Company with necessary active security clearances to support these requirements. Maintenance of an active facility clearance requires dedicated trained personnel, specified facility standards and recordkeeping.

## **Regulatory Compliance and Risk Management**

We maintain compliance with regulatory requirements and manage our risks through a program of compliance, awareness, and insurance, which includes the following:

*Safety.* We place a continual emphasis on safety throughout our organization. At the corporate level, safety programs and training are monitored by a corporate safety manager.

*Export Control Compliance.* We have a designated senior officer responsible for export control issues and the procedures detailed in our export control policy. This officer and the designated export compliance administrator monitor training and compliance with regulations relative to foreign business activities. Employees are provided comprehensive training in compliance with regulations relative to export and foreign activities through our interactive training program and are certified as proficient in such regulations as are relative to their job responsibilities.

*Insurance.* Our ASO operations, which are centered around specialized and unique processing facilities in Titusville, Florida and VAFB, are subject to risk and potential loss due to a number of factors, but most notably, the transportation of heavy equipment and the consistent use by customers and employees. To mitigate this risk we strive to maintain our facilities in optimal condition and we hold property and casualty lines of insurance on each of our facilities and a general liability policy for Astrotech.

## **Employees Update**

As of June 30, 2013, we employed 62 regular full-time employees, none of which were covered by any collective bargaining agreements.

On August 3, 2012, John Porter was terminated as Senior Vice President, Chief Financial Officer, Treasurer and Secretary of the Company and from all positions at subsidiaries of the Company. On January 10, 2013, a lawsuit was filed against Astrotech Corporation by Mr. Porter. 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.

On August 9, 2012, the Company announced the appointment of Carlisle Kirkpatrick, 45, as Chief Financial Officer of the Company, effective as of August 9, 2012.

## **Item 1A.**

### **Risk Factors.**

Given the inherent uncertainty and complexity of the businesses that we engage in, our results from operations and financial condition could be materially adversely impacted as set forth below.

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

We have relied on governmental customers for a substantial portion of our revenue. Approximately 66% of our revenue in fiscal year 2013 was generated by various NASA and U.S. Government contracts or subcontracts. The loss of these customers could have a material adverse effect on our business, financial condition and results of operations. We cannot make any assurances that any customer will require our services in the future. Therefore, we continue to work on diversifying our customer base to include other government agencies and commercial industries, while going to great lengths to satisfy the needs of our current customer base.

*Termination of our future orders could negatively impact our revenues.*

The Company's rolling backlog at June 30, 2013, which includes contractual backlog and scheduled but uncommitted missions, is \$25.5 million. The majority is for ASO pre-launch satellite processing services, which include hardware launch preparation; advance planning; use of unique satellite preparation facilities; and spacecraft checkout, encapsulation, fueling and transport. Since our backlog is not yet earned and can be terminated by our customers, we cannot assure that our backlog will ultimately result in revenues.

*Increase competition from a branch of the U.S. Government or a commercial entity could significantly reduce the number of missions using Astrotech facilities.*

Astrotech provides services for domestic launch sites. In the event that the U.S. Government or commercial entity offers spacecraft ground processing facilities for the launch sites currently serviced by Astrotech, there could be a reduced need for the use of Astrotech facilities. This would result in direct competition for our existing customers in connection with servicing domestic launch sites, which could significantly reduce our revenues. There can be no assurance that we will be able to compete successfully against any new competitor in this area or that these competitive pressures we may face will not result in reduced revenues and market share.

***Compliance with environmental and other government regulations could be costly and could negatively affect our financial condition.***

Our business, particularly our ASO business unit, is subject to numerous laws and regulations governing the operation and maintenance of our facilities and the release or discharge of hazardous or toxic substances, including spacecraft fuels and oxidizers, into the environment. Under these laws and regulations, we could be liable for personal injury and cleaning costs and other environmental and property damages, as well as administrative, civil, and criminal penalties. In the event of a violation of these laws, or a release of hazardous substances at or from our facilities, our business, financial condition, and results of operations could be materially and adversely affected.

***As a U.S. Government contractor, we are subject to a number of rules and regulations, the violation of which could result in us being barred from future U.S. Government contracts.***

We must comply with, and are affected by, laws and regulations relating to the award, administration, and performance of U.S. Government contracts. These laws and regulations, among other things:

Require certification and disclosure of all cost or pricing data in connection with certain contract negotiations.

Impose acquisition regulations that define allowable and unallowable costs and otherwise govern our right to reimbursement under certain cost-based U.S. Government contracts.

Restrict the use and dissemination of information classified for national security purposes and the exportation of certain products and technical data.



A violation of specific laws and regulations could result in the imposition of fines and penalties, the termination of our contracts, or being prohibited from bidding on U.S. Government contracts. Additionally, U.S. Government contracts generally contain provisions that allow the U.S. Government to unilaterally suspend us from receiving new contracts pending resolution of alleged violations of certain federal laws or regulations, reduce the value of existing contracts, issue modifications to a contract, and control and potentially prohibit the export of our services and associated materials. Prohibition against bidding on future U.S. Government contracts would have a material adverse effect on our financial condition and results of operations.

***Our failure to comply with U.S. export control laws and regulations could adversely affect our business.***

We are obligated by law and under contract to comply, and to ensure that our subcontractors comply, with all U.S. export control laws and regulations, including the International Traffic in Arms Regulations and the Export Administration Regulations. We are responsible for obtaining all necessary licenses or other approvals, if required, for exports of hardware, technical data, and software, or for the provision of technical assistance. We are also required to obtain export licenses, if required, before utilizing foreign persons in the performance of our contracts if the foreign person will have access to export-controlled technical data or software. The violation of any of the applicable export control laws and regulations, whether by us or any of our subcontractors, could subject us to administrative, civil, and criminal penalties.

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

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

***Our Spacotech business unit is in an early development stage. It has earned limited revenues and it is uncertain whether it will earn any revenues in the future or whether it will ultimately be profitable.***

Our Spacotech business unit is in an early stage with limited commercial sales and a limited operating history. Its future operations are subject to all of the risks inherent in the establishment of a new business including, but not limited to, risks related to capital requirements, failure to establish business relationships and competitive disadvantages against larger and more established companies. The Spacotech business unit will require substantial amounts of funding to continue to commercialize its products. If such funding comes in the form of equity financing, such equity financing may involve substantial dilution to existing shareholders. Even with funding, our products may fail to be effective or attractive to the market or lack the necessary financial or other resources or relationships to be successful.

The Spacotech business unit can be expected to experience continued operating losses until it can generate sufficient revenues to cover its operating costs. Furthermore, there can be no assurance that the business will be able to develop, manufacture or market additional products in the future, that future revenues will be significant, that any sales will be profitable or that the business will have sufficient funds available to complete its commercialization efforts.

Any products and technologies developed and manufactured by our Spacotech business unit may require regulatory approval prior to being made, marketed, sold, and used. There can be no assurance that regulatory approval of any products will be obtained.

The commercial success of the Spacotech business unit is expected to depend, in part, on obtaining patent and other intellectual property protection for the technologies contained in any products it develops. In addition, the Spacotech business unit may need to license intellectual property to commercialize future products or avoid infringement of the intellectual property rights of others. There can be no assurance that licenses will be available on acceptable terms and conditions, if at all. The Spacotech business unit may suffer if any licenses terminate, if the licensors fail to abide by the terms of the license or fail to prevent infringement by third parties, if the licensed patents or other rights are found to be invalid, or if the Spacotech business unit is unable to enter into necessary licenses on acceptable terms. If the Spacotech business unit, or any third party, from whom it licenses intellectual property, fails to obtain adequate patent or other intellectual property protection for intellectual property covering its products, or if any protection is reduced or eliminated, others could use the intellectual property covering the products, resulting in harm to the competitive business position of the Spacotech business unit. In addition, patent and other intellectual property protection may not provide the Spacotech business unit with a competitive advantage against competitors that devise ways of making competitive products without infringing any patents that the Spacotech business unit owns or has rights to. Such competition could adversely affect the prices for any products or the market share of the Spacotech business unit and could have a material adverse effect on its results of operations and financial condition.

***Our facilities located in Florida and California are susceptible to damage caused by hurricanes, earthquakes, or other natural disasters.***

Our ASO spacecraft processing facilities on the east coast of Florida are susceptible to damage caused by hurricanes or other natural disasters. In addition, our satellite processing facilities at VAFB are subject to damage caused by earthquakes. Although we insure our properties and maintain business interruption insurance, there can be no guarantee that the coverage would be sufficient or a claim will be fulfilled. A natural disaster could result in a temporary or permanent closure of our business operations, thus impacting our future financial performance.

***Due to our dependence on the timing of spacecraft launches, our results may fluctuate significantly from quarter to quarter.***

The use of our ASO spacecraft processing facilities is highly dependent upon the number of satellite launches planned and executed each year. Additionally, factors beyond our direct control, such as a delay or accident at a launch vehicle support facility, could cause a material change in our financial results. As a result, significant fluctuations should be expected from quarter to quarter in our operating results.

***The loss of key management and other employees could have a material adverse effect on our business.***

We are dependent on the personal efforts and abilities of our senior management, and our success will also depend on our ability to attract and retain additional qualified employees. Failure to attract personnel sufficiently qualified to execute our strategy, or to retain existing key personnel, could have a material adverse effect on our business.

***If we are unable to anticipate technological advances and customer requirements in the commercial and governmental markets, our business and financial condition may be adversely affected.***

Our business strategy outlines the use of decades of experience to expand the services and products we offer to both U.S. Government agencies and commercial industries. We believe that our growth and future financial performance depend upon our ability to anticipate technological advances and customer requirements. There can be no assurance that we will be able to achieve the necessary technological advances for us to remain competitive. In fiscal year 2013, we continued new business initiatives for advancing commerce in space. These new business initiatives will require substantial investments of capital and technical expertise. Our failure to anticipate or respond adequately to changes in technological and market requirements, or delays in additional product development or introduction, could have a material adverse effect on our business and financial performance. Additionally, the cost of capital to fund these businesses will likely require dilution of shareholders.

***Our inability to generate sufficient cash flow to pay off or refinance our indebtedness with near-term maturities could have a material adverse effect on our financial condition.***

We cannot assure that our business will generate cash flows from operations or that future borrowings will be available to us in an amount sufficient to pay our maturing indebtedness as it comes due. As a result, we may need to refinance all or a portion of the debt or we may need to secure new financing before maturity. We cannot be sure that we will be able to obtain financing on reasonable terms or at all, particularly given the general economic situation and lending environment we currently face.

***Our earnings and margins may vary due to the nature of our fixed-priced contracts.***

Our business mix includes cost-reimbursable and fixed-price contracts. Cost-reimbursable contracts generally have lower profit margins than fixed-price contracts. Our ASO business unit contracts are mainly fixed-price contracts. If we are unable to control costs we incur in performing under the contract, our financial condition and operating results could be materially adversely affected. Additionally, the costs incurred to operate our core ASO business are near-term fixed. As a result, if we are not able to schedule payload processing in order to optimize our facilities, our financial results could be adversely affected.

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

Our business strategy outlines the use of the decades of experience we have accumulated to expand the services and products we offer to both U.S. Government agencies and commercial industries. These services and products generally involve the commercial exploitation of space, and involve new and untested technologies and business models. These technologies and business models may not be successful, which could result in the loss of any investment we make in developing them.

***Our financial results could be adversely affected if the estimates that we use in accounting for contracts are incorrect and need to be changed.***

Contract accounting requires judgment relative to assessing risks, estimating contract revenues and costs, and making assumptions for scheduling and technical issues. We rely on the application of consistent business processes in order to minimize material error and maximize reporting transparency. The estimation of total revenues and cost at completion for many of our contracts is complicated and subject to many unknown variables.

If our performance under a cost reimbursable contract results in an award fee that is lower than we have estimated, we would be required to refund previously billed fee amounts and would have to adjust our revenue recognition accordingly. If our performance was determined to be significantly deficient, we may be required to reimburse our customers for the entire amount of previously billed awards. Changes in underlying assumptions, circumstances, or estimates may adversely affect future period financial performance.

***Our spacecraft payload processing facilities are specifically designed to process satellites and other payloads and we would lose a substantial portion of their value if we no longer provide these services.***

Our ASO spacecraft processing facilities were built specifically to process satellites and space related payloads. If we were required to terminate the processing businesses, the value of these facilities could be impaired and, as a result, our financial condition and results of operations would likely be negatively impacted.

***Our inability to maintain required government security clearances and the impact of foreign ownership or control could result in a loss of potential future spacecraft ground processing and other opportunities.***

In order to be a service and product provider for spacecraft ground processing and other related activities, we are required to maintain certain government security clearances and we must comply with laws that limit foreign ownership and control. We may be subject to regulatory action and other sanctions if we fail to comply with applicable laws and regulations relating to required security clearances and foreign ownership and control. This could harm our reputation, our prospects for future work, and our operating results.

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

Preparing a proposal to bid on a contract is generally a three to six month process. This process is labor-intensive and results in the incurrence of substantial costs that are generally not retrievable. Additionally, although we may be awarded a contract, work performance does not commence for several months following completion of the bidding process. If funding problems by the party awarding the contract or other matters further delay our commencement of work, these delays may lower the value of the contract, or possibly render it unprofitable.

*If our common stock ceases to be listed for trading on the NASDAQ Capital Market it may harm our stock price and our common stock may become illiquid.*

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). On May 14, 2013, we received a second compliance notice from NASDAQ regarding the Company's failure to maintain the minimum bid price for continued listing. However, the NASDAQ staff has determined that the Company is eligible for an additional 180 day grace period, or until November 11, 2013, to regain compliance. NASDAQ's determination was based on the Company meeting the continued listing requirement for market value of publicly held shares and all other applicable requirements for initial listing on the NASDAQ Capital Market, with the exception of the bid price requirement, and the Company's written notice to NASDAQ of its intention to cure the deficiency during the second compliance period. There can be no assurance that we will cure the deficiency during the second compliance period. 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 the price of our common stock and our business, financial condition and results of operations.

**Item 1B.**

**Unresolved Staff Comments.**

Not applicable.

**Item 2.**

**Properties.**

Astrotech relocated its corporate headquarters to Austin, Texas in June 2009. The leased office houses executive management, finance and accounting, and marketing and communications.

ASO's headquarters, and Florida operations team, are located in a nine-building complex located on a 62-acre space technology campus in Titusville, Florida. This campus encompasses 140,000 square feet of facility space supporting non-hazardous and hazardous flight hardware processing, payload storage, and customer offices.

In September 2009, we completed construction of a 23,000 square foot payload processing facility at VAFB in California which enhanced our capability to process five-meter class satellite payloads. Additionally, in December 2009, we completed construction of a 5,600 square foot office building used by customers for administrative and operational support of teams processing satellites in the new five-meter payload facility. ASO presently leases the 60-acre site located on VAFB in California, where we own four buildings totaling over 50,000 square feet of space. The Company has extended the original land lease, which expired in September 2013. The new lease expires in September 2018, with provisions to extend the lease at the request of the lessee and the concurrence of the lessor. Upon final expiration of the land lease, all improvements on the property revert, at the lessor's option, to the lessor at no cost.

We maintained a separate 58,000 square foot payload processing facility located in Cape Canaveral, Florida. We negotiated an agreement with the Canaveral Port Authority for the lease of the land for a forty-three year period, expiring 2040. Upon expiration of the land lease, all improvements on the property revert at no cost to the lessor. In May 2005, we sold the facility in Cape Canaveral, Florida for \$4.8 million. We leased back 100% of the facility through December 31, 2012, with an option for an additional year. We elected not to renew our lease on this facility. The facility, although valuable under specific circumstance, is of little value to ASO's current operations. We do not believe our operations will be significantly disrupted as a result of our decision not to renew this lease.

In May 2013, 1<sup>st</sup> Detect completed build-out of a new 16,000 square foot leased research and development, and production facility in Webster, Texas. This new facility is equipped with state-of-the art laboratories, a clean room, a production shop and offices for staff. The term of the lease is 62 months and includes two additional five year options. The agreement also includes a right of first refusal on an adjacent space to accommodate future growth requirements.

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



**Item 3.**

**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.

On February 20, 2013, a shareholder derivative lawsuit was filed in the District Court of Travis County, Texas against the current directors and chief executive officer of Astrotech Corporation and against the Company, as nominal defendant. The complaint alleges, among other things, that the directors and chief executive officer breached fiduciary duties to the Company in connection with certain corporate transactions, including loans to subsidiaries and purchases of outstanding shares of the Company's common stock. The Company intends to vigorously defend the lawsuit.

**Item 4.**

**Mine Safety Disclosures**

None.

**PART II****Item 5.****Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.***Market Information*

Our Common Stock is principally traded on the NASDAQ Global Market. The following table sets forth the quarterly high and low intra-day bid prices for the periods indicated:

| <b>Fiscal 2013</b> | <b>High</b> | <b>Low</b> |
|--------------------|-------------|------------|
| First Quarter      | \$ 1.29     | \$ 0.88    |
| Second Quarter     | \$ 0.99     | \$ 0.66    |
| Third Quarter      | \$ 0.96     | \$ 0.71    |
| Fourth Quarter     | \$ 0.87     | \$ 0.68    |

| <b>Fiscal 2012</b> | <b>High</b> | <b>Low</b> |
|--------------------|-------------|------------|
| First Quarter      | \$ 1.07     | \$ 0.51    |
| Second Quarter     | \$ 0.87     | \$ 0.50    |
| Third Quarter      | \$ 0.88     | \$ 0.55    |
| Fourth Quarter     | \$ 1.34     | \$ 0.79    |

We have never paid cash dividends. It is our present policy to retain earnings to finance the growth and development of our business; therefore, we do not anticipate paying cash dividends on our Common Stock in the foreseeable future.

We have 75,000,000 shares of Common Stock authorized for issuance. As of October 7, 2013, we had 19,486,727 shares of Common Stock outstanding, including 8,333 shares of restricted stock with voting rights, which were held by approximately 2,700 holders. The last reported sale price of our Common Stock as reported by the NASDAQ Global Market on October 7, 2013 was \$0.66 per share.

**Securities Available for Issuance**

As of June 30, 2013, the following securities are available for issuance:

| <b><i>Astrotech Equity Available for Issuance</i></b>      | <b>Number of securities to be issued upon exercise of outstanding options, warrants, and rights</b> | <b>Weighted average exercise price of outstanding options, warrants, and rights</b> | <b>Number of securities remaining available for future issuance</b> |
|--|---|---|---|
| Plan Category  | (a)   | (b)   | (c)   |
| Equity compensation plans approved by security holders     | 1,175,150 \$  | 0.94  | 1,440,001   |
| Equity compensation plans not approved by security holders |   |   |   |
| Total  | 1,175,150 \$  | 0.94  | 1,440,001   |

| <b><i>I<sup>st</sup> Detect Equity Available for Issuance</i></b> | <b>Number of securities to be issued upon exercise of outstanding options, warrants, and rights</b> | <b>Weighted average exercise price of outstanding options, warrants, and rights</b> | <b>Number of securities remaining available for future issuance</b> |
|---|---|---|---|
| Plan Category   | (a)   | (b)   | (c)   |
| Equity compensation plans approved by security holders            | 700 \$  | 212.00  | 1,800   |
| Equity compensation plans not approved by security holders        |   |   |   |
| Total   | 700 \$  | 212.00  | 1,800   |



## Stock Performance Graph

*The following performance graph and table do not constitute soliciting material and the performance graph and table should not be deemed filed or incorporated by reference into any other previous or future filings by us under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that we specifically incorporate the performance graph and table by reference therein.*

The performance graph and table below compare the five-year cumulative total return of our common stock with the comparable five-year cumulative total returns of the Standard & Poor's Aerospace & Defense Stock Index ( S&P Aerospace & Defense ) and the NASDAQ Composite Stock Index ( NASDAQ Composite ). The figures assume an initial investment of \$100 at the close of business on June 30, 2008 in Astrotech Corporation, S&P, and NASDAQ, and the reinvestment of all dividends.

|  | <b>6/08</b>   | <b>6/09</b>   | <b>6/10</b>   | <b>6/11</b>   | <b>6/12</b>   | <b>6/13</b>   |
|--|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Astrotech Corporation</b>           | <b>100.00</b> | <b>201.40</b> | <b>217.16</b> | <b>180.56</b> | <b>189.14</b> | <b>122.63</b> |
| <b>NASDAQ Composite</b>                | <b>100.00</b> | <b>80.56</b>  | <b>93.30</b>  | <b>124.28</b> | <b>132.47</b> | <b>155.74</b> |
| <b>S&amp;P Aerospace &amp; Defense</b> | <b>100.00</b> | <b>76.11</b>  | <b>93.68</b>  | <b>124.26</b> | <b>121.25</b> | <b>160.61</b> |

## Issuer Purchases of Equity Securities

In March 2003, our Board of Directors authorized us to repurchase up to \$1.0 million of our outstanding stock at market prices. Additionally, in September 2008, the Board of Directors authorized the repurchase of the Company's outstanding Common Stock or Senior Convertible Notes payable, up to a cumulative amount of \$6.0 million. To date, a total of 311,660 shares at a cost of \$0.2 million have been repurchased by the Company. We did not repurchase any shares during the year ended June 30, 2013.

## Item 6.

### Selected Financial Data.

The following table sets forth our selected consolidated financial data as of and for the years ended June 30, 2009, 2010, 2011, 2012 and 2013. Such data has been derived from our consolidated financial statements audited by PMB Helin Donovan, LLP for the fiscal years ended June 30, 2009 and 2010 and by Ernst & Young LLP for the fiscal years ended June 30, 2011, 2012 and 2013. The data set forth below should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations, Risk Factors and our Consolidated Financial Statements and Notes included in this annual report.

|  | Years Ended June 30,                  |                |                |               |               |
|--|---------------------------------------|----------------|----------------|---------------|---------------|
|  | 2013                                  | 2012           | 2011           | 2010          | 2009          |
|  | (In thousands, except per share data) |                |                |               |               |
| <b>Operating Results:</b>                                      |                                       |                |                |               |               |
| Revenue  | \$ 23,995                             | \$ 26,138      | \$ 20,149      | \$ 27,979     | \$ 31,985     |
| Costs of revenue   | 15,684                                | 18,790         | 13,668         | 12,858        | 15,723        |
| <b>Gross profit</b>  | <b>8,311</b>                          | <b>7,348</b>   | <b>6,481</b>   | <b>15,121</b> | <b>16,262</b> |
| Selling, general and administrative expenses                   | 6,790                                 | 7,067          | 8,402          | 12,170        | 9,760         |
| Research and development expenses                              | 2,080                                 | 2,571          | 3,834          | 2,798         | 2,330         |
| <b>Income (loss) from operations</b>                           | <b>(559)</b>                          | <b>(2,290)</b> | <b>(5,755)</b> | <b>153</b>    | <b>4,172</b>  |
| Gain on bond exchange  |                                       |                |                |               | 665           |
| Interest and other expense, net                                | (164)                                 | (1,026)        | (279)          | (459)         | (622)         |
| Income tax benefit (expense)                                   |                                       | (17)           | 53             | (22)          | 510           |
| <b>Net income (loss)</b>                                       | <b>(723)</b>                          | <b>(3,333)</b> | <b>(5,981)</b> | <b>(328)</b>  | <b>4,725</b>  |
| Less: net loss attributable to noncontrolling interest         | (538)                                 | (620)          | (998)          | (588)         |               |
| <b>Net income (loss) attributable to Astrotech Corporation</b> | <b>(185)</b>                          | <b>(2,713)</b> | <b>(4,983)</b> | <b>260</b>    | <b>4,725</b>  |

|   |           |           |           |         |         |
|---|-----------|-----------|-----------|---------|---------|
| Net income (loss) per common share basic                            | \$ (0.01) | \$ (0.15) | \$ (0.28) | \$ 0.02 | \$ 0.29 |
| Shares used in computing net income (loss) per common share basic   | 19,328    | 18,544    | 17,822    | 16,567  | 16,365  |
| Net income (loss) per common share diluted                          | \$ (0.01) | \$ (0.15) | \$ (0.28) | \$ 0.01 | \$ 0.28 |
| Shares used in computing net income (loss) per common share diluted | 19,328    | 18,544    | 17,822    | 18,283  | 16,904  |

**Balance Sheet Data (End of Period):**

|   |                 |                 |                 |                 |                 |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| Cash and Cash Equivalents                 | \$ 5,096        | \$ 10,177       | \$ 14,994       | \$ 8,085        | \$ 4,730        |
| <b>Total assets</b>                       | <b>48,002</b>   | <b>50,049</b>   | <b>57,620</b>   | <b>54,903</b>   | <b>58,919</b>   |
| Current debt                              | 387             | 372             | 348             | 8,467           | 267             |
| Long-term debt, excluding current portion | 5,655           | 6,042           | 6,422           |                 | 8,435           |
| Stockholders equity                       | 35,480          | 36,132          | 37,558          | 42,212          | 40,548          |
| <b>Working capital (deficit) surplus</b>  | <b>\$ 4,307</b> | <b>\$ 4,820</b> | <b>\$ 5,020</b> | <b>\$ 2,623</b> | <b>\$ 8,418</b> |

**Other Data:**

|   |            |            |          |          |          |
|---|------------|------------|----------|----------|----------|
| Net cash provided by (used in) operating activities | \$ (2,902) | \$ (4,109) | \$ 9,234 | \$ 4,437 | \$ 4,972 |
| Net cash used in investing activities               | (1,847)    | (1,252)    | (776)    | (1,829)  | (1,427)  |
| Net cash provided by (used in) financing activities | (332)      | 544        | (1,549)  | 747      | (1,455)  |



**Item 7.**

**Management's Discussion and Analysis of Financial Condition and Results of Operations.**

*The following information should be read in conjunction with the Consolidated Financial Statements and the accompanying Notes included below in Item 8 and Risk Factors included above in Item 1A of this Annual Report on Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements.*

**Overview**

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. We've designed and built space hardware and processing facilities and constructed world-class processing facilities. We currently own, operate and maintain world-class spacecraft processing facilities; prepare and process scientific research from microgravity and develop and manufacture sophisticated chemical sensor equipment.

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 service and support.

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

Supplying propellant and associated services for spacecraft.

Managing launch logistics and support.

Working with development partners to build industry specific applications using our sensor equipment.

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 year ended June 30, 2013. 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 develops, manufactures and sells ultra-small mass spectrometers and related equipment. Mass spectrometers, in general, measure the mass and relative abundance of ions in a sample to create a mass spectrum. This resulting mass spectrum is a unique fingerprint for each chemical that can be compared to a reference library of mass spectra to verify the identity of a sample. Mass spectrometers can identify chemicals with more accuracy and precision than competing instruments given their extreme sensitivity and specificity and they are a staple of almost all analytical laboratories. By leveraging technology initiated by an engagement with NASA to develop a mass spectrometer for the ISS, the Company has developed a series of instruments that are significantly smaller, lighter, faster and less expensive than competing mass spectrometers, and significantly more sensitive and accurate than other competing chemical detectors. Our efforts have resulted in a technology that can provide mass spectrometry performance in real-time or in the field.

The MMS-1000<sup>TM</sup> is a small, low power mass spectrometer designed initially for the laboratory market. The unique design of this unit enables mass spectrometric quality chemical analysis in a small package (about the size of a shoebox) that operates off less power than a typical light bulb. This allows high quality chemical analysis to be performed in locations where mass spectrometers have not been used before, such as directly on the factory floor or in the battlefield, without compromising the quality of the analysis.

The OEM-1000 is a mass spectrometer component that was developed for applications where customers need the high quality analysis provided by a mass spectrometer but in a platform that can be integrated into customer specific packages. The OEM-1000 uses the same high performance analyzer as the MMS-1000<sup>TM</sup> but is provided as an open platform for customers and development partners to integrate with their complementary technologies, with application-specific sample preparation, inlets and software.

### **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 and the team are currently researching a Salmonella vaccine as part of its ongoing commercialization strategy. Concurrently, the team 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 additional space flights.

## Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with United States generally accepted accounting principles. 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.

### *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 Specific            | Mission | Ratably, over the occupancy period of a satellite<br>within the facility from arrival through launch |
| Construction Contracts            | Firm Fixed Price                     |         | Percentage-of-completion based on costs incurred   |
| Engineering Services              | Cost Reimbursable<br>Award/Fixed Fee |         | Reimbursable costs incurred plus award/fixed fee   |

|                     |                   |  |
|---------------------|-------------------|--|
| Commercial Products | Specific Purchase | At shipment                                    |
|                     | Order Based       |  |
| Grant               | Cost Reimbursable | As costs are incurred for related research and |
|                     | Award             | 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.

***Long-Lived Asset***

In assessing the recoverability of long-lived assets, fixed assets, assets under construction and intangible assets, we evaluate the recoverability of those assets. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

### ***Use of Estimates***

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that directly affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from these estimates.

### ***Deferred Revenue***

Deferred revenue represents amounts collected from customers for projects, products, or services expected to be provided at a future date. Deferred revenue is shown on the balance sheet as either a short-term or long-term liability, depending on when the service or product is expected to be provided.

### ***Share Based Compensation***

The Company accounts for share-based awards to employees based on the fair value of the award on the grant date. The fair value of the stock options is estimated using expected dividend yields of the Company's stock, the expected volatility of the stock, the expected length of time the options remain outstanding and risk-free interest rates. Changes in one or more of these factors may significantly affect the estimated fair value of the stock options. Additionally, the Company estimates the number of instruments for which the required service is expected to be rendered. The Company estimates forfeitures using historical forfeiture rates for previous grants of equity instruments. The fair value of awards that are expected to vest is recorded as an expense over the vesting period.

### ***Noncontrolling Interest***

Noncontrolling interest accounting is applied for any entities where the Company maintains more than 50% and less than 100% ownership. The Company clearly identifies the noncontrolling interest in the balance sheets and income statements. We also disclose three measures of net income (loss): net income (loss), net income (loss) attributable to noncontrolling interest, and net income (loss) attributable to Astrotech Corporation. Our operating cash flows in our consolidated statements of cash flows reflect net income (loss), while our basic and diluted earnings per share calculations reflect net income (loss) attributable to Astrotech Corporation.

### ***State of Texas Funding***

The Company accounts for the State of Texas funding in the amount of \$1.8 million in its majority owned subsidiary 1st Detect as a contribution of capital and has reflected the disbursement in the equity section of the consolidated balance sheet. While the award agreement includes both a common stock purchase right and a note payable to the State of Texas, the economic substance of the transaction is that the State of Texas has purchased shares of 1<sup>st</sup> Detect in exchange for the granted award.

### *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 June 30, 2013, 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. The Company has an unrecognized tax benefit of \$0.1 million for the years ended June 30, 2013 and 2012.

For the year ended June 30, 2013 and 2012, 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 income tax returns in the U.S. federal jurisdiction and in various states. Due to the Company's loss carryover position, it is subject to U.S. federal and state income tax examination adjustments to its carryover benefits generated after 1999.

Currently, the Company is under examination by the Internal Revenue Service for its 2008 through 2010 tax year.

## CONSOLIDATED RESULTS OF OPERATIONS

### Results of Operations for the Years Ended June 30, 2013 and 2012

The following table sets forth the significant components in the Consolidated Statements of Operations for the year ended June 30, 2013 compared with 2012. The financial information and the discussion below should be read in conjunction with the Consolidated Financial Statements and Notes to Consolidated Financial Statements.

| (In thousands)   | Year Ended June 30, |                   |                 |
|--|---------------------|-------------------|-----------------|
|  | 2013                | 2012              | Variance        |
| Revenue  | \$ 23,995           | \$ 26,138         | \$ (2,143)      |
| Cost of Revenue  | 15,684              | 18,790            | (3,106)         |
| <b>Gross profit</b>                                    | <b>8,311</b>        | <b>7,348</b>      | <b>963</b>      |
| Operating expenses                                     |                     |                   |                 |
| Selling, general and administrative                    | 6,790               | 7,067             | (277)           |
| Research and development                               | 2,080               | 2,571             | (491)           |
| Total operating expenses                               | 8,870               | 9,638             | (768)           |
| <b>Loss from operations</b>                            | <b>(559)</b>        | <b>(2,290)</b>    | <b>1,731</b>    |
| Interest and other expense, net                        | (164)               | (1,026)           | 862             |
| <b>Loss before income taxes</b>                        | <b>(723)</b>        | <b>(3,316)</b>    | <b>2,593</b>    |
| Income tax (expense) benefit                           |                     | (17)              | 17              |
| <b>Net loss</b>  | <b>(723)</b>        | <b>(3,333)</b>    | <b>2,610</b>    |
| Less: net loss attributable to noncontrolling interest | (538)               | (620)             | 82              |
| <b>Net loss attributable to Astrotech Corporation</b>  | <b>\$ (185)</b>     | <b>\$ (2,713)</b> | <b>\$ 2,528</b> |

The following table sets forth the percentage of total revenue of significant components in the Consolidated Statements of Operations for the year ended June 30, 2013 compared with 2012:

|  | Year Ended June 30, |      |
|--|---------------------|------|
|  | 2013                | 2012 |

|  |             |              |
|--|-------------|--------------|
| Revenue  | 100 %       | 100 %        |
| Cost of revenue  | 65 %        | 72 %         |
| <b>Gross profit</b>                                    | <b>35 %</b> | <b>28 %</b>  |
| Operating expenses                                     |             |              |
| Selling, general and administrative                    | 28 %        | 27 %         |
| Research and development                               | 9 %         | 10 %         |
| Total operating expenses                               | 37 %        | 37 %         |
| <b>Loss from operations</b>                            | <b>(2)%</b> | <b>(9)%</b>  |
| Interest and other expense, net                        | (1)%        | (4)%         |
| <b>Loss before income taxes</b>                        | <b>(3)%</b> | <b>(13)%</b> |
| Income tax (expense) benefit                           | * %         | * %          |
| <b>Net loss</b>  | <b>(3)%</b> | <b>(13)%</b> |
| Less: net loss attributable to noncontrolling interest | (2)%        | (2)%         |
| <b>Net loss attributable to Astrotech Corporation</b>  | <b>(1)%</b> | <b>(10)%</b> |
| *  |             |              |

Represents less than 1% of period revenue

*Revenue.* Total revenue decreased to \$24.0 million for the year ended June 30, 2013 from \$26.1 million for the year ended June 30, 2012. This decrease is primarily attributable to a reduction in revenue earned on the fabrication of the GSE for the U.S. Government.

A breakdown of revenue for the years ended June 30, 2013 and 2012 is as follows:

| (In thousands) | Year Ended June 30, |                  |
|----------------|---------------------|------------------|
|                | 2013                | 2012             |
| ASO            | \$ 23,862           | \$ 25,817        |
| Spacetech      | 133                 | 321              |
| <b>Total</b>   | <b>\$ 23,995</b>    | <b>\$ 26,138</b> |

*Gross Profit.* Gross profit increased to \$8.3 million for the year ended June 30, 2013, as compared to \$7.3 million for the year ended June 30, 2012. The increase in gross margin is more reflective of our satellite payload processing that is generally near-term fixed-price. This year, we experienced an increase in satellite payload processing and a decrease in activity for the fabrication of the GSE for the U.S. Government, as compared to the prior year.

*Selling, General and Administrative Expense.* Selling, general and administrative decreased to \$6.8 million for the year ended June 30, 2013 from \$7.1 million for the year ended June 30, 2012. The decrease was primarily attributable to a reduction in employee incentive compensation expense.

*Research and Development Expense.* Research and development expense decreased to \$2.1 million for the year ended June 30, 2013 from \$2.6 million for the year ended June 30, 2012. This decrease is a result of the delivery and installation of 1<sup>st</sup> Detect evaluation units to potential customers, which were recorded as an offset to research and development expense.

*Interest and Other expense, net.* Interest and other expense, net, decreased to \$0.2 million for the year ended June 30, 2013 from \$1.0 million for the year ended June 30, 2012. The decrease is attributable to a reserve that the Company took against the note receivable, due December 2012, in the amount of \$0.7 million representing the full carried book value of the note at June 30, 2012 (see Note 6).

## SEGMENT RESULTS OF OPERATIONS

### ASO

Selected financial data for the years ended June 30, 2013 and 2012 of our ASO business unit is as follows:

**Year Ended June 30,**

| (In thousands)   | 2013            | 2012            | Variance        |
|--|-----------------|-----------------|-----------------|
| Revenue  | \$ 23,862       | \$ 25,817       | \$ (1,955)      |
| Cost of revenue  | 15,684          | 18,748          | (3,064)         |
| <b>Gross profit</b>                                    | <b>8,178</b>    | <b>7,069</b>    | <b>1,109</b>    |
| Gross margin percentage                                | 34 %            | 27 %            | 7 %             |
| Operating expenses                                     |                 |                 |                 |
| Selling, general and administrative                    | 4,865           | 5,008           | (143)           |
| <b>Total operating expenses</b>                        | <b>4,865</b>    | <b>5,008</b>    | <b>(143)</b>    |
| Interest and other expense, net                        | (192)           | (1,022)         | 830             |
| <b>Net income</b>                                      | <b>3,121</b>    | <b>1,039</b>    | <b>2,082</b>    |
| Less: net loss attributable to noncontrolling interest |                 |                 |                 |
| <b>Net income attributable to ASO</b>                  | <b>\$ 3,121</b> | <b>\$ 1,039</b> | <b>\$ 2,082</b> |

*Revenue.* Total revenue decreased to \$23.9 million for the year ended June 30, 2013 from \$25.8 million for the year ended June 30, 2012. This decrease is primarily attributable to revenue earned on the fabrication of the GSE for the U.S. Government.

*Gross Profit.* Gross profit increased to \$8.2 million for the year ended June 30, 2013 from \$7.1 million for the year ended June 30, 2012. This year, we experienced an increase in satellite payload processing and a decrease in activity for the fabrication of the GSE for the U.S. Government, as compared to the prior year.

*Selling, General and Administrative Expense.* Selling, general and administrative expense decreased to \$4.9 million for the year ended June 30, 2013 from \$5.0 million for the year ended June 30, 2012. The decrease was primarily attributable to a reduction in employee incentive compensation expense.

*Interest and Other expense, net.* Interest and other expense, net, decreased to \$0.2 million for the year ended June 30, 2013 from \$1.0 million for the year ended June 30, 2012. The decrease is attributable to a reserve that the Company took against the note receivable, due December 2012, in the amount of \$0.7 million representing the full carried book value of the note at June 30, 2012(see Note 6).

## Spacetech

Selected financial data for the years ended June 30, 2013, and 2012 of our Spacetech business unit is as follows:

| (In thousands)   | <b>2013</b>       | <b>Year Ended June 30,<br/>2012</b> | <b>Variance</b> |
|--|-------------------|-------------------------------------|-----------------|
| Revenue  | \$ 133            | \$ 321                              | \$ (188)        |
| Cost of Revenue  |                   | 41                                  | (41)            |
| <b>Gross profit (loss)</b>                             | <b>133</b>        | <b>280</b>                          | <b>(147)</b>    |
| Gross margin percentage                                | 100 %             | 87 %                                | 13 %            |
| Operating expenses                                     |                   |                                     |                 |
| Selling, general and administrative                    | 1,925             | 2,059                               | (134)           |
| Research and development                               | 2,080             | 2,571                               | (491)           |
| <b>Total operating expenses</b>                        | <b>4,005</b>      | <b>4,630</b>                        | <b>(625)</b>    |
| Interest and other expense, net                        | 28                | (4)                                 | 32              |
| Income tax expense                                     |                   | (17)                                | 17              |
| <b>Net loss</b>  | <b>(3,844)</b>    | <b>(4,371)</b>                      | <b>527</b>      |
| Less: net loss attributable to noncontrolling interest | (538)             | (620)                               | 82              |
| <b>Net loss attributable to Spacetech</b>              | <b>\$ (3,306)</b> | <b>\$ (3,751)</b>                   | <b>\$ 445</b>   |

*Revenue.* Total revenue decreased to \$0.1 million for the year ended June 30, 2013 compared to \$0.3 million for the year ended June 30, 2012. 1<sup>st</sup> Detect received grant revenue from the SBIR Program during both fiscal years.

*Gross Profit (Loss).* Gross profit remained consistent for the years ended June 30, 2013 and 2012. 1<sup>st</sup> Detect received grant revenue from the SBIR Program during both fiscal years. Costs associated with this program are expensed to research and development.

*Selling, General and Administrative Expense.* Selling, general and administrative expense decreased to \$1.9 million for the year ended June 30, 2013 from \$2.1 million for the year ended June 30, 2012. The decrease was primarily attributable a reduction in employee incentive compensation expense.

*Research and Development Expense.* Research and development expense decreased to \$2.1 million for the year ended June 30, 2013 from \$2.6 million for the year ended June 30, 2012. This decrease is a result of the delivery and installation of 1<sup>st</sup> Detect evaluation units to potential customers, which were recorded as an offset to research and development expense.

**FINANCIAL CONDITION, CAPITAL RESOURCES, AND LIQUIDITY****Balance Sheet**

Total assets for the year ended June 30, 2013, were \$48.0 million compared to total assets of \$50.0 million as of the end of fiscal year 2012. The following table sets forth the significant components of the balance sheet as of June 30, 2013, compared with 2012 (in thousands):

|   | <b>Year Ended June 30,</b> |                  |                   |
|---|----------------------------|------------------|-------------------|
|   | <b>2013</b>                | <b>2012</b>      | <b>Variance</b>   |
| <b>Assets:</b>                              |                            |                  |                   |
| Current assets                              | \$ 10,916                  | \$ 12,695        | \$ (1,779)        |
| Property and equipment, net                 | 37,035                     | 37,270           | (235)             |
| Other assets, net                           | 51                         | 84               | (33)              |
| <b>Total</b>                                | <b>\$ 48,002</b>           | <b>\$ 50,049</b> | <b>\$ (2,047)</b> |
| <b>Liabilities and stockholders equity:</b> |                            |                  |                   |
| Current debt                                | \$ 387                     | \$ 372           | \$ 15             |
| Other current liabilities                   | 6,222                      | 7,503            | (1,281)           |
| Long-term debt                              | 5,655                      | 6,042            | (387)             |
| Other long-term liabilities                 | 258                        |                  | 258               |
| Stockholders equity                         | 35,480                     | 36,132           | (652)             |
| <b>Total</b>                                | <b>\$ 48,002</b>           | <b>\$ 50,049</b> | <b>\$ (2,047)</b> |

*Current assets.* Current assets decreased \$1.8 million for the year ended June 30, 2013, as compared to June 30, 2012 as a result of cash used in operations.

*Property and equipment, net.* Depreciation and amortization expense of \$2.1 million exceeded capital expenditures of \$1.8 million.

*Other assets, net.* Other assets, net, remained relatively consistent.

*Current and long-term debt.* Current and long-term debt decreased \$0.4 million for the year ended June 30, 2013, as compared to June 30, 2012 as a result of payments on the term note.

*Other current liabilities.* Other current liabilities decreased by \$1.3 million for the year ended June 30, 2013, as compared to June 30, 2012. The primary driver was a \$1.5 million decrease in deferred revenue, primarily relating to the GSE contract.

*Other long-term liabilities.* Other long-term liabilities increased \$0.3 million for the year ended June 30, 2013, as compared to June 30, 2012. This was due to an increase in non-current deferred revenue and a tenant reimbursement 1<sup>st</sup> Detect received upon entering a new building lease.

## Liquidity and Capital Resources

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

|   | <b>June 30,</b>   |                   |
|---|-------------------|-------------------|
|   | <b>2013</b>       | <b>2012</b>       |
| Net cash used in operating activities               | \$ (2,902)        | \$ (4,109)        |
| Net cash used in investing activities               | (1,847)           | (1,252)           |
| Net cash provided by (used in) financing activities | (332)             | 544               |
| <b>Net decrease in cash and cash equivalents</b>    | <b>\$ (5,081)</b> | <b>\$ (4,817)</b> |



### ***Cash and Cash Equivalents***

At June 30, 2013, we held cash and cash equivalents of \$5.1 million and our working capital was approximately \$4.3 million. Cash and cash equivalents have decreased by approximately \$5.1 million during the year ended June 30, 2013. At June 30, 2012, we held cash and cash equivalents of \$10.2 million and our working capital was approximately \$4.8 million.

### ***Operating Activities***

Net cash used in operations was \$2.9 million for the year ended June 30, 2013 compared to cash used in operations of \$4.1 million for the year ended June 30, 2012. The decrease in cash flow provided by operations was primarily due to a reduction in deferred revenue cash collections on customer contracts, which was attributable to the GSE project.

### ***Investing Activities***

Net cash used in investing activities for the year ended June 30, 2013 increased to \$1.8 million from \$1.3 million for the year ended June 30, 2012. Our investing activities are driven primarily by the timing of capital expenditures for our payload processing facilities. In fiscal year 2013, this increase was the result of capital expenditures for our 1<sup>st</sup> Detect facilities to support future growth and ensure sufficient capacity to meet forecasted demand for our ultra small mass spectrometer product line.

### ***Financing Activities***

Net cash used in financing activities was \$0.3 million for the year ended June 30, 2013 compared to cash provided by financing activities of \$0.5 million for the year ended June 30, 2012. In the year ended June 30, 2012, 1<sup>st</sup> Detect received the second installment of \$0.9 million from the Texas Emerging Technology Fund, which was used to fund the continued development of the 1<sup>st</sup> Detect ultra small mass spectrometer and related equipment.

### **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 Company had no outstanding balance on the revolving credit facility. 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 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 June 30, 2013 was \$6.0 million.

The bank financing facilities contain certain affirmative and negative covenants with which we must comply. As of June 30, 2013, we were in compliance with the debt covenants.

### *Liquidity*

At June 30, 2013, we had cash and cash equivalents of \$5.1 million and our working capital was approximately \$4.3 million.

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 2014. 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 year. 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.

*Debt Covenant Compliance*

The Company's debt repayments are due as follows (in thousands):

|           | <b>Balance<br/>6/30/2013</b> | <b>Fiscal Year<br/>2014</b> | <b>Fiscal Year<br/>2015</b> | <b>Fiscal Year<br/>2016</b> |
|-----------|------------------------------|-----------------------------|-----------------------------|-----------------------------|
| Term Note | \$ 6,042                     | \$ 387                      | \$ 403                      | \$ 5,252                    |

Our bank financing facilities contain certain affirmative and negative covenants with which we must comply, including the maintenance by us of a debt service coverage ratio of not less than 1.00 to 1.00, maintaining a tangible net worth of not less than \$32.50 million, and a maintaining a leverage ratio of not greater than .50 to 1.00. These financial covenants are applicable to the results of ASO. In the event we are not in compliance with a covenant, the bank may, among other things, accelerate all outstanding borrowings, cease extending credit or foreclose on collateral.

During fiscal year 2013, we were not in compliance with our debt service coverage ratio and we obtained a waiver from the bank that indefinitely waived this event of default with respect to the periods we were in non-compliance.

As of June 30, 2013, we were in compliance with our affirmative and negative debt covenants. However, our financial projections for fiscal year 2014 indicated that we will likely not be in compliance with our debt service coverage ratio and minimum tangible net worth covenants by the third quarter ended March 31, 2014. On October 11, 2013, we amended the debt agreement with our bank that updated the following with respect to our debt covenants: 1) provided a credit of \$0.50 million and \$2.25 million for the third and fourth quarter of fiscal year 2014, respectively, to our debt service coverage calculation, 2) reduced our minimum tangible net worth requirement to \$32.0 million for the third and fourth fiscal quarter of fiscal year 2014, and 3) required that we maintain a minimum cash balance at the bank of \$2.0 million through June 30, 2014 and \$0.75 million thereafter. Under the terms of the amendment, we expect to be compliant with our affirmative and negative covenants through June 30, 2014. Therefore, we have classified our debt as noncurrent for any principal payments due after June 30, 2014.

We believe we have sufficient liquidity and backlog to fund ongoing operations for at least the next fiscal year. We expect to utilize existing cash and proceeds from operations to grow our core business offering in ASO and to support strategies for Spacotech.

*NASDAQ Notice*

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). On May 14, 2013, we received a second compliance notice from NASDAQ regarding the Company's failure to maintain the minimum bid price for continued listing. However, the NASDAQ staff has determined that the Company is eligible for an additional 180 day grace period, or until November 11, 2013, to regain compliance. NASDAQ's determination was based on the Company meeting the continued listing

requirement for market value of publicly held shares and all other applicable requirements for initial listing on the NASDAQ Capital Market, with the exception of the bid price requirement, and the Company's written notice to NASDAQ of its intention to cure the deficiency during the second compliance period by effecting a reverse stock split, if necessary.

### Contractual Obligations

In addition to the term loan (see Debt explanation above), the Company is obligated under non-cancelable operating leases for equipment, office space and the land for a payload processing facility. Future minimum payments under the term loan and non-cancelable operating leases are as follows (in thousands):

| Contractual Obligations     | Total           | Payments due by period |                 |               |                   |
|-----------------------------|-----------------|------------------------|-----------------|---------------|-------------------|
|                             |                 | Less than 1 year       | 1-3 years       | 3-5 years     | More than 5 years |
| Term Loan                   | \$ 6,042        | \$ 387                 | \$ 5,655        | \$            | \$                |
| Operating Lease Obligations | 1,033           | 390                    | 477             | 166           |                   |
| <b>Total</b>                | <b>\$ 7,075</b> | <b>\$ 777</b>          | <b>\$ 6,132</b> | <b>\$ 166</b> | <b>\$</b>         |

Rent expense was approximately \$0.7 million for the year ended June 30, 2013 and approximately \$0.8 million for the year ended June 30, 2012. The Company received sublease payments of \$0.1 million for the year ended June 30, 2013 and \$0.1 million for the year ended June 30, 2012.

ASO presently leases the 60-acre site located on VAFB in California, where we own four buildings totaling over 50,000 square feet of space. The Company has extended the original land lease, which expired in September 2013. The new lease expires in September 2018, with provisions to extend the lease at the request of the lessee and the concurrence of the lessor.

### ***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 industrial, environmental, security and healthcare markets (See Note 15). As of June 30, 2012, 1<sup>st</sup> Detect had received both of the two \$0.9 million disbursements. The disbursed amount represents a contingency through March 2020, the date of cancellation. If an event of default should occur, the Company would calculate and expense accrued interest and reclassify principal from equity to notes payable in the consolidated financial statements as amounts due to the State of Texas. Management considers the likelihood of an event of default to be remote due to the fact that the covenants that would necessitate repayment are within the control of the Company. As of June 30, 2013, no default events have occurred.

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

We did not have any off-balance sheet arrangements as of June 30, 2013.

### **Item 7A.**

#### **Quantitative and Qualitative Disclosures about Market Risk.**

Our primary exposure to market risk relates to interest rates. We do not currently use any interest rate swaps or derivative financial instruments to manage our exposure to fluctuations in interest rates. A one percent change in variable interest rates will not have a material impact on our financial condition.

**Item 8.**

**Financial Statements and Supplementary Data.**

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders of Astrotech Corporation

We have audited the accompanying consolidated balance sheets of Astrotech Corporation (the Company) as of June 30, 2013 and 2012, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the fiscal years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Astrotech Corporation at June 30, 2013 and 2012, and the consolidated results of their operations and their cash flows for each of the two fiscal years then ended June 30, 2013, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Austin, Texas

October 15, 2013





**ASTROTECH CORPORATION AND SUBSIDIARIES**

## Consolidated Balance Sheets

(In thousands, except share data)

|   | June 30,         |                  |
|---|------------------|------------------|
|   | 2013             | 2012             |
| <b>Assets</b>   |                  |                  |
| Current assets  |                  |                  |
| Cash and cash equivalents   | \$ 5,096         | \$ 10,177        |
| Accounts receivable, net of allowance   | 5,317            | 1,926            |
| Prepaid expenses and other current assets   | 503              | 592              |
| <b>Total current assets</b>   | <b>10,916</b>    | <b>12,695</b>    |
| Property and equipment, net   | 37,035           | 37,270           |
| Other assets, net   | 51               | 84               |
| <b>Total assets</b>   | <b>\$ 48,002</b> | <b>\$ 50,049</b> |
| <b>Liabilities and Stockholders Equity</b>  |                  |                  |
| Current liabilities   |                  |                  |
| Accounts payable  | \$ 2,488         | \$ 3,033         |
| Accrued liabilities and other   | 2,430            | 1,634            |
| Deferred revenue  | 1,304            | 2,836            |
| Current portion of term note payable  | 387              | 372              |
| <b>Total current liabilities</b>  | <b>6,609</b>     | <b>7,875</b>     |
| Deferred revenue  | 64               |                  |
| Other liabilities   | 194              |                  |
| Term note payable, net of current portion   | 5,655            | 6,042            |
| <b>Total liabilities</b>  | <b>12,522</b>    | <b>13,917</b>    |
| <b>Stockholders equity</b>  |                  |                  |
| Preferred stock, no par value, convertible, 2,500,000 authorized shares, no issued and outstanding shares, at June 30, 2013 and 2012                                |                  |                  |
| Common stock, no par value, 75,000,000 shares authorized at June 30, 2013 and 2012, 19,781,721 and 19,134,907 shares issued at June 30, 2013 and 2012, respectively | 183,782          | 183,712          |
| Treasury stock, 311,660 shares at cost  | (237)            | (237)            |
| Additional paid-in capital  | 987              | 1,582            |
| Retained deficit  | (151,840)        | (151,655)        |
| Noncontrolling interest   | 2,788            | 2,730            |
| <b>Total stockholders equity</b>  | <b>35,480</b>    | <b>36,132</b>    |
| <b>Total liabilities and stockholders equity</b>  | <b>\$ 48,002</b> | <b>\$ 50,049</b> |

*See accompanying notes to consolidated financial statements.*



**ASTROTECH CORPORATION AND SUBSIDIARIES**

## Consolidated Statements of Operations

(In thousands, except per share data)

|   | <b>Year Ended June 30,</b> |                   |
|---|----------------------------|-------------------|
|   | <b>2013</b>                | <b>2012</b>       |
| Revenue   | \$ 23,995                  | \$ 26,138         |
| Cost of revenue   | 15,684                     | 18,790            |
| <b>Gross profit</b>   | <b>8,311</b>               | <b>7,348</b>      |
| Operating expenses:   |                            |                   |
| Selling, general and administrative                           | 6,790                      | 7,067             |
| Research and development                                      | 2,080                      | 2,571             |
| Total operating expenses                                      | 8,870                      | 9,638             |
| <b>Loss from operations</b>                                   | <b>(559)</b>               | <b>(2,290)</b>    |
| Interest and other expense, net                               | (164)                      | (1,026)           |
| <b>Loss before income taxes</b>                               | <b>(723)</b>               | <b>(3,316)</b>    |
| Income tax expense  |                            | (17)              |
| <b>Net loss</b>   | <b>(723)</b>               | <b>(3,333)</b>    |
| Less: Net loss attributable to noncontrolling interest        | (538)                      | (620)             |
| <b>Net loss attributable to Astrotech Corporation</b>         | <b>\$ (185)</b>            | <b>\$ (2,713)</b> |
| Net loss per share, basic and diluted                         | \$ (0.01)                  | \$ (0.15)         |
| Weighted average common shares outstanding, basic and diluted | 19,328                     | 18,544            |

*See accompanying notes to consolidated financial statements.*

**ASTROTECH CORPORATION AND SUBSIDIARIES**

## Consolidated Statement of Changes in Stockholders' Equity

(In thousands)

|  | Common Stock           |                | Treasury        | Additional         | Accumulated      | Non-                    | Total                  |
|--|------------------------|----------------|-----------------|--------------------|------------------|-------------------------|------------------------|
|  | Number<br>of<br>Shares | Amount         | Stock<br>Amount | Paid-In<br>Capital |                  | Controlling<br>Interest | Stockholders<br>Equity |
| <b>Balance at<br/>June 30, 2011</b>                  | 18,028                 | \$ 183,712     | \$ (237)        | \$ 1,104           | \$ (148,942)     | \$ 1,921                | \$ 37,558              |
| Stock based<br>compensation                          |                        |                |                 | 978                |                  | 29                      | 1,007                  |
| Restricted<br>stock issuance                         | 795                    |                |                 |                    |                  |                         |                        |
| Capital<br>contribution<br>State of Texas<br>Funding |                        |                |                 | (500)              |                  | 500                     | 900                    |
| Net loss   |                        |                |                 |                    | (2,713)          | (620)                   | (3,333)                |
| <b>Balance at<br/>June 30, 2012</b>                  | 18,823                 | \$ 183,712     | \$ (237)        | \$ 1,582           | \$ (151,655)     | \$ 2,730                | \$ 36,132              |
| Stock based<br>compensation                          |                        |                |                 | 31                 |                  |                         | 31                     |
| Exercise of<br>stock options                         | 119                    | 70             |                 | (30)               |                  |                         | 40                     |
| Restricted<br>stock issuance                         | 528                    |                |                 |                    |                  |                         |                        |
| Capital<br>contribution                              |                        |                |                 | (596)              |                  | 596                     |                        |
| Net loss   |                        |                |                 |                    | (185)            | (538)                   | (723)                  |
| <b>Balance at<br/>June 30, 2013</b>                  | <b>19,470</b>          | <b>183,782</b> | <b>(237)</b>    | <b>987</b>         | <b>(151,840)</b> | <b>2,788</b>            | <b>35,480</b>          |

*See the accompanying notes to consolidated financial statements.*



**ASTROTECH CORPORATION AND SUBSIDIARIES**

## Consolidated Statements of Cash Flows

(In thousands)

|   | <b>Year Ended June 30,</b> |                  |
|---|----------------------------|------------------|
|   | <b>2013</b>                | <b>2012</b>      |
| <b>Cash flows from operating activities</b>                                 |                            |                  |
| Net loss  | \$ (723)                   | \$ (3,333)       |
| Adjustments to reconcile net loss to net cash used in operating activities: |                            |                  |
| Stock-based compensation  | 31                         | 1,007            |
| Depreciation and amortization   | 2,115                      | 2,243            |
| Impairment of fixed assets  |                            | 200              |
| Reserve on notes receivable   |                            | 675              |
| Changes in assets and liabilities:  |                            |                  |
| Accounts receivable   | (3,391)                    | 503              |
| Deferred revenue  | (1,468)                    | (8,357)          |
| Accounts payable  | (545)                      | 2,276            |
| Other assets and liabilities  | 1,079                      | 677              |
| Net cash used in operating activities                                       | (2,902)                    | (4,109)          |
| <b>Cash flows from investing activities</b>                                 |                            |                  |
| Purchases of property, equipment and leasehold improvements                 | (1,847)                    | (1,252)          |
| Net cash used in investing activities                                       | (1,847)                    | (1,252)          |
| <b>Cash flows from financing activities</b>                                 |                            |                  |
| Term loan payments  | (372)                      | (356)            |
| State of Texas Funding  |                            | 900              |
| Proceeds from issuance of common stock                                      | 40                         |                  |
| Net cash provided by (used in) financing activities                         | (332)                      | 544              |
| <b>Net change in cash and cash equivalents</b>                              | <b>(5,081)</b>             | <b>(4,817)</b>   |
| Cash and cash equivalents at beginning of period                            | 10,177                     | 14,994           |
| <b>Cash and cash equivalents at end of period</b>                           | <b>\$ 5,096</b>            | <b>\$ 10,177</b> |
| Supplemental disclosures of cash flow information:                          |                            |                  |
| Cash paid for interest  | \$ 249                     | \$ 243           |

*See accompanying notes to consolidated financial statements.*



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### (1) Description of the Company and Operating Environment

Astrotech Corporation (Nasdaq: ASTC) (Astrotech, the Company, we, us or our), a State of 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. We've designed and built space hardware and processing facilities and constructed world-class processing facilities. We currently own, operate and maintain world-class spacecraft processing facilities; prepare and process scientific research from microgravity and develop and manufacture sophisticated chemical sensor equipment.

#### 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 June 30, 2013. Revenue for our ASO business unit is generated primarily from various fixed-priced contracts with launch service providers in both 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 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**

The Company develops, manufactures and sells ultra-small mass spectrometers and related equipment. Mass spectrometers, in general, measure the mass and relative abundance of ions in a sample to create a mass spectrum. This resulting mass spectrum is a unique fingerprint for each chemical that can be compared to a reference library of mass spectra to verify the identity of a sample. Mass spectrometers can identify chemicals with more accuracy and precision than competing instruments given their extreme sensitivity and specificity and they are a staple of almost all analytical laboratories. By leveraging technology initiated by an engagement with NASA to develop a mass spectrometer for the International Space Station, the Company has developed a series of instruments that are significantly smaller, lighter, faster and less expensive than competing mass spectrometers, and significantly more sensitive and accurate than other competing chemical detectors. Our efforts have resulted in a technology that can provide mass spectrometry performance in real-time or in the field.

The MMS-1000<sup>TM</sup> is a small, low power mass spectrometer designed initially for the laboratory market. The unique design of this unit enables mass spectrometric quality chemical analysis in a small package (about the size of a shoebox) that operates off less power than a typical light bulb. This allows high quality chemical analysis to be performed in locations where mass spectrometers have not been used before, such as directly on the factory floor or in the battlefield, without compromising the quality of the analysis.

The OEM-1000 is a mass spectrometer component that was developed for applications where customers need the high quality analysis provided by a mass spectrometer but in a platform that can be integrated into customer specific packages. The OEM-1000 uses the same high performance analyzer as the MMS-1000™ but is provided as an open platform for customers and development partners to integrate with their complementary technologies, with application-specific sample preparation, inlets and software.

### **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 and the team are currently researching a Salmonella vaccine as part of its ongoing commercialization strategy. Concurrently, the team 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 additional space flights.

### ***Liquidity***

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 2014. 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 year. 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.

At June 30, 2013, we had cash and cash equivalents of \$5.1 million and our working capital was approximately \$4.3 million.

The Company's debt repayments are due as follows (in thousands):

| <b>Balance</b> | <b>Fiscal Year</b> | <b>Fiscal Year</b> | <b>Fiscal Year</b> |
|----------------|--------------------|--------------------|--------------------|
|----------------|--------------------|--------------------|--------------------|

|           | <b>6/30/2013</b> | <b>2014</b> | <b>2015</b> | <b>2016</b> |
|-----------|------------------|-------------|-------------|-------------|
| Term Note | \$ 6,042         | \$ 387      | \$ 403      | \$ 5,252    |

Our bank financing facilities contain certain affirmative and negative covenants with which we must comply, including the maintenance by us of a debt service coverage ratio of not less than 1.00 to 1.00, maintaining a tangible net worth of not less than \$32.50 million, and a maintaining a leverage ratio of not greater than .50 to 1.00. These financial covenants are applicable to the results of ASO. In the event we are not in compliance with a covenant, the bank may, among other things, accelerate all outstanding borrowings, cease extending credit or foreclose on collateral.

During fiscal year 2013, we were not in compliance with our debt service coverage ratio and we obtained a waiver from the bank that indefinitely waived this event of default with respect to the periods we were in non-compliance.

As of June 30, 2013, we were in compliance with our affirmative and negative debt covenants. However, our financial projections for fiscal year 2014 indicated that we will likely not be in compliance with our debt service coverage ratio and minimum tangible net worth covenants by the third quarter ended March 31, 2014. On October 11, 2013, we amended the debt agreement with our bank that updated the following with respect to our debt covenants: 1) provided a credit of \$0.50 million and \$2.25 million for the third and fourth quarter of fiscal year 2014, respectively, to our debt service coverage calculation, 2) reduced our minimum tangible net worth requirement to \$32.0 million for the third and fourth fiscal quarter of fiscal year 2014, and 3) required that we maintain a minimum cash balance at the bank of \$2.0 million through June 30, 2014 and \$0.75 million thereafter. Under the terms of the amendment, we expect to be compliant with our affirmative and negative covenants through June 30, 2014. Therefore, we have classified our debt as noncurrent for any principal payments due after June 30, 2014.

We believe we have sufficient liquidity and backlog to fund ongoing operations for at least the next fiscal year. We expect to utilize existing cash and proceeds from operations to grow our core business offering in ASO and to support strategies for Spacetech.

## **(2) Summary of Significant Accounting Policies**

### ***Principles of Consolidation and Basis of Presentation***

The consolidated financial statements include the accounts of Astrotech Corporation and its majority-owned subsidiaries that are required to be consolidated. All significant intercompany transactions have been eliminated in consolidation.

### ***Use of Estimates***

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that directly affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from these estimates.

### ***Credit Risk***

The Company maintains funds in bank accounts that, at times, 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.

### ***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 construction 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<br><br>within the facility from arrival through launch |
| Construction Contracts            | Firm Fixed Price                     | Percentage-of-completion based on costs incurred   |
| Engineering Services              | Cost Reimbursable<br>Award/Fixed Fee | Reimbursable costs incurred plus award/fixed fee   |
| Commercial Products               | Specific Purchase<br>Order Based     | At shipment  |
| Grant                             | Cost Reimbursable<br>Award           | As costs are incurred for related research and development expenses                                      |



### ***Deferred Revenue***

Deferred revenue represents amounts collected from customers for projects, products, or services expected to be provided at a future date. Deferred revenue is shown on the balance sheet as either a short-term or long-term liability, depending on when the service or product is expected to be provided.

### ***Research and Development***

Research and development costs are expensed as incurred.

### ***Net Loss Per Share***

Basic net loss per share is calculated by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted net loss per share includes all common stock options and other common stock equivalents that potentially may be issued as a result of conversion privileges (see Note 12).

### ***Cash and Cash Equivalents***

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

### ***Accounts Receivable***

The carrying value of the Company's accounts receivable, net of the allowance for doubtful accounts, represents their estimated net realizable value. We estimate the allowance for doubtful accounts based on type of customer, age of outstanding receivable, historical collection trends, and existing economic conditions. If events or changes in circumstances indicate that a specific receivable balance may be unrealizable, further consideration is given to the collectability of those balances, and the allowance is adjusted accordingly. Receivable balances deemed uncollectible are written off against the allowance.

### ***Property and Equipment***

Property and equipment are stated at cost. All furniture, fixtures, and equipment are depreciated using the straight-line method over the estimated useful lives of the respective assets, which is generally five years. Our payload processing facilities are depreciated using the straight-line method over their estimated useful lives ranging from 16 to 40 years. Leasehold improvements are amortized over the shorter of the useful life of the improvement or the term of the lease. Repairs and maintenance are expensed when incurred.

As required by our customers, we purchase equipment or enhance our facilities to meet specific customer requirements. These enhancements or equipment purchases are compensated through our contract with the customer. The difference between the amount reimbursed and the cost of the enhancements is recognized as revenue.

### ***Deferred Financing Costs***

Deferred financing costs represent loan origination fees paid to the lender and related professional fees. These costs are amortized on a straight-line basis over the term of the respective loan agreements which approximates the interest method.

### ***Impairment of Long-Lived Assets***

We review long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.



### ***Notes Receivable***

The carrying value of the Company's notes receivable, net of the allowance for doubtful accounts, represents their estimated net realizable value. We estimate the allowance for doubtful accounts based on type of customer, age of outstanding notes receivable, historical collection trends, and existing economic conditions. If events or changes in circumstances indicate that a specific receivable balance may be unrealizable, further consideration is given to the collectability of those balances, and the allowance is adjusted accordingly. Notes receivable balances deemed uncollectible are written off against the allowance and note receivable balances deemed less than likely to be fully collected at maturity are reserved. In fiscal year 2012, we fully reserved our outstanding notes receivable of \$0.7 million. As of June 30, 2013 there have been no payments made on the note.

### ***Fair Value of Financial Instruments***

Our financial instruments consist of cash and cash equivalents, accounts receivable, notes receivable, accounts payable, notes payable and accrued liabilities. The carrying amounts of these assets and liabilities, in the opinion of Company's management, approximate their fair value.

### ***Operating Leases***

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

### ***Share Based Compensation***

The Company accounts for share-based awards to employees based on the fair value of the award on the grant date. The fair value of the stock options is estimated using expected dividend yields of the Company's stock, the expected volatility of the stock, the expected length of time the options remain outstanding and risk-free interest rates. Changes in one or more of these factors may significantly affect the estimated fair value of the stock options. The Company estimates forfeitures using historical forfeiture rates for previous grants of equity instruments. The fair value of awards that are expected to vest is recorded as an expense over the vesting period.

***Noncontrolling Interest***

Noncontrolling interest accounting is applied for any entities where the Company maintains more than 50% and less than 100% ownership. The Company clearly identifies the noncontrolling interest in the balance sheets and income statements. We also disclose three measures of net 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 earnings per share calculations reflect net loss attributable to Astrotech Corporation.

***State of Texas Funding***

The Company accounts for the State of Texas funding in its majority owned subsidiary 1<sup>st</sup> Detect as a contribution of capital and has reflected the disbursement in the equity section of the consolidated balance sheet. While the award agreement includes both a common stock purchase right and a note payable to the State of Texas, the economic substance of the transaction is that the State of Texas has purchased shares of 1<sup>st</sup> Detect in exchange for the granted award.

The common stock purchase right gives the State of Texas the ability to purchase common stock in 1<sup>st</sup> Detect, at par value per share, at the earlier of: (1) the first Qualifying Financing Event or (2) eighteen months (recent extensions were granted by the State of Texas, see Note 15). As of June 30, 2012, no Qualifying Financing Event has occurred.

There are no cash payments due under the note unless there is an event of default, and the terms that allow for the note to be cancelled after the passage of a set amount of time. The purpose of the note is to provide recourse for the State of Texas if 1<sup>st</sup> Detect fails to fulfill the purpose of the grant, which is primarily to provide for economic development within the State of Texas. If an event of default should occur, the Company would calculate and expense accrued interest and reclassify principal from equity to notes payable in the consolidated financial statements as amounts due to the State of Texas. Management considers the likelihood of an event of default to be remote. As of June 30, 2013, no default events have occurred.

### ***Income Taxes***

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

### ***Accounting Pronouncements***

#### **Accounting Standards Recently Adopted**

Accounting Standards Update ("ASU") 2011-04, Fair Value Measurement ("Topic 820") Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs. ASU 2011-04 amends Topic 820, Fair Value Measurements and Disclosures, to converge the fair value measurement guidance in U.S. GAAP and International Financial Reporting Standards (IFRS). ASU 2011-04 clarifies the application of existing fair value measurement requirements, changes certain principles in Topic 820 and requires additional fair value disclosures. ASU 2011-04 is effective for annual periods beginning after December 15, 2011, and did not have any impact on the Company's financial statements.

#### **(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 (see Note 10), resulting in Astrotech owning less than 100% of the subsidiaries. The Company applied non-controlling interest accounting for the fiscal years ended June 30, 2013 and 2012, which requires us to clearly identify the non-controlling interest in the consolidated balance sheets and consolidated income statements. We disclose three measures of net 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 earnings per share calculations reflect net loss attributable to Astrotech Corporation.

|  | <b>2013</b>     | <b>2012</b>     |
|--|-----------------|-----------------|
| <b>Beginning balance</b>                         | <b>\$ 2,730</b> | <b>\$ 1,921</b> |
| Net loss attributable to noncontrolling interest | (538)           | (620)           |
| State of Texas funding (See Note 15)             |                 | 900             |
| Capital Contribution                             | 596             | 500             |
| Stock based compensation expense                 |                 | 29              |
| <b>Ending balance</b>                            | <b>\$ 2,788</b> | <b>\$ 2,730</b> |

The capital contribution is made by the Company in order to fund the net losses of the noncontrolling interest.

As of June 30, 2013, the Company's share of income and losses is 86% for ~~1~~ Detect and 84% for Astrogenetix.

**(4) Accounts Receivable**

As of June 30, 2013, and 2012, accounts receivable consisted of the following (in thousands):

|                                  | <b>2013</b>     | <b>2012</b>     |
|----------------------------------|-----------------|-----------------|
| U.S. Government contracts:       |                 |                 |
| Billed                           | \$ 1,013        | \$ 456          |
| Unbilled                         | 1,976           | 150             |
| Total U.S. Government contracts  | \$ 2,989        | \$ 606          |
| Commercial contracts:            |                 |                 |
| Billed                           | \$ 2,076        | \$ 1,070        |
| Unbilled                         | 252             | 250             |
| Total commercial contracts       | \$ 2,328        | \$ 1,320        |
| <b>Total accounts receivable</b> | <b>\$ 5,317</b> | <b>\$ 1,926</b> |

The Company anticipates collecting all unreserved receivables within one year. Unbilled accounts receivable represents revenue earned in excess of contracted billing milestones. The accuracy and appropriateness of our direct and indirect costs and expenses under government cost-plus contracts, and therefore, our accounts receivable recorded pursuant to such contracts, are subject to extensive regulation and audit by the U.S. Defense Contract Audit Agency ( DCAA ) or by other appropriate agencies of the U.S. Government. Such agencies have the right to challenge our cost estimates or allocations with respect to any government contract. In the opinion of management, any adjustments likely to result from remaining inquiries or audits of its contracts would not have a material adverse impact on our financial condition or results of operations.

The following table summarizes the changes in our allowance for doubtful accounts (in thousands):

|   | <b>2013</b>    | <b>2012</b>    |
|---|----------------|----------------|
| <b>Beginning balance</b>                                | <b>\$ (54)</b> | <b>\$ (54)</b> |
| Provision for uncollectable accounts, net of recoveries | (4)            | (54)           |
| Write- off of uncollectable accounts                    |                |                |
| <b>Ending balance</b>                                   | <b>\$ (58)</b> | <b>\$ (54)</b> |

**(5) Property and Equipment**

As of June 30, 2013 and 2012, property and equipment consisted of the following (in thousands):

|   | <b>June 30,</b>  |                  |
|---|------------------|------------------|
|   | <b>2013</b>      | <b>2012</b>      |
| Flight Assets   | \$ 44,757        | \$ 44,757        |
| Payload Processing Facilities                           | 45,866           | 44,766           |
| Furniture, Fixtures, Equipment & Leasehold Improvements | 19,973           | 18,335           |
| Capital Improvements in Progress                        | 39               | 930              |
| <b>Gross Property and Equipment</b>                     | <b>110,635</b>   | <b>108,788</b>   |
| Accumulated Depreciation                                | (73,600)         | (71,518)         |
| <b>Property and Equipment, net</b>                      | <b>\$ 37,035</b> | <b>\$ 37,270</b> |

Depreciation and amortization expense of property and equipment for the years ended June 30, 2013 and 2012 was \$2.1 million and \$2.2 million, respectively. In the year ended June 30, 2012, the Company evaluated the future use of two historical SPACEHAB modules. Due to the retirement of the space shuttle program in the United States and the lack of alternative uses which could potentially generate cash flow, the Company recorded a non-cash impairment of \$0.2 million for the two SPACEHAB modules as the full aggregate carrying amount was deemed no longer recoverable.

## **(6) Note Receivable**

On April 28, 2005 the Company consummated the sale and simultaneous leaseback of its Cape Canaveral Florida Spacehab Payload Processing Facility ( SPPF ). The sales price of the building was \$4.8 million. The Company received \$4.1 million in cash of which \$0.3 million was used for expenses related to the transaction. The Company also received a note, secured by a second mortgage on the SPPF, for \$0.7 million due December 2010. The Company deferred approximately \$0.5 million of gain from the sale leaseback transaction and recognized it as an offset to rent expense over the five-year lease term.

The Company leased the building back from the owner under an agreement that initially expired on December 31, 2010. In November 2010, the Company renewed its lease with the owner for an additional two year term extending the lease to December 31, 2012. Simultaneously, the Company extended the full repayment date of the note to December 31, 2012.

The owner of SPPF does not have sufficient resources to repay the Company's note. As a result, the Company recorded a full reserve in fiscal year 2012 against the collection of the note. Management has confirmed that the owner of the SPPF has been actively marketing the facility for sale. At this time, the SPPF is currently for sale with no offers pending. As of June 30, 2013, there have been no payments made on the note.

## **(7) Debt**

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, which 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 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 June 30, 2013 was \$6.0 million.

Our bank financing facilities contain certain affirmative and negative covenants with which we must comply, including the maintenance by us of a debt service coverage ratio of not less than 1.00 to 1.00, maintaining a tangible net worth of not less than \$32.50 million, and a maintaining a leverage ratio of not greater than .50 to 1.00. These financial covenants are applicable to the results of ASO. In the event we are not in compliance with a covenant, the bank may, among other things, accelerate all outstanding borrowings, cease extending credit or foreclose on collateral.

During fiscal year 2013, we were not in compliance with our debt service coverage ratio and we obtained a waiver from the bank that indefinitely waived this event of default with respect to the periods we were in non-compliance.

As of June 30, 2013, we were in compliance with our affirmative and negative debt covenants. However, our financial projections for fiscal year 2014 indicated that we will likely not be in compliance with our debt service coverage ratio and minimum tangible net worth covenants by the third quarter ended March 31, 2014. On October 11, 2013, we amended the debt agreement with our bank that updated the following with respect to our debt covenants: 1)

provided a credit of \$0.50 million and \$2.25 million for the third and fourth quarter of fiscal year 2014, respectively, to our debt service coverage calculation, 2) reduced our minimum tangible net worth requirement to \$32.0 million for the third and fourth fiscal quarter of fiscal year 2014, and 3) required that we maintain a minimum cash balance at the bank of \$2.0 million through June 30, 2014 and \$0.75 million thereafter. Under the terms of the amendment, we expect to be compliant with our affirmative and negative covenants through June 30, 2014. Therefore, we have classified our debt as noncurrent for any principal payments due after June 30, 2014.

#### **(8) Fair Value of Financial Instruments**

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 June 30, 2013 and 2012 (in thousands):

|              | <b>June 30, 2013</b>       |                       | <b>June 30, 2012</b>       |                       | <b>Valuation<br/>Inputs</b> |
|--------------|----------------------------|-----------------------|----------------------------|-----------------------|-----------------------------|
|              | <b>Carrying<br/>Amount</b> | <b>Fair<br/>Value</b> | <b>Carrying<br/>Amount</b> | <b>Fair<br/>Value</b> |                             |
| Note payable | \$ 6,042                   | 6,042                 | \$ 6,414                   | \$ 6,414              | Level 2                     |
| <b>Total</b> | <b>\$ 6,042</b>            | <b>6,042</b>          | <b>\$ 6,414</b>            | <b>\$ 6,414</b>       |                             |

The carrying value of the Company's debt at June 30, 2013 approximates fair value based on rates available for similar debt available to comparable companies in the marketplace. The carrying amounts of the Company's Level 1 securities include cash and cash equivalents.

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

A substantial portion of our revenue has been generated under contracts with the U.S. Government. During the year ended June 30, 2013 and 2012, approximately 66% and 68%, respectively, of our revenues were generated by various NASA and U.S. Government contracts or subcontracts. Accounts receivable totaled \$5.3 million at June 30, 2013 of which 56% was attributable to the U.S. Government. Accounts receivable totaled \$1.9 million at June 30, 2012 of which 31% 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.

#### **(10) Common Stock Incentive, Stock Purchase Plans and Other Compensation Plans**

At June 30, 2013, 1,440,001 shares of Common Stock were reserved for future grants of stock incentive grants under the Company's four stock 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 June 30, 2013, 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 June 30, 2013, 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 (RSAs) 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 RSAs granted from the 2008 Plan. As of June 30, 2013, there are 342,501 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 (RSAs) 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 RSAs or restricted stock granted from the 2011 Plan. As of June 30, 2013, there are 1,056,000 shares available for grant under the 2011 Plan.

***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 June 30, 2013, there are 1,800 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 vested 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.

**Stock Option Activity Summary**

The Company's stock options activity for year ended June 30, 2012 and 2013 was as follows:

|                              | <b>Shares<br/>(in<br/>thousands)</b> | <b>Weighted Average<br/>Exercise Price</b> |
|------------------------------|--------------------------------------|--|
| Outstanding at June 30, 2011 | 377                                  | \$ 1.28                                    |
| Granted                      | 779                                  | 0.79                                       |
| Exercised                    |                                      |  |
| Cancelled or expired         | (15)                                 | 12.66                                      |
| Outstanding at June 30, 2012 | 1,141                                | 0.79                                       |
| Granted                      | 330                                  | 1.20                                       |
| Exercised                    | (119)                                | 0.34                                       |
| Cancelled or expired         | (177)                                | 0.85                                       |
| Outstanding at June 30, 2013 | 1,175                                | 0.94                                       |

The aggregate intrinsic value of options exercisable at June 30, 2013 was \$0.1 million as the fair value of the Company's common stock is more than the exercise prices of these options.

|                                 | <b>Options</b>     |                     | <b>Options</b>     |                    |                 |
|---------------------------------|--------------------|---------------------|--------------------|--------------------|-----------------|
|                                 | <b>Outstanding</b> |                     | <b>Exercisable</b> |                    |                 |
|                                 | <b>Weighted-</b>   |                     | <b>Weighted-</b>   |                    |                 |
|                                 | <b>Average</b>     | <b>Weighted-</b>    | <b>Average</b>     |                    |                 |
|                                 | <b>Remaining</b>   | <b>Average</b>      | <b>Average</b>     |                    |                 |
|                                 | <b>Number</b>      | <b>Contractual</b>  | <b>Exercise</b>    | <b>Number</b>      | <b>Exercise</b> |
| <b>Range of exercise prices</b> | <b>Outstanding</b> | <b>Life (years)</b> | <b>Price</b>       | <b>Exercisable</b> | <b>Price</b>    |
| \$0.32 - 0.45                   | 228,750            | 5.26                | \$ 0.38            | 228,750            | \$ 0.38         |
| \$0.71 - 0.71                   | 405,400            | 8.21                | 0.71               |                    |                 |
| \$1.03 - 24.10                  | 541,000            | 7.45                | 1.36               | 11,000             | 11.94           |
| \$0.32 - 24.10                  | 1,175,150          | 7.29                | \$ 0.94            | 239,750            | \$ 0.91         |

Compensation costs recognized related to vested stock option awards during the year ended June 30, 2013, and 2012 was \$0.1 million and \$0.1 million, respectively. At June 30, 2013 and 2012, there was \$0.5 million and \$0.3 million, respectively, of total unrecognized compensation cost related to non-vested stock option awards, which is expected to be recognized over a weighted-average period of 7.9 years.

**Restricted Stock**

At June 30, 2013, and 2012, there was \$0.1 million and \$0.1 million of unrecognized compensation costs related to restricted stock, respectively, which is expected to be recognized over a weighted average period of 1.2 years.

The Company's restricted stock activity for the year ended June 30, 2012 and 2013, was as follows:

|                             | <b>Shares</b>     | <b>Weighted</b>   |
|-----------------------------|-------------------|-------------------|
|                             | <b>(in</b>        | <b>Average</b>    |
|                             | <b>thousands)</b> | <b>Grant-Date</b> |
|                             |                   | <b>Fair Value</b> |
| Non-vested at June 30, 2011 | 1,365 \$          | 1.14              |
| Issued                      | 25                | 0.75              |
| Vested                      | (699)             | 1.14              |
| Cancelled or expired        | (13)              | 1.22              |
| Non-vested at June 30, 2012 | 678 \$            | 1.12              |
| Issued                      |                   |                   |
| Vested                      | (528)             | 1.13              |
| Cancelled or expired        | (133)             | 1.15              |
| Non-vested at June 30, 2013 | 17 \$             | 0.75              |

***Stock Options 1<sup>st</sup> Detect***

At June 30, 2013 and 2012, there was \$0.1 million and \$0.1 million of unrecognized compensation costs related to options and warrants, respectively, which is expected to be recognized over a weighted average period of 8.2 years.

The Company's stock activity for the year ended June 30, 2012 and 2013 was as follows:

|                              | <b>Shares</b> | <b>Weighted Average<br/>Exercise Price</b> |
|------------------------------|---------------|--|
| Outstanding at June 30, 2011 | 1,820         | \$ 212.00                                  |
| Granted                      | 965           | 212.00                                     |
| Exercised                    |               |  |
| Cancelled or expired         | (55)          | 212.00                                     |
| Outstanding at June 30, 2012 | 2,730         | \$ 212.00                                  |
| Granted                      |               |  |
| Exercised                    |               |  |
| Cancelled or expired         | (255)         | 212.00                                     |
| Outstanding at June 30, 2013 | 2,475         | \$ 212.00                                  |

***Restricted Stock 1<sup>st</sup> Detect***

At June 30, 2013 and 2012 the awards were fully vested and there is no additional compensation expense to be recognized related to restricted stock.

***Stock Options Astrogenetix***

At June 30, 2013 and 2012 the warrants were fully vested and there is no additional compensation expense to be recognized related to warrants.

The Company's stock options activity for the year ended June 30, 2013 was as follows:

|                              | <b>Shares</b> | <b>Weighted Average<br/>Exercise Price</b> |
|------------------------------|---------------|--|
| Outstanding at June 30, 2011 | 2,050         | \$ 167.00                                  |

|                              |          |        |
|------------------------------|----------|--------|
| Granted                      |          |        |
| Exercised                    |          |        |
| Cancelled or expired         | (50)     | 167.00 |
| Outstanding at June 30, 2012 | 2,000 \$ | 167.00 |
| Granted                      |          |        |
| Exercised                    |          |        |
| Cancelled or expired         |          |        |
| Outstanding at June 30, 2013 | 2,000 \$ | 167.00 |

***Restricted Stock Astrogenetix***

At June 30, 2013 and 2012 the awards were fully vested and there is no additional compensation expense to be recognized related to restricted stock.



***Fair Value of Stock Based Compensation***

Stock-based compensation costs are generally based on the fair value calculated from the Black-Scholes or Binomial option-pricing model on the date of grant for stock options. The fair values of stock are amortized as compensation expense on a straight-line basis over the vesting period of the grants. The assumptions used are summarized in the following table:

|                                 | <b>Astrotech</b>           |             |
|---------------------------------|----------------------------|-------------|
|                                 | <b>Year ended June 30,</b> |             |
|                                 | <b>2013</b>                | <b>2012</b> |
| Expected Dividend Yield         | 0%                         | 0%          |
| Expected Volatility             | 0.71                       | 0.77        |
| Risk-Free Interest Rates        | 0.20%                      | 0.21%       |
| Expected Option Life (in years) | 10.00                      | 10.00       |

The expected dividend yield is based on our current dividend yield and the best estimate of projected dividend yield for future periods within the expected life of the option, which is currently 0%.

We estimated volatility using our historical share price performance over the last two years. Management believes the historical estimated volatility is materially indicative of expectations about expected future volatility.

The estimate of the risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant.

The expected life is calculated using the contractual term of the options as well as an analysis of the Company's historical exercises of stock options.

|                                 | <b>Spacotech</b>           |             |
|---------------------------------|----------------------------|-------------|
|                                 | <b>Year ended June 30,</b> |             |
|                                 | <b>2013 <sup>(1)</sup></b> | <b>2012</b> |
| Expected Dividend Yield         |                            | 0%          |
| Expected Volatility             |                            | 0.33        |
| Risk-Free Interest Rates        |                            | 0.09%       |
| Expected Option Life (in years) |                            | 10.00       |

(1) No options were issued in the year ended June 30, 2013.

The expected dividend yield is based on our current dividend yield and the best estimate of projected dividend yield for future periods within the expected life of the option, which is currently 0%.

We estimated volatility using industry competitor's historical share price performance over the last two years. Management believes the historical estimated volatility is materially indicative of expectations about expected future volatility.

The estimate of the risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant.

The expected life is calculated using the contractual term of the options as well as an analysis of the Company's historical exercises of stock options.

***Securities Repurchase Program***

In March 2009, the Company repurchased 300,000 shares of Common Stock at a price of \$0.40 per share, pursuant to the securities repurchase program. As of June 30, 2011, we had repurchased 311,660 share 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. As a result, the Company is authorized to repurchase an additional \$5.7 million of securities under this program.

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.

**(11) 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 June 30, 2013, 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. The Company has an unrecognized tax benefit of \$0.1 million for the years ended June 30, 2012 and 2013.

For the years ended June 30, 2013 and 2012, 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 income tax returns in the U.S. federal jurisdiction and in various states. Due to the Company's loss carryover position, it is subject to U.S. federal and state income tax examination adjustments to its carryover benefits generated after 1999.

Currently, the Company is under examination by the Internal Revenue Service for its 2008 through 2010 tax year.

The components of income tax expense (benefit) from continuing operations are as follows (in thousands):

|                 | <b>Year Ended June 30,</b> |             |
|-----------------|----------------------------|-------------|
|                 | <b>2013</b>                | <b>2012</b> |
| Current         |                            |             |
| Federal         | \$                         | \$          |
| State and local |                            |             |
|                 |                            | 17          |
|                 |                            | 99          |

|                          |  |    |    |           |
|--------------------------|--|----|----|-----------|
| Foreign                  |  | \$ | \$ | 17        |
| Deferred                 |  |    |    |           |
| Federal                  |  |    |    |           |
| State and local          |  |    |    |           |
| Foreign                  |  |    |    |           |
| <b>Total Tax Expense</b> |  | \$ | \$ | <b>17</b> |

A reconciliation of the reported income tax expense to the amount that would result by applying the U.S. Federal statutory rate to the income (loss) before income taxes to the actual amount of income tax expense (benefit) recognized follows (in thousands):

|  | <b>Year Ended June 30,</b> |              |
|--|----------------------------|--------------|
|  | <b>2013</b>                | <b>2012</b>  |
| Expected expense (benefit)                         | \$ (253)                   | \$ (1,161)   |
| State tax expense                                  |                            | 17           |
| Change in temporary tax adjustments not recognized | 167                        | 744          |
| Stock compensation                                 |                            | 352          |
| Other permanent items                              | 86                         | 65           |
| <b>Total</b>                                       | <b>\$</b>                  | <b>\$ 17</b> |

The Company's deferred tax assets as of June 30, 2013 and 2012 consist of the following (in thousands):

|  | <b>Year Ended June 30,</b> |             |
|--|----------------------------|-------------|
|  | <b>2013</b>                | <b>2012</b> |
| Deferred tax assets:   |                            |             |
| Net operating loss carryforwards                                       | \$ 13,274                  | \$ 13,021   |
| Alternative minimum tax credit carryforwards                           | 671                        | 671         |
| Accrued expenses and other timing                                      | 683                        | 823         |
| Total gross deferred tax assets  | \$ 14,628                  | \$ 14,515   |
| Less valuation allowance   | (13,540)                   | (13,261)    |
| Net deferred tax assets  | \$ 1,088                   | \$ 1,254    |
| Deferred tax liabilities:  |                            |             |
| Property and equipment, principally due to differences in depreciation | (1,088)                    | (1,254)     |
| Total gross deferred tax liabilities                                   | \$ (1,088)                 | \$ (1,254)  |
| <b>Net deferred tax assets (liabilities)</b>                           | <b>\$</b>                  | <b>\$</b>   |

The valuation allowance increased by approximately \$0.3 million for the year ended June 30, 2013. The valuation allowance increased by approximately \$1.1 million for the year ended June 30, 2012. The Company adjusted the value of its deferred tax assets (before valuation allowance) in order to reflect tax return filings occurring since the prior year provision. Since the Company reflects a full valuation allowance against its deferred tax assets, there has been no income tax impact from these changes.

At June 30, 2013, the Company had accumulated net operating loss carryforwards of approximately \$36.6 million for Federal income tax purposes (\$12.8 million, tax effected) that are available to offset future regular taxable income. These net operating loss carryforwards expire between the years 2021 and 2034. Utilization of these net operating losses is limited due to the changes in stock ownership of the Company associated with the October 2007 Exchange Offer; as such, the benefit from these losses may not be realized.

The Company also has accumulated state net operating loss carryforwards of approximately \$9.3 million (\$0.4 million, tax effected) that are available to offset future state taxable income. These net operating loss carryforwards expire between the years 2019 and 2034. These losses may also be subject to utilization limitations; as such, the benefit from these losses may not be realized.

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.

The Company has a temporary credit for business loss carryovers that may be utilized to offset its Texas margin tax. The credit amount is \$0.2 million (\$0.1 million, tax effected). These credits may be used to offset \$13,000 of state tax liability each year and expire annually if not utilized.

The Company has \$0.7 million of alternative minimum tax credit carryforwards available to offset future regular tax liabilities.

The Company files consolidated returns for federal, California, Florida, and Texas income and franchise taxes. In assessing the need for a valuation allowance, management considers whether it is more likely than not that some portion or all of the net deferred tax assets will be utilized to offset future tax liabilities. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. As of June 30, 2013, the Company provided a full valuation allowance of approximately \$13.5 million against its net deferred tax assets.

**Uncertain Tax Positions**

The Company's change in uncertain tax benefit reserves during 2013 and 2012 were as follows (in thousands):

|   | <b>2013</b>  | <b>2012</b>  |
|---|--------------|--------------|
| <b>Balance at July 1</b>                      | \$ <b>64</b> | \$ <b>60</b> |
| Additions for tax positions of current period |              |              |
| Additions for tax positions of prior years    | 4            | 4            |
| Decreases for tax positions of prior years    |              |              |
| <b>Balance at June 30</b>                     | \$ <b>68</b> | \$ <b>64</b> |

As of June 30, 2013, total uncertain tax positions related to state income taxes amounted to \$68,000. Should the tax positions prove successful, the Company's tax expense would be reduced by \$42,000 (net of federal benefit). We recognize interest and penalties related to income tax matters in income tax expense. During the years ended June 30, 2013 and 2012, we recognized interest expense related to uncertain tax positions of approximately \$4,000 and \$4,000, respectively.

**(12) 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, convertible debt, 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):

|  | <b>Year Ended June 30,</b> |             |
|--|----------------------------|-------------|
|  | <b>2013</b>                | <b>2012</b> |
| <b>Numerator:</b>  |                            |             |
| Net loss attributable to Astrotech, basic  | \$ (185)                   | \$ (2,713)  |
| Net loss attributable to Astrotech, diluted  | \$ (185)                   | \$ (2,713)  |
| <b>Denominator:</b>  |                            |             |
| Denominator for basic net loss per share — weighted average common stock outstanding   | 19,328                     | 18,544      |
| Dilutive common stock equivalents — common stock options and share-based awards  |                            |             |
| Denominator for diluted net loss per share — weighted average common stock outstanding and dilutive common stock equivalents | 19,328                     | 18,544      |
| Basic net loss per share   | \$ (0.01)                  | \$ (0.15)   |
| Diluted net loss per share   | \$ (0.01)                  | \$ (0.15)   |

Options to purchase 1,175,150 shares of common stock at exercise prices ranging from \$0.32 to \$24.10 per share outstanding for the year ended June 30, 2013, were not included in diluted net loss per share, as the impact to net loss per share is anti-dilutive. Options to purchase 1,140,750 shares of common stock at exercise prices ranging from \$0.30 to \$24.10 per share outstanding for the year ended June 30, 2012, were not included in diluted net loss per share, as the impact to net loss per share is anti-dilutive.

### **(13) Employee Benefit Plans**

We have a defined contribution retirement plan, which covers substantially all employees and officers. For the years ended June 30, 2013 and 2012, we have contributed the required match of \$0.2 million and \$0.3 million, respectively, to the plan. We have the right, but not an obligation, to make additional contributions to the plan in future years at the discretion of the Company's Board of Directors. We have not made any additional contributions for the years ended June 30, 2013 and 2012.



**(14) Commitments and Contingencies**

In addition to the term loan (see Note 7), the Company is obligated under non-cancelable operating leases for equipment, office space and the land for a payload processing facility. Future minimum payments under the term loan and non-cancelable operating leases are as follows (in thousands):

| <b>Year ending June 30,</b> |           |              |
|-----------------------------|-----------|--------------|
| 2014                        | \$        | 777          |
| 2015                        |           | 559          |
| 2016                        |           | 5,411        |
| 2017                        |           | 162          |
| 2018                        |           | 166          |
| 2019 and thereafter         |           |              |
| <b>Total</b>                | <b>\$</b> | <b>7,075</b> |

Rent expense was approximately \$0.7 million for the year ended June 30, 2013 and approximately \$0.8 million for the year ended June 30, 2012. The Company received sublease payments of \$0.1 million for the year ended June 30, 2013 and \$0.1 million for the year ended June 30, 2012.

ASO presently leases the 60-acre site located on VAFB in California, where we own four buildings totaling over 50,000 square feet of space. The Company has extended the original land lease, which expired in September 2013. The new lease expires in September 2018, with provisions to extend the lease at the request of the lessee and the concurrence of the lessor.

***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.

On February 20, 2013, a shareholder derivative lawsuit was filed in the District Court of Travis County, Texas against the current directors and chief executive officer of Astrotech Corporation and against the Company, as nominal defendant. The complaint alleges, among other things, that the directors and chief executive officer breached fiduciary duties to the Company in connection with certain corporate transactions, including loans to subsidiaries and purchases of outstanding shares of the Company's common stock. The Company intends to vigorously defend the lawsuit.

***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 industrial, environmental, security and healthcare markets (See Note 15). As of June 30, 2012, 1<sup>st</sup> Detect had received \$1.8 million in disbursements. The disbursed amount of \$1.8 million represents a contingency through March 2020, the date of cancellation. If an event of default should occur, the Company would calculate and expense accrued interest and reclassify principal from equity to notes payable in the consolidated financial statements as amounts due to the State of Texas. Management considers the likelihood of an event of default to be remote. As of June 30, 2013, no default events have occurred.

***Employment Contracts***

The Company has entered into employment contracts with certain of its key executives. Generally, certain amounts may become payable in the event the Company terminates the executives' employment.

## **(15) 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 industrial, environmental, security and healthcare 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 June 30, 2012, 1<sup>st</sup> Detect had 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 eighteen months of the agreement effective date, which has been extended to June 30, 2014 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 June 30, 2013, 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) in 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 June 30, 2014, 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 periods ended June 30, 2012 and 2010 respectively. As of June 30, 2013, no default events have occurred.

## **(16) 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 year ended June 30, 2013 and 2012 of the Company's segments are as follows (in thousands):

| Revenue and Income<br>(in thousands) | Year Ended<br>June 30, 2013 |                                      | Year Ended<br>June 30, 2012 |                                      |
|--------------------------------------|-----------------------------|--------------------------------------|-----------------------------|--------------------------------------|
|                                      | Revenue                     | Income (loss)<br>before income taxes | Revenue                     | Income (loss)<br>before income taxes |
| ASO                                  | \$ 23,862                   | 3,121                                | \$ 25,817                   | \$ 1,039                             |
| Spacotech                            | 133                         | (3,844)                              | 321                         | (4,355)                              |
| <b>Total</b>                         | <b>\$ 23,995</b>            | <b>(723)</b>                         | <b>\$ 26,138</b>            | <b>\$ (3,316)</b>                    |

| Assets<br>(in thousands) | Year Ended<br>June 30, 2013 |               | Year Ended<br>June 30, 2012 |                  |
|--------------------------|-----------------------------|---------------|-----------------------------|------------------|
|                          | Fixed<br>Assets, net        | Total Assets  | Fixed<br>Assets, net        | Total Assets     |
| ASO                      | \$ 35,625                   | 46,159        | \$ 36,997                   | \$ 48,867        |
| Spacotech                | 1,410                       | 1,843         | 273                         | 1,182            |
| <b>Total</b>             | <b>\$ 37,035</b>            | <b>48,002</b> | <b>\$ 37,270</b>            | <b>\$ 50,049</b> |

## **(17) Related Party Transactions**

### ***Director Compensation***

In August 2009, the Board of Directors granted 525,000 total restricted shares valued at \$0.6 million to directors from the 2008 Stock Incentive Plan. The restricted shares vest 33.33% a year for three years and expire upon termination. Compensation expense of \$0.1 million and \$0.2 million was recorded in the year ended June 30, 2013 and 2012, respectively, for these awards.

### ***Executive Compensation***

On January 19, 2010, an independent committee of the Board of Directors of 1st Detect approved a grant of restricted stock and warrants to certain officers, directors and employees of 1st Detect pursuant to restricted stock agreements and stock purchase warrants between 1st Detect and each such individual.

The awards will vest as follows, subject to earlier vesting upon the grantee's death or disability or in the event of a change of control of the Company: 50% on the first anniversary of the grant date and 50% on the second anniversary of the grant date. The restricted stock agreements and stock purchase warrants provide for forfeiture of unvested stock if the recipient is terminated or voluntarily ceases to perform services for 1st Detect, immediate vesting upon a change of control, and restrictions on and requirements as to transfer. The stock purchase warrants 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.

In September 2011, the Board of Directors of 1<sup>st</sup> Detect approved a grant of stock options to certain officers, directors and employees of 1<sup>st</sup> Detect. The awards vest upon certain performance conditions being met and expire 10 years from 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.

The number of shares, options and warrants underlying each award to a named executive officer is as follows: Thomas B. Pickens III: 300 shares, 200 options, 680 warrants; John Porter: 200 shares, 180 warrants. If all of the shares issued pursuant to the restricted stock agreements vest, all of the stock options and stock purchase warrants are exercised, without taking into account any dilution resulting from the State of Texas funding, then Thomas B. Pickens III would hold 11.2%, John Porter would hold 3.6% and the Company would hold 66.2% of the outstanding shares of 1st Detect based on the number of fully-diluted shares as of June 30, 2013. Mr. Porter served as Chief Executive Officer of 1<sup>st</sup> Detect until his termination from the Company in August 2012.

On January 19, 2010, an independent committee of the Board of Directors of Astrogenetix approved a grant of restricted stock and warrants to certain officers, directors and employees of Astrogenetix pursuant to restricted stock agreements and stock purchase warrants between Astrogenetix and each such individual.

The awards will vest as follows, subject to earlier vesting upon the grantee's death or disability or in the event of a change of control of the Company: 50% on the first anniversary of the grant date and 50% on the second anniversary of the grant date. The restricted stock agreements and stock purchase warrants provide for forfeiture of unvested stock if the recipient is terminated or voluntarily ceases to perform services for Astrogenetix, immediate vesting upon a change of control, and restrictions on and requirements as to transfer. The stock purchase warrants have an exercise price equal to the fair market value of Astrogenetix's common stock on the date of grant as determined by an independent valuation firm.

The number of shares and warrants underlying each award to a named executive officer is as follows: Thomas B. Pickens III: 500 shares, 1,000 warrants; John Porter: 400 shares, 800 warrants. If all of the shares issued pursuant to the restricted stock agreements vest and all of the stock purchase warrants are exercised, then Thomas B. Pickens III would hold 16.3%, John Porter would hold 13.1% and the Company would hold 65.4% of the outstanding shares of Astrogenetix based on the number of fully-diluted shares as of the date of the grants. Mr. Porter served as Chief Executive Officer of Astrogenetix until his termination from the Company in August 2012.

The restricted stock issuances resulted in noncontrolling interest, as described in Note 3.

**(18) NASDAQ Listing Qualifications**

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). On May 14, 2013, we received a second compliance notice from NASDAQ regarding the Company's failure to maintain the minimum bid price for continued listing. However, the NASDAQ staff has determined that the Company is eligible for an additional 180 day grace period, or until November 11, 2013, to regain compliance. NASDAQ's determination was based on the Company meeting the continued listing requirement for market value of publicly held shares and all other applicable requirements for initial listing on the NASDAQ Capital Market, with the exception of the bid price requirement, and the Company's written notice to NASDAQ of its intention to cure the deficiency during the second compliance period by effecting a reverse stock split. If necessary, in order to meet the minimum bid price, the Company will consider holding a shareholder vote to approve a reverse stock split.

**(19) Subsequent Events**

As discussed in footnote 14, the Company has extended the original land lease for the 60-acre site located on VAFB in California, which expired in September 2013. The new lease expires in September 2018, with provisions to extend the lease at the request of the lessee and the concurrence of the lessor.

**Item 9.**

**Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None to report for the year ended June 30, 2013.

**Item 9A.**

**Controls and Procedures.**

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we have evaluated the effectiveness of our design and operation of our disclosure controls and procedures as of the end of the period covered by this annual report, and, based on that evaluation, our principal executive officer and principal financial officer have concluded that these controls and procedures are effective. There have been no changes in our internal control over financial reporting that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Disclosure controls and procedures are our controls and other procedures that 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. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

***Management's Report on Internal Control over Financial Reporting***

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



This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered accounting firm pursuant to §989G of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which exempts the Company from the requirement that it include an attestation report of the Company's registered public accounting firm regarding internal control over our management's assessment of internal controls over financial reporting.

**Item 9B.**

**Other Information.**

None to report for the period ended June 30, 2013.

**PART III****Item 10.****Directors, Executive Officers and Corporate Governance.**

A Board of six directors was elected at the 2012 Annual Meeting. The Company's Articles of Incorporation authorize the Board of Directors ( Board ) to determine the number of its members. A director who is appointed by the existing Board of Directors, due to a vacant position or the need for an additional director, will serve until the next Annual Meeting of Shareholders or until a successor is duly elected and qualified.

The following table shows information as of June 30, 2013 regarding members of the Company's Board of Directors:

| <b>Current Directors</b>   | <b>Principal Occupation</b>                                   | <b>Age as of<br/>June 30,<br/>2013</b> | <b>Director<br/>Since</b> |
|----------------------------|---|--|---------------------------|
| Thomas B. Pickens III      | Chairman and Chief Executive Officer of Astrotech Corporation | 56                                     | 2004                      |
| Mark Adams*                | Founder, President and CEO of SoZo Global, Inc.               | 52                                     | 2007                      |
| John A. Oliva*             | Managing Principal, Capital City Advisors, Inc.               | 57                                     | 2008                      |
| William F. Readdy*         | Founder, Discovery Partners, International LLC                | 61                                     | 2008                      |
| Sha-Chelle Devlin Manning* | Managing Director, Nanoholdings LLC                           | 45                                     | 2009                      |
| Daniel T. Russler, Jr.*    | Family Asset Management, LLC                                  | 50                                     | 2011                      |

\*

Indicates an independent director

**Current Directors****Thomas B. Pickens III**

Mr. Pickens was named Astrotech's Chief Executive Officer in January 2007 and Chairman in February 2008. Mr. Pickens also serves as the Chairman and Chief Executive Officer of each of 1st Detect and Astrogenetix and as Chairman of ASO, all of which are subsidiaries of Astrotech. In 1985, Mr. Pickens founded T.B. Pickens & Co., a company that provides consulting services to corporations, public institutions, and start-up organizations. Additionally, Mr. Pickens is the Managing Partner and Founder of Tactic Advisors, Inc., a company specializing in corporate turnarounds on behalf of creditors and investors. Since 1985, Mr. Pickens has served as President of T.B. Pickens & Co. Mr. Pickens also served as a member of the board of directors of Advocate MD, Inc., a leading Texas-based medical liability insurance holding company from 2006 until 2011. From 1991 to 2002, Mr. Pickens was the Founder and Chairman of U.S. Utilities, Inc., a company which operated 114 water and sewer utilities on behalf of various companies affiliated with Mr. Pickens. From 1995 to 1999, Mr. Pickens was Founder and Chairman of the Code Corporation. From 1988 to 1993, Mr. Pickens was the Chairman of Catalyst Energy Corporation and was Chairman of United Thermal Corporation (NYSE). Mr. Pickens was also the President of Golden Bear Corporation, Slate Creek Corporation, Eury Dam Corporation, Century Power Corporation, and Vidilia Hydroelectric Corporation. From 1982 to 1988, Mr. Pickens founded Beta Computer Systems, Inc., and Sumpter Partners, and was the General Partner of Grace Pickens Acquisition L.P.

Mr. Pickens has served as a director since 2004 and became CEO in 2007. He brings a historical understanding of Astrotech and serves a key leadership role on the Board of Directors, providing the Board of Directors with in-depth knowledge on Astrotech's and the industry's challenges and opportunities. Mr. Pickens was intimately involved with the transformation of the Company from the legacy SPACEHAB business to the current core business of ASO, including the conversion of over \$50 million in debt to equity positions. Currently, Mr. Pickens communicates management's perspectives on company strategy, operations and financial results to the Board of Directors. Mr. Pickens has extensive senior management experience, as well as experience as a member of multiple corporate boards.

## **Mark Adams**

Mr. Adams founded SoZo Global, Inc. in 2009 which is a fast growing direct sales nutritional products company and to that founded Advocate, MD Financial Group, Inc., a leading Texas-based medical liability insurance holding company, in July 2003. Since July 2003, Mr. Adams has served as its Chairman, President, and Chief Executive Officer. He is also a founding partner in several other companies including the Endowment Development Group, a Houston-based life insurance company specializing in placing large multimillion dollar life insurance policies throughout the U.S. market. Mr. Adams founded Murphy Adams Restaurant Group in 2007 which owns and operates Mama Fu's Asian House restaurants throughout the southeast United States, and currently serves as its Chairman and Co-Founder. In 2008, Mr. Adams founded Small Business United, LLC, a non-profit organization that supports small businesses, and currently serves as its chairman. Also in 2008, Mr. Adams co-founded ETMG (Employer's Trust Management Group), LLC. Additionally in 2008, Mr. Adams is the winner of the 2008 Prestigious Ernst and Young Entrepreneur of the Year Award for Central Texas. After his career with global public companies such as Xerox and Johnson & Johnson (1985-1988), beginning in 1988, Mr. Adams then spent the next 12 years at Bostik Adhesives where he served in senior management, sales and strategic business management roles for their worldwide markets in North America, Latin America, Asia, and Europe. In 1997, Mr. Adams then served as Global Sales Director for Bostik and General Manager of Bostik's J.V. Company Nitta-Findley based in Osaka, Japan and later purchased a minority interest in Ward Adhesives, Inc. and served as General Manager, and Vice President of Sales and Marketing. Mr. Adams is also an advisory board member for the McCoy College of Business at Texas State University. Additionally, Mr. Adams has served as a director of Murphy Adams Restaurant Group, LLC, X-Pel, Inc., KLD Energy Technologies, Inc., Powerstations, LLC, School U, LLC, Monitium, LLC and Affordable Housing Development Fund, and as a manager of Belize Grocery, LLC, Belize Casino Village, LLC and Top Partners, LLC,. He has also serves as chief executive officer of ETMG (Employers Test Management Group), LLC.

Mr. Adams brings to our Board a wide range of experience in business, with a particular focus on entrepreneurship. He has brought his diversity of thought to the Board of Directors since 2007, which positions him as the longest tenured director other than Mr. Pickens. As stated above, Mr. Adams serves as a director for several public and private companies, including Astrotech, providing the Board with expertise in management and corporate governance. Mr. Adams serves as the Chairman of the Corporate Governance and Nominating Committee. Mr. Adams also serves as a director of Astrogenetix and 1st Detect. From 2007 to 2011, Mr. Adams served as a director of the Audit Committee and Compensation Committee of Astrotech.

## **John A. Oliva**

John A. Oliva has 32 years of experience in the private equity, investment banking, capital markets, branch management, and asset management sectors. Since 2002, Mr. Oliva has been the Managing Principal of Southeastern Capital Partners BD Inc., a FINRA registered broker/dealer and independent investment banking and advisory firm. Since 2002, Southeast Capital Partners has provided financial advisory services, including mergers/acquisitions, underwriting and raising expansion capital to select mid-tier companies. In addition, Mr. Oliva is the Managing Partner of Capital City Advisors Inc., which provides private merchant banking services to clients in Europe and Asia.

Mr. Oliva holds various FINRA licenses including the Managing Principal and Financial Principal licenses. Prior to the formation of CCA and Southeastern Capital Partners, Mr. Oliva worked for Morgan Stanley & Co and served as an advisor to their Private Wealth Management group, developing, reviewing and implementing solutions for the firms investment banking clients. He was also a group manager. Mr. Oliva was nationally recognized for achievements at Morgan Stanley & Co and Shearson/Lehman Brothers in the asset management and investment banking sector. Mr. Oliva performed similar roles at Interstate/Johnson Lane and The Robinson Humphrey Company. Mr. Oliva also worked on the floor of the New York Stock Exchange.

Mr. Oliva has served on the Board of Directors since 2008 and provides expert advice to the Board of Directors on financial issues. Mr. Oliva plays a crucial role in risk management, providing advice and direction to management on a number of issues ranging from SEC filings, debt transactions and auditor independence. The Board of Directors has determined that Mr. Oliva meets the qualification guidelines as an audit committee financial expert as defined by the SEC rules. Mr. Oliva is Chairman of the Audit Committee and serves on the Compensation Committee and the Governance and Nominating Committee.

**William F. Readdy**

From 1974 to 2005, Mr. Readdy served the United States as a naval aviator, pilot astronaut, military officer, and civil service executive. Retiring from the National Aeronautics and Space Administration ( NASA ) in September 2005, Mr. Readdy established Discovery Partners International LLC, a consulting firm providing strategic thinking and planning, risk management, safety and emerging technology solutions and decision support to aerospace and high-technology industries. Since its formation, Mr. Readdy has served as Managing Partner.

In addition, Mr. Readdy currently serves on the board of directors of American Pacific Corporation, a company that manufactures active pharmaceutical ingredients and registered intermediates, energetic products used primarily in space flight and defense systems, clean fire- extinguishing agents and water treatment equipment. Mr. Readdy is also chairman of GeoMetWatch, Inc., a startup company offering commercial satellite weather products. Additionally, Mr. Readdy serves as a director of Challenger Center, National Aeronautics Association, AFCEA Education Foundation, Discovery of Flight Foundation and of the National Aviation Hall of Fame.

In the late 1970s and early 1980s he served as a naval test pilot. Mr. Readdy joined NASA in 1986 and in 1987 became a member of the astronaut corps, but continued his military service in the Naval Reserve, attaining the rank of captain in 2000. Mr. Readdy logged more than 672 hours in space on three shuttle missions. In 1996 he commanded the space shuttle Atlantis on a docking mission to the Russian Mir space station.

In 2001, Mr. Readdy was appointed NASA s Associate Administrator for Space Operations responsible for NASA s major programs, several field centers and an annual budget approaching \$7 billion. Following the loss of space shuttle Columbia in February 2003, Mr. Readdy chaired NASA s Space Flight Leadership Council, and oversaw the agency s recovery from the accident and the shuttle s successful return to flight in July 2005. Mr. Readdy was honored as a Presidential Meritorious Rank Executive in 2003 and in 2005 was awarded NASA s highest honor, the Distinguished Service Medal for the second time. In addition to the Distinguished Flying Cross he is the recipient of numerous national and international aviation and space awards, and has been recognized for his contributions to aerospace safety.

Mr. Readdy brings to the Company tremendous background and experience with NASA, the U.S. Department of Defense and with the aerospace industry in general, which are primary focuses of the Company. He also brings to the Company an extensive knowledge of public policy, program management and contracting matters involving military, civil and commercial space programs. Mr. Readdy serves on the Compensation Committee.

**Sha-Chelle Manning**

Sha-Chelle Manning is a founding partner of Manti Ventures, a privately held advanced technology investment group. In September, 2013, Ms. Manning was appointed as a member of the Texas Emerging Technology Advisory Committee, which recommends proposals eligible for funding through the Texas Emerging Technology Fund.

From September 1, 2008 to April 30, 2010, Sha-Chelle Manning has been Managing Director for Nanoholdings LLC, a company focused on oil and gas exploration through nano-enabled solutions. From January 2007 to December 31, 2008, Ms. Manning was a Vice President at Authentix, a Carlyle company that is a recognized leader in nano solutions for Fortune 500 companies and governments around the world for brand protection, excise tax recovery, and authentication of security documents and pharmaceutical drugs. From September 2005 to April 2007, Ms. Manning was a consultant to the Office of the Governor of Texas, Rick Perry, where she led the development of the Texas nanotechnology strategic plan.

Prior to these assignments, Ms. Manning was Director of Alliances at Zyvex Corporation from August 2002 to September 2005, where she was responsible for the commercialization of nanotechnology products introduced and sold into the marketplace in partnership with key government agencies and industry. Ms. Manning also served as Vice President for Winstar Communications New Media.

Ms. Manning brings to our Board a wide range of experience in management and executive strategic consulting positions for companies focusing on high-technology solutions or services. Additionally, her interaction with local, state and federal governments throughout her career provides significant experience with government affairs, particularly in the State of Texas. Ms. Manning serves on the Corporate Governance and Nominating Committee and the Audit Committee. The Board of Directors has determined that Ms. Manning meets the qualification guidelines as an audit committee financial expert as defined by the SEC rules.

**Daniel T. Russler, Jr.**

Daniel Russler has more than 20 years of capital markets, development, and entrepreneurial experiences, including an extensive background in sales and trading of a broad variety of equity, fixed income and private placement securities. Since 2003, Mr. Russler has been the Principal Partner of Family Asset Management, LLC, a multi-family office providing high net worth individuals and families with financial services. Mr. Russler has held portfolio and risk management positions at First Union Securities, Inc., J.C. Bradford & Co, William R. Hough & Co, New Japan Securities International and Bankers Trust Company. His background also includes experience in project and structured finance at U.S. Generating Company.

Mr. Russler received a master's in business administration from the Owen Graduate School of Management at Vanderbilt University and a bachelor's degree in English and political science from the University of North Carolina. He currently serves as the Senior Warden Emeritus at St. Philips Church and on its finance committee. Dan is also active in Charleston's youth sports programs.

Mr. Russler is the newest addition to the Board of Directors and has extensive knowledge of finance, entrepreneurship, investment allocation and capital raising matters that the Board of Directors feels will add value to the shareholders. Mr. Russler's qualifications and background were deemed to meet the Company's requirements of an independent director by the Board of Directors in February 2011. Mr. Russler is Chairman of the Compensation Committee and serves on the Audit Committee. The Board of Directors has determined that Mr. Russler meets the qualification guidelines as an audit committee financial expert as defined by the SEC rules.

**Executive Officers and Key Employees of the Company who are Not Directors**

Set forth below is a summary of the background and business experience of the executive officers of the Company who are not nominees of the Board of Directors:

| Name | Position(s) | Age as of<br>June 30, 2013 |
|------|-------------|----------------------------|
|------|-------------|----------------------------|



|                  |   |    |
|------------------|---|----|
| Carlisle         |   |    |
| Kirkpatrick      | Chief Financial Officer, Treasurer and Secretary        | 46 |
| Don M. White Jr. | Senior Vice President, GM of Astrotech Space Operations | 50 |

The executive officers and key employees named below will serve in such capacities until the next annual meeting of the Company's Board of Directors, or until their respective successors have been duly elected and have been qualified, or until their earlier death, resignation, disqualification, or removal from office.

### **Carlisle Kirkpatrick**

Mr. Kirkpatrick joined Astrotech in August 2012 and serves as the Company's Chief Financial Officer, Treasurer and Secretary. He is responsible for overall strategic planning, corporate development and finance. His primary areas of focus are utilizing financial management to support the core spacecraft payload processing business while efficiently advancing the Company's biotechnology initiatives in microgravity processing and commercializing advanced technologies that have been developed in and around the space industry.

Prior to joining the Company, Mr. Kirkpatrick served as a Managing Director of IncuHive, LLC, a business incubator focused on developing early and middle stage companies in the mobile commerce and risk solutions space. From November 2006 to November 2010, Mr. Kirkpatrick served as Executive Vice President and Chief Financial Officer of Authentium, Inc. In that capacity, Mr. Kirkpatrick was responsible for all aspects of the company's financial matters, including financial reporting and accounting, cash management and financing. From January 2001 to November 2006, Mr. Kirkpatrick served as Vice President, Corporate Development with Seisint, later acquired by LexisNexis Risk Solutions (a division of Reed Elsevier), and was responsible for the company's middle market M&A activities and FP&A group. From July 1998 to January 2001, Mr. Kirkpatrick served as a Managing Principal and founding member of Accenture's venture capital group, which managed \$500 million in partner capital and invested in over 100 high-tech companies worldwide.

### **Don M. White**

Don M. White has been instrumental in leading Astrotech's satellite processing operations since 2005. As Senior Vice President and General Manager of Astrotech Space Operations, Mr. White oversees a rigorous satellite payload processing schedule. He is also responsible for expanding business services, improving profitability, and managing current contracts. Additionally, Mr. White maintains ongoing negotiations with all customers, pledging that every mission contract process is streamlined with the utmost efficacy and safety.

Prior to joining the Astrotech team, Mr. White was employed at Lockheed Martin as their Payloads/Ordnance Chief Engineer. He was then promoted to Mission Support Manager, leading various aspects of the Atlas V Development Program. Mr. White's extensive aerospace experience also includes providing leadership to the Titan and Shuttle External Tank programs while at Martin Marietta Corporation.

### **Operations of the Board of Directors**

#### **Board Member Attendance at Annual Meeting of Stockholders**

The Company strongly encourages each member of the Board of Directors to attend each annual meeting of stockholders. Accordingly, we expect most, if not all, of the Company's directors to be in attendance at the meeting. All of our directors attended the 2012 annual meeting of stockholders.

#### **Meetings and Committees of the Board of Directors**

The Board of Directors and its committees meet periodically during the year as deemed appropriate. During fiscal year 2013, the Board of Directors met five times. No director attended fewer than 75% of all the 2013 meetings of the Board of Directors and its committees on which each such director served.

### **Director Nomination Process**

Astrotech's Director nominees are approved by the Board after considering the recommendation of the Corporate Governance and Nominating Committee.

A Board of six Directors is expected to be elected at the Annual Meeting. The Company's Articles of Incorporation provide that, with respect to any vacancies or newly created directorships, the Board will nominate such individuals as may be specified by a majority vote of the then sitting directors.

Regarding nominations for directors, the Corporate Governance and Nominating Committee identifies nominees in various ways. The Corporate Governance and Nominating Committee considers the current directors that have expressed interest in, and that continue to satisfy, the criteria for serving on the Board of Directors. Other nominees may be proposed by current directors, members of management, or by shareholders. The Corporate Governance and Nominating Committee may engage a professional firm to identify and evaluate potential director nominees, but has not paid any of such fees to date. The Corporate Governance and Nominating Committee considers the Board at a strategic level looking for industry and professional experience that complements the Company's goals and strategic direction. The Corporate Governance and Nominating Committee has established certain criteria it considers as nominating guidelines for the Board of Directors. The criteria include:

- the candidate's independence;
- the candidate's depth of business experience;
- the candidate's availability to serve;
- the candidate's integrity and personal and professional ethics;
- the diversity of experience and background relative to the Board of Directors as a whole; and
- the need for specific expertise on the Board of Directors.

The above criteria are not exhaustive and the Corporate Governance and Nominating Committee may consider other qualifications and attributes which they believe are appropriate in evaluating the ability of an individual to serve as a member of the Board of Directors. In order to ensure that the Board of Directors consists of members with a variety of perspectives and skills, the Corporate Governance and Nominating Committee has not set any minimum qualifications and also considers candidates with appropriate non-business backgrounds. Other than ensuring that at least one member of the Board of Directors is a financial expert and a majority of the Board of Directors meet all applicable independence requirements, the Corporate Governance and Nominating Committee looks for how the candidate can adequately address his or her fiduciary requirement and contribute to building shareholder value. With regards to diversity, the Company does not have a formal policy for the consideration of diversity in Board of Director candidates, but Company practice has historically considered this in director nominees and the Company expects to continue to in future nomination and review processes.

The Corporate Governance and Nominating Committee will consider, for possible Board endorsement, director candidates recommended by stockholders. For purposes of the 2014 Annual Meeting, the Governance and Nominating Committee will consider any nominations received by the Secretary from a shareholder of record on or before December 27, 2013 (the 120th calendar day before the one-year anniversary date of the release of these proxy materials to shareholders). Any such nomination must be made in writing, must be accompanied by all nominee information that is required under the federal securities laws and must include the nominee's written consent to be named in the Proxy Statement. The nominee must be willing to allow the Company to complete a background check. The nominating shareholder must submit their name and address, as well as that of the beneficial owner, if applicable, and the class and number of shares of Astrotech common stock that are owned beneficially and of record by such shareholder and such beneficial owner. Finally, the nominating shareholder must discuss the nominee's qualifications to serve as a director.

## **Committees of the Board of Directors**

During fiscal year 2013, the Board of Directors had three standing committees: an Audit Committee, a Compensation Committee and a Corporate Governance and Nominating Committee. Each such committee currently consists of three persons and each member of the Audit Committee, Compensation Committee and Corporate Governance and Nominating Committees is required, at the minimum, to meet the independence requirements of the Nasdaq Capital Market's Marketplace Rules. The Governance and Nominating Committee, the Audit Committee and the Compensation Committee have adopted a charter that governs its authority, responsibilities and operation. The Company periodically reviews, both internally and with the Board, the provisions of the Sarbanes-Oxley Act of 2002, and the rules of the SEC and NASDAQ regarding corporate governance policies, processes and listing standards. In conformity with the requirement of such rules and listing standards, we have adopted a written Audit Committee Charter, a Compensation Committee Charter, and a Corporate Governance and Nominating Committee Charter, which may be found on the Company's web site at [www.astrotechcorp.com](http://www.astrotechcorp.com) under "For Investors" or by writing to Astrotech Corporation, 401 Congress Avenue, Suite 1650, Austin, Texas 78701, Attention: Investor Relations and requesting copies.

The Board of Directors has determined each of the following directors to be an independent director as such term is defined by Rule 5605(a)(2) of the NASDAQ Marketplace Rules: Mark Adams; John A. Oliva; Sha-Chelle Manning, William F. Readdy and Daniel T. Russler, Jr.

### ***The Corporate Governance and Nominating Committee***

The Corporate Governance and Nominating Committee was created by the Board of Directors. The Corporate Governance and Nominating Committee is comprised solely of independent directors that meet the requirements of NASDAQ and SEC rules and operates under a written charter adopted by the Corporate Governance and Nominating Committee and approved by the Board of Directors. The charter is available in the For Investors section of the Company's web site at [www.astrotechcorp.com](http://www.astrotechcorp.com). The primary purpose of the Corporate Governance and Nominating Committee is to provide oversight on the broad range of issues surrounding the composition and operation of the Board of Directors, including identifying individuals qualified to become Board of Directors members and recommending director nominees for the next Annual Meeting of Shareholders. As of the end of fiscal year 2013 the Corporate Governance and Nominating Committee consisted of Mr. Adams (Chairman), Ms. Manning and Mr. Oliva. During fiscal year 2013, the Corporate Governance and Nominating Committee did not meet.

### ***The Audit Committee***

The Audit Committee is composed solely of independent directors that meet the requirements of NASDAQ and SEC rules and operates under a written charter adopted by the Audit Committee and approved by the Board of Directors. The charter is available on the Company's web site which is [www.astrotechcorp.com](http://www.astrotechcorp.com). The Audit Committee is responsible for appointing and compensating a firm of independent auditors to audit the Company's financial statements, as well as oversight of the performance and review of the scope of the audit performed by the Company's independent auditors. The Audit Committee also reviews audit plans and procedures, changes in accounting policies, and the use of the independent auditors for non-audit services. As of the end of fiscal year 2013, the Audit Committee consisted of Mr. Oliva (Chairman), Mr. Russler, and Ms. Manning. During fiscal year 2013, the Audit Committee met seven times. The Board of Directors has determined that John A. Oliva, Daniel T. Russler, Jr. and Sha-Chelle Manning met the qualification guidelines as audit committee financial experts as such term is defined in Item 407(d)(5)(ii) of Regulation S-K promulgated by the SEC.

### ***The Compensation Committee***

The Compensation Committee is composed solely of independent directors that meet the requirements of NASDAQ and SEC rules and operates under a written charter adopted by the Compensation Committee and approved by the Board of Directors in May 2004, and amended in May 2005. The charter is available on the Company's web site at [www.astrotechcorp.com](http://www.astrotechcorp.com). The Compensation Committee is responsible for determining the compensation and benefits

of all executive officers of the Company and establishing general policies relating to compensation and benefits of employees of the Company. The Compensation Committee also administers the Company's 2008 Stock Incentive Plan, the 1994 Stock Incentive Plan, the 1995 Directors' Stock Option Plan, and the Employee Stock Purchase Plan in accordance with the terms and conditions set forth in those plans. As of the end of fiscal year 2013, the Compensation Committee consisted of Mr. Russler (Chairman), Mr. Readdy, and Mr. Oliva. During fiscal year 2013, the Compensation Committee met six times.

### **Code of Ethics and Business Conduct**

The Company's Code of Ethics and Business Conduct applies to all directors, officers, and employees of Astrotech. The key principles of this code include acting legally and ethically, speaking up, getting advice, and dealing fairly with the Company's Shareholders. The Code of Ethics and Business Conduct is available on the Company's web site at [www.astrotechcorp.com](http://www.astrotechcorp.com) and is available to the Company's Shareholders upon request. The Code of Ethics and Business Conduct meets the requirements for a Code of Conduct under the SEC rules for financial officers.

## **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and executive officers and persons who beneficially own more than 10% of the Company's common stock to file reports of ownership and changes in ownership with the SEC. Such directors, executive officers, and greater than 10% shareholders are required by SEC regulation to furnish to the Company copies of all Section 16(a) forms they file. Due dates for the reports are specified by those laws, and the Company is required to disclose in this document any failure in the past fiscal year to file by the required dates. Based solely on written representations of the Company's directors and executive officers and on copies of the reports that they have filed with the SEC, the Company's belief is that all of Astrotech's directors and executive officers complied with all filing requirements applicable to them with respect to transactions in the Company's equity securities during fiscal year 2013.

## **Item 11.**

### **Executive Compensation**

#### **Compensation Discussion and Analysis**

##### **Overview**

As the leading commercial provider of payload processing services, ASO strives to provide our customers with the most advanced facilities and customer support that are unparalleled in the industry. With that mission in mind, ASO is continuously working to secure additional government and commercial customers that require our unique capabilities. Additionally, ASO works to further grow the business with our service offering designing, building, and operating spacecraft processing equipment and facilities.

Achieving our Company's aspirations requires a highly skilled, motivated team. Thus, our compensation system is designed to be competitive with those of other companies that compete for highly skilled technical employees and executives. Our performance-based compensation system is intended to include incentives for innovation and entrepreneurial spirit.

##### **Guiding Principles**



The Compensation Committee strives to achieve our strategic objectives by designing our compensation program to offer competitive base compensation to attract and retain experienced qualified executives while offering incentives to foster the innovation and entrepreneurial spirit necessary for executing our business strategy and rewards for successful achievement of performance goals. In designing our executive compensation program, we are guided by five principles:

Establish target compensation levels that are competitive within the industries and the markets in which we compete for executive talent;

Structure executive compensation so that our executives share in Astrotech's successes and failures by correlating compensation with target levels based upon business performance;

Link pay to performance by making a percentage of total executive compensation variable, or at risk, through an annual determination of performance-based incentive compensation;

Align a portion of executive pay with shareholder interests through equity awards; and

Maintain a company-wide entrepreneurial atmosphere by minimizing special executive only benefits or prerequisites.

#### **Operation of the Compensation Committee**

The Compensation Committee of the Board of Directors administers our executive compensation program and monitors the Company's overall compensation strategy to ensure that executive compensation supports the Company's business objectives. The Compensation Committee reviews and determines salary, short-term incentives, long-term incentives and other benefits for the Company's Chief Executive Officer ( CEO ) and certain named executive officers ( NEOs ).

For a more complete discussion of the responsibilities of the Compensation Committee, see the Operations of the Board of Directors The Compensation Committee, and the charter for the Compensation Committee, posted on our web site at [www.astrotechcorp.com](http://www.astrotechcorp.com).

## **The Compensation Program**

The key components of our current compensation program for Astrotech executive officers are:

Base salary;

Short-term cash incentives;

Long-term performance-based and other equity awards; and

Other benefits.

To remain competitive, the Compensation Committee periodically benchmarks our executive compensation program to determine how actual compensation targets and levels compare to our overall philosophy and target markets. The primary purpose of the benchmarking process is to provide the Compensation Committee with data from a peer group of companies to use as a guide in determining Astrotech performance compensation. The peer group is comprised of a mix of public companies that are as follows:

Geographically similar to the location of our Austin headquarters;

In the aerospace, defense and government contractor industries; and

Are of approximate size and complexity.

The list of companies used as the basis for benchmarking for the year ended June 30, 2013 is as follows:

Integral Systems

Herley Industries

Ceradyne Inc.

Sypris Solutions

Orbital Science Corporation

Valence Technology

Active Power

Convio

SolarWinds

Luminex

KVH Industries

This benchmarking considers information from proxy data for the peer group's CEO and NEOs and was last presented to the Compensation Committee in September 2013. The Compensation Committee determined that the companies included in the peer group were reasonably similar to Astrotech. The Compensation Committee used the benchmark information as external market-based data points when determining the compensation levels for each of the NEOs. During the course of setting the NEO incentive compensation for 2013 and the salary for 2014, the Compensation Committee considered factors such as company and individual performance, in addition to, and along with, the benchmark information.

### **Other Considerations in Determining Executive Compensation**

We believe that our executive compensation properly incentivizes our senior management to focus on the overall goals of the Company. Each element of our Executive Compensation Program is structured towards specific objectives. If a unique situation occurs where incentive goal adjustment or stock option repricing are considered, the Compensation Committee will perform a review of the individual facts and circumstances before taking any action.

### **Role of the Compensation Committee and CEO in Determining Executive Compensation**

Mr. Pickens is not a member of the Compensation Committee. He did not attend the Compensation Committee meetings in August 2012 or September 2013, which discussed NEO and all other employee compensation.

### **Base Salary**

Base salary is designed to compensate our employees in part for their roles and responsibilities, and also to provide a fixed level of compensation that serves as a retention tool throughout the executive's career. Initial base salaries were set considering each executive's roles and responsibilities, current skills, future potential and comparable market compensation. Typically, the Compensation Committee reviews the base salaries of each NEO annually. Adjustments are made based on individual performance, changes in roles and responsibilities, and external market data for similar positions.

### **Short-term Cash Incentives**

At the discretion of the Compensation Committee, we provide annual incentive awards designed to reward the achievement of financial results measured over the fiscal year in which that compensation is earned. Generally, we compute the short-term cash incentives after the end of each fiscal year and make the cash awards during the first quarter of the next fiscal year. All employees of the Company are eligible, based upon maximum award levels stated

as a percentage of base salary ( Payout Percentage ). The maximum award levels are set within our salary-grade structure for each salary grade ranging from 5% to 50%.

For fiscal year 2013, the Compensation Committee approved short-term cash incentives encompassing three equally weighted Bonus Elements, each based upon specific objectives set by the Compensation Committee at the beginning of the fiscal year. The sum of the Payout Percentage for each of the Bonus Elements is then applied to the award levels for each employee to determine the Bonus Award. For fiscal year 2013, the Compensation Committee had established the following three Bonus Elements:

Individual Performance A Payout Percentage of up to 33% of the individual s total bonus is based upon the officer or employee s performance of his job responsibilities and achievement of individual goals as determined through the annual performance review process.

Business Unit Performance A Payout Percentage of up to 33% of the individual s total bonus is to be awarded based upon the financial performance of the officer or employee s business unit based upon net income, relative to the approved budget for the fiscal year.

Corporate Performance A Payout Percentage of up to 33% of the individual s total bonus is to be awarded based upon the financial performance of the Company, as measured by comparing the approved budget of revenue, net income and backlog to actual results for the fiscal year.

Given the dynamic marketplace and the possibility of unforeseen developments, the Compensation Committee has discretionary authority to adjust such awards to reflect actual performance in light of such developments or to make other discretionary adjustments to the overall Payout Percentage or to individual employee bonuses. Bonus maximum award levels range from 30% to 50% of base salaries for our NEOs. On average, we target our short term cash incentives to comprise approximately 15% of the total compensation package of our NEOs.

During the review of the fiscal year ended June 30, 2013, the Compensation Committee held multiple meetings to discuss NEO performance versus a set of financial and non-financial performance targets, some of which extend beyond the current year, including:

- The Company meeting or exceeding the 2013 budget for revenue
- The Company meeting or exceeding the 2013 budget for net income
- Optimizing the Company's capital structure
- Reducing controllable costs in order to allow reinvestment in potential growth initiatives
- Continuing business development for ASO
- Advancing the Spacotech initiatives
- Other activities designed to progress the overall value of the Company

In determining 2014 incentive compensation, the Compensation Committee reviewed each goal individually and discussed how the goals impacted the Company. While the Company appreciates the ease compensation plans which use simplistic goals based primarily on a financial performance measure, such as net income or adjusted income, the Compensation Committee believes that it is important for the Company to have additional goals which are designed to increase shareholder value in the current year and over a longer time horizon. As such, there is not a specific formula for the non-financial goals or a set of performance targets that must be achieved in order for NEOs to earn their incentive compensation, nor are the non-financial goals all equally weighted in the view of the Compensation Committee. Additionally, the bonus philosophy requires the Compensation Committee to review individual performance when determining annual incentive pay.

Following a thorough review and discussion, the fiscal year 2013 actual cash incentive award was determined by the Compensation Committee for each NEO. The percentage of target paid reflects the overall decision by the Compensation Committee on the combination of factors described above, including, but not limited to, the performance against the fiscal year 2013 budget, the non-financial quantitative goals that each NEO worked to complete, and the individual performance of the NEO. The Compensation Committee decision culminated in the following awards for fiscal year 2013: Mr. White's cash incentive of \$100,000 represented 81% of his maximum bonus and 135% of his target bonus.

### **Long-term Non-cash Incentive Awards**

Our long-term incentive awards are used to link Company performance and increases in shareholder value to the total compensation of our NEOs. These awards are also key components of our ability to attract and retain our NEOs. The

annualized value of the awards to our NEOs is intended to be a significant component of the overall compensation package. On average, and assuming performance is on target, these awards are targeted to represent up to 40% of the total compensation package, consistent with our emphasis on linking executive pay to shareholder value.

Our shareholder-approved incentive plans allow for the granting of stock options based upon Astrotech's stock prices in the public markets. Stock options are granted with an exercise price not less than the market price of our common stock on the grant date. Options generally vest over a period of four years with 25% becoming exercisable on each anniversary of the grant date as long as the recipient is still employed by the Company on the date of vesting, and generally expire after ten years.

## **Benefits**

Our benefit programs are established based upon an assessment of competitive market factors and a determination of what is needed to attract and retain high caliber executives and other employees. Astrotech's primary benefits for executives include participation in the Company's broad-based plans: the 401(k) Plan, the Company's health, dental and vision plans and term life and disability insurance plans. The Company also provides certain executives, including some NEOs, with supplemental disability insurance. This plan offers additional income protection to Senior Vice Presidents and above and is provided to supplement the monthly benefit amounts that are capped in the general disability policy. The Company provides 1.5 times of each NEOs annual base salary to a maximum of \$300,000 in term life insurance and pays the premium for such insurance. The fair value of premiums paid in excess of IRS limitations are included as other income reported for the NEO.

## **Indemnification Agreements**

The Company has entered into indemnification agreements with each of its NEOs. The agreements provide that the Company shall indemnify and hold harmless each indemnitee from liabilities incurred as a result of such indemnitee's status as an officer or employee of the Company, subject to certain limitations.

## **Post-Termination Compensation**

The Compensation Committee believes that severance benefits and change of control benefits are necessary in order to attract and retain the caliber and quality of executive that the Company needs in its most senior positions. These benefits are particularly important to provide for continuity of senior management allowing executives to focus on results and long-term strategic initiatives.

As of June 30, 2013, Mr. Pickens and Mr. White were the executives with existing employment contracts. The agreements provide for severance payments and benefits if termination occurs without cause or if the executive leaves for good reason. There is also additional compensation provided in circumstances following such termination after a change in control. Additional information regarding the severance and change in control payments, including a definition of key terms and a quantification of benefits that would have been received by our NEOs at termination is found under Potential Payments upon Termination or Change in Control, which follows.

## **Stock Ownership Guidelines**

The Company has not established stock ownership guidelines.



### **Tax Deductibility Policy**

The Compensation Committee considers the deductibility of compensation for federal income tax purposes in the design of the Company's compensation programs. We believe that all of the incentive compensation paid to our NEOs for fiscal year 2013 qualifies as performance-based compensation and thus, is fully deductible by the Company for federal income tax purposes. While we generally seek to ensure the deductibility of the incentive compensation paid to our NEOs, the Compensation Committee intends to retain the flexibility necessary to provide cash and equity compensation in line with competitive practice, our compensation philosophy, and the best interest of our Shareholders even if these amounts are not fully tax deductible. The employment agreements between the Company and its NEOs provide for interpretation, operation and administration consistent with the intent of Section 409A of the Internal Revenue Code, to the extent applicable.

### **Compensation Committee Interlocks and Insider Participation**

The Company's Compensation Committee consists of Mr. Russler (Chairman), Mr. Readdy and Mr. Oliva.

## Compensation Committee Report

Astrotech's Compensation Committee reviewed and discussed with management the Compensation Discussion and Analysis required by item 402(b) of Regulation S-K and, based on such review and discussion, has recommended to the Board of Directors that such Compensation Discussion and Analysis be included in Form 10-K for fiscal year ended June 30, 2013.

Daniel T. Russler, Jr.

John A. Oliva

William F. Readdy

## Executive Compensation

The Summary Compensation Table provides compensation information about Astrotech's principal executive officer, principal financial officer and the other most highly compensated executive officers for the fiscal years ended June 30, 2013 and 2012.

### Summary Compensation Table

| Name and Principal Position                                      | Year | Spacotech      |                              |  |                             |  | Total<br>(\$) |
|--|------|----------------|------------------------------|--|-----------------------------|--|---------------|
|  |      | Salary<br>(\$) | Bonus<br>(\$) <sup>(1)</sup> | Stock<br>Awards<br>(\$) <sup>(2)</sup> | Incentive<br>Awards<br>(\$) | All Other<br>Compensation<br>(\$) <sup>(3)</sup> |               |
| Thomas B. Pickens III;<br>Chief Executive Officer                | 2013 | 439,000        |                              |  |                             | 13,748   | 452,748       |
|  | 2012 | 399,000        | 185,000                      | 86,740                                 |                             | 13,673   | 684,413       |
| Don M. White;<br>Sr. VP, GM of Astrotech Space<br>Operations     | 2013 | 247,000        | 100,000                      |  |                             | 9,491  | 356,491       |
|  | 2012 | 225,000        | 125,000                      | 43,370                                 |                             | 9,591  | 402,961       |
| Carlisle Kirkpatrick <sup>(4)</sup> ;<br>Chief Financial Officer | 2013 | 260,000        |                              |  |                             | 929  | 260,929       |
|  | 2012 |                |                              |  |                             |  |               |
| John M. Porter <sup>(5)</sup> ;<br>Chief Financial Officer       | 2013 | 27,950         |                              |  |                             | 1,261  | 29,211        |
|  | 2012 | 275,000        |                              |  |                             | 15,379   | 290,379       |

- (1) See narrative on *Short-term Cash Incentives*: Bonus was awarded in September 2013 for performance in fiscal year 2013.
- (2) See narrative on *Long-term Incentive Non-cash Awards*: Includes options granted on August 21, 2012, Mr. Pickens received 100,000 options and Mr. White received 50,000 options in Astrotech, these options vest upon a stock closing price of \$1.50 and have a strike price of \$1.20. For a discussion of the assumptions we made in valuing the stock, see Note 2 ( *Summary of Significant Accounting Policies: Share-Based Compensation* ) and Note 10 ( *Common Stock Incentive, Stock Purchase Plans and Other Compensation Plans* ).
- (3) See *Schedule of All Other Compensation* that follows for further detail.
- (4) On August 9, 2012, the Company announced the appointment of Mr. Kirkpatrick as Chief Financial Officer of the Company, effective as of August 9, 2012.
- (5) Mr. Porter was terminated on August 3, 2012; the salary amount reflected represents earnings through August 3, 2012.

**Schedule of All Other Compensation for Fiscal Year 2013**

| Named Executive Officer              | 401(K) Plan                         | Supplemental                      | Other Benefits | Total  |
|--------------------------------------|-------------------------------------|-----------------------------------|----------------|--------|
|                                      | Company Matching Contributions (\$) | Disability Insurance Premium (\$) |                |        |
| Thomas B. Pickens III <sup>(1)</sup> |                                     | 1,748                             | 12,000         | 13,748 |
| Don M. White Jr.                     | 8,507                               | 984                               |                | 9,491  |
| Carlisle Kirkpatrick                 |                                     | 929                               |                | 929    |
| John M. Porter <sup>(2)</sup>        | 1,133                               | 128                               |                | 1,261  |

(1) Mr. Pickens employment contract includes a car allowance of \$1,000 per month.

(2) Mr. Porter was terminated on August 3, 2012.

**Fiscal Year 2013 Grants of Plan-Based Awards**

The following table shows additional information regarding the target and presumed maximum level of annual cash incentive awards for the Company's executive officers for performance during fiscal year 2013, as established by the Compensation Committee. The actual amount of the annual cash incentive award received by each NEO for performance during fiscal year 2013 is shown in the fiscal year 2013 Summary Compensation Table.

| Name | Estimated Future Payouts  |                             | All Other Option Awards: Number of Securities Underlying Options | Spacotech Options (#) | Grant Date Fair Value of Equity (\$) | Grant Date Of Equity Awards |
|------|---|-----------------------------|--|-----------------------|--------------------------------------|-----------------------------|
|      | Under Non-Equity Incentive Plan Awards Target (\$) <sup>(1)</sup> | Maximum (\$) <sup>(1)</sup> |  |                       |                                      |                             |
|      | 131,700   | 219,500                     |  |                       |                                      |                             |

Thomas B.  
Pickens III

|                  |        |         |
|------------------|--------|---------|
| Don M. White Jr. | 74,100 | 123,500 |
|------------------|--------|---------|

|                         |        |         |
|-------------------------|--------|---------|
| Carlisle<br>Kirkpatrick | 78,000 | 130,000 |
|-------------------------|--------|---------|

John M. Porter<sup>(2)</sup>

(1) Estimated target bonus percentage for the Company's executive officers is computed at 30% of base salary. Estimated maximum bonuses for the Company's executive officers are computed at 50% of base salary.

(2) Mr. Porter was terminated on August 3, 2012.

The fiscal year 2013 actual cash incentive award was determined by the Compensation Committee for each NEO. Mr. White's bonus of \$100,000 represented 81% of his maximum bonus and 40% of his salary. The bonuses were based on performance for the fiscal year 2013 (further detail is provided in the Short-Term Cash Incentives discussion).

### Employment Agreements

During fiscal year 2013, the Company had employment agreements in place with Mr. Pickens and Mr. White. Each employment agreement sets forth, among other things, the NEO's minimum base salary, bonus opportunities and provisions with respect to certain payments and other benefits upon termination of employment under certain circumstances such as without Cause, leaving employment for Good Reason or a Change in Control. Please see Potential Payments Upon Termination or Change in Control for a description of such provisions.

The minimum base salary set in the employment agreement for Mr. Pickens is \$360,000 and for Mr. White is \$184,765. The NEOs are eligible for short-term cash incentives, as are all employees of the Company. All NEO s maximum bonus is 50%, subject to Compensation Committee discretion.

## **Awards**

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. Additionally, on the same day, 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.

The Compensation Committee also awarded bonuses to directors, NEOs, and employees in September 2013, in recognition of the employee performance during fiscal year 2013.

## **Salary and Bonus in Proportion to Total Compensation**

We believe that a substantial portion of each NEO s compensation should be in the form of performance based awards, particularly equity based awards which align the interests of management with that of the shareholders. Providing long-term compensation such as equity awards allows the Company to attract and incentivize qualified executives with less cash outlay, and to retain the executives over a longer period. There was no issuance of performance based awards for fiscal year 2013.

## **Outstanding Equity Awards at Fiscal Year 2013 End**

The following table shows certain information about unexercised options and restricted stock as of June 30, 2013.

### **Schedule of Outstanding Equity Awards**

| <b>Number<br/>of</b> | <b>Number of</b> | <b>Restricted Stock, Option Awards &amp; Warrants</b> | <b>Number<br/>of</b> |
|----------------------|------------------|---|----------------------|
|                      |                  | <b>Number<br/>of</b>                                  |                      |

| Name                  | Securities  | Securities        | Option     | Securities   | Securities           | Unvested    | Expiration Date |
|-----------------------|-------------|-------------------|------------|--------------|----------------------|-------------|-----------------|
|                       | Underlying  | Underlying        | Exercise   | Underlying   | Underlying           | Restricted  |                 |
|                       | Unexercised | Unexercised       | Price (\$) | Unexercised  | Unexercised          | Stock       |                 |
|                       | Options (#) | Options (#)       |            | Warrants (#) | Warrants/Options (#) | (Spacetech) |                 |
|                       | Exercisable | Unexercisable (2) |            | Exercisable  | Unexercisable (3)    |             |                 |
|                       | (1)(4)      |                   |            | (Spacetech)  | (Spacetech)          |             |                 |
| Thomas B. Pickens III | 500         | 112,500           | 7.20       |              |                      |             | 12/12/2013      |
|                       |             | 100,000*          | 0.71       |              |                      |             | 09/13/2021      |
|                       |             |                   | 1.20       | 1,680        |                      |             | 8/21/2022       |
|                       |             |                   |            |              | 200                  |             | 01/19/2020      |
|                       |             |                   |            |              |                      |             | 09/13/2021      |
| Don M. White Jr.      | 1,200       |                   | 11.50      |              |                      |             | 08/09/2016      |
|                       | 50,000      |                   | 0.33       |              |                      |             | 10/06/2018      |
|                       |             | 31,500            | 0.71       |              |                      |             | 09/13/2021      |
|                       |             | 50,000*           | 1.20       |              |                      |             | 8/21/2022       |

\* Options were awarded in August 2012 for performance in fiscal year 2012.

- (1) All exercisable options will expire 90 days after the date of employee's termination.
- (2) Options granted on September 13, 2011 and August 21, 2012 vest upon stock price reaching close of business price of \$1.50 and expire 10 years from grant date.
- (3) Options granted on September 13, 2011 with an expiration date of September 13, 2021 vest upon certain benchmarks being achieved.
- (4) Mr. White's options with a strike price of \$0.33 vest ratably over a four year period. These 50,000 options represent 100% of the original stock options granted.





The following table provides information with respect to the vesting of each NEO's outstanding restricted stock, unexercisable options and warrants:

| <b>Schedule of Vesting Astrotech Stock Option Grants</b> | <b>Dependent upon<br/>Astrotech<br/>Vesting<br/>Plan</b> |
|--|--|
| <b>Named Executive Officer</b>                           |  |
| Thomas B. Pickens III                                    | 212,500 <sup>(1)</sup>                                   |
| Don M. White Jr.   | 81,500 <sup>(1)</sup>                                    |

(1)

Options granted on September 13, 2011 & August 21, 2012, vest upon a closing stock price of \$1.50.

| <b>Schedule of Vesting Spacotech Stock Option Grants</b> | <b>Dependent upon<br/>Spacotech Vesting<br/>Plan</b> |
|--|--|
| <b>Named Executive Officer</b>                           |  |
| Thomas B. Pickens III <sup>(1)</sup>                     | 200  |

(1)

<sup>1st</sup> Detect stock options vest upon the earlier of three performance-based criteria, as determined by the Compensation Committee.

### **2013 Option Exercises and Stock Granted**

During fiscal year 2013, there were no stock options exercised by the Company's CEO or other NEOs.

### **Pension Benefits**

All employees of the Company, including NEOs, are eligible to participate in the Astrotech 401(k) plan. In accordance with this plan, employees are eligible to contribute up to 35% of their base salary subject to Internal

Revenue Service limitations into the plan with all such contributions being fully vested upon contribution. The Company will match, dollar for dollar, up to 5% of the employee's salary. Employer contributions into the plan vest pro-rata after 3 years of vesting service and are fully vested thereafter. The Company has no additional pension benefits for its NEOs.

The Company does not have a nonqualified deferred compensation plan and the NEOs have not accrued any benefits or rights to payments other than the Astrotech 401(k) Plan and potential payments upon termination discussed below.

### **Potential Payments Upon Termination or Change in Control**

As noted under Compensation Discussion and Analysis – Post-Termination Compensation, the Company has entered into employment agreements with Mr. Pickens and Mr. White that provide for payments and other benefits in connection with the officer's termination for a qualifying event or circumstance and for enhanced payments in connection with such termination after a Change in Control (as defined in the applicable agreement). A description of the terms with respect to each of these types of terminations follows.

### **Termination Other Than After a Change in Control**

The employment agreements provide for payments of certain benefits upon the termination of the employment of the NEO. The NEO's rights upon termination of his or her employment depend upon the circumstances of the termination. Central to an understanding of the rights of each NEO under the employment agreements is an understanding of the definitions of "Cause" and "Good Reason" as those terms are used in those agreements. For purposes of the employment agreements, the Term of Employment may be terminated at any time by the Company upon any of the following:

Death of the NEO;

In the event of physical or mental disability where the NEO is unable to perform his/her duties;

For Cause or Material Breach where Cause is defined as conviction of certain crimes and/or felonies, and Material Breach is defined to include certain specified failures to perform duties or uphold fiduciary responsibilities; or

Otherwise at the discretion of the Company and subject to the termination obligations set forth in the employment agreement.



The NEO may terminate the Term of Employment at any time upon any of the following:

Upon the death of the NEO;

In the event of physical or mental disability where the NEO is unable to perform his/her duties;

Upon the Company's material reduction in the NEO's authority, perquisites, position, title or responsibilities or other actions that would give the NEO the right to resign for "Good Reason;" or

Otherwise at the discretion of the NEO and subject to the termination obligations set forth in the employment agreement.

The benefits to be provided to the NEO in each of these situations are described in the tables below, which assume that the termination had taken place in fiscal year 2013.

### **Termination after a Change in Control**

A termination after a Change in Control is similar to the severance provisions described above, except that the NEO becomes entitled to benefits under these provisions only if his employment is terminated within year following a Change in Control. A Change in Control for this purpose is defined to mean (i) the acquisition by any person or entity of the beneficial ownership of securities representing 50% or more of the outstanding securities of the Company having the right under ordinary circumstances to vote at an election of the Board of Directors of the Company; (ii) the date on which the majority of the members of the Board of Directors of the Company consists of persons other than directors nominated by a majority of the directors on the Board of Directors at the time of their election; and (iii) the consummation of certain types of transactions, including mergers and the sale or other disposition of all, or substantially all, of the Company's assets.

As with the severance provisions described above, the rights to which the NEO is entitled under the Change in Control provisions upon a termination of employment are dependent on the circumstances of the termination. The definitions of Cause and other reasons for termination are the same in this termination scenario as in a termination other than after a Change in Control.

### **Payment Obligations Under Employment Agreements Upon Termination of Employment of NEO**

The following tables set forth Astrotech's potential future payment obligations under the employment agreements under the circumstances specified upon a termination of the employment of our NEOs. Unless otherwise noted, the descriptions of the payments below are applicable to all of the tables relating to potential payments upon termination or a Change in Control.

**Equity Acceleration** The Company's employment agreements include provisions to accelerate the vesting of outstanding equity awards upon termination, including termination pursuant to a Change in Control. The Compensation Committee oversees the Astrotech stock incentive plans and is charged with the responsibility of reviewing and granting exceptions to previously issued equity grants on a case by case basis.

**Health Care Benefits** The employment agreements generally provide that, after resignation for Good Reason or termination without Cause, the Company will continue providing medical, dental, and vision coverage to the NEO and the NEO's dependents at least equal to that which would have been provided if the NEO's employment had not terminated, if such coverage continues to be available to the Company, until the earlier of (a) the date the NEO becomes eligible for any comparable medical benefits provided by any other employer or (b) the end date of an enumerated period following the NEO's date of termination.

As termination benefits would be payable upon an event following June 30, 2013, the tables below reflect salary changes made by the Compensation Committee for fiscal year 2014.

**Thomas B. Pickens III**

| <b>Benefits and Payments Upon Termination</b> | <b>Resignation for Good Reason or Termination</b> | <b>Termination for Other Than Good Reason or Termination</b> | <b>Resignation for Good Reason or Termination Without Cause</b> | <b>Disability (\$)</b> | <b>Death (\$)</b> |
|---|---|--|---|------------------------|-------------------|
|   | <b>Without Cause (\$)<sup>(1)</sup></b>           | <b>Termination With Cause (\$)</b>                           | <b>After Change-in-Control (\$)<sup>(2)</sup></b>               |                        |                   |
| <b>Compensation:</b>                          |   |  |   |                        |                   |
| Base Salary                                   | 439,000   |  | 658,500   | 439,000                | 439,000           |
| Bonus <sup>(3)</sup>                          | 109,750   |  | 164,625   | 109,750                | 109,750           |
| <b>Equity<sup>(4)</sup>:</b>                  |   |  |   |                        |                   |
| Restricted Stock Spacotech Equity Awards      | 258,288   |  | 258,288   | 258,288                | 258,288           |
| <b>Benefits and Perquisites:</b>              |   |  |   |                        |                   |
| Post-Termination Health Care                  | 20,869  |  | 31,303  | 20,869                 | 20,869            |
| Accrued Vacation Pay <sup>(5)</sup>           | 42,212  | 42,212   | 42,212  | 42,212                 | 42,212            |
| <b>Total:</b>                                 | <b>870,119</b>                                    | <b>42,212</b>  | <b>1,154,928</b>  | <b>870,119</b>         | <b>870,119</b>    |

- (1) Pursuant to the employment agreement, this estimate assumes year of base salary and benefits after termination.
- (2) Provision on change in control provides for 18 months salary if terminated, which also increases estimated maximum bonus.
- (3) Bonus calculated at 50% of estimated maximum bonus.
- (4) Astrotech equity awards assumed exercise price of \$0.70 which was the closing ASTC stock price as of June 30, 2013. Unvested options with a strike price above market value as of June 30, 2013 were not included in the calculation. Spacotech warrants were valued based on the Black Scholes Model and Spacotech restricted stock was based on a third party valuation.
- (5) Assumes 5 weeks of accrued vacation upon termination (maximum contractual allowance).



**Don M. White Jr.**

| <b>Benefits and Payments Upon Termination</b>             | <b>Resignation for Good Reason or Termination</b> | <b>Termination for Other Than Good Reason or Termination</b> | <b>Resignation for Good Reason or Termination Without Cause</b> | <b>Disability (\$)</b> | <b>Death (\$)</b> |
|---|---|--|---|------------------------|-------------------|
|   | <b>Without Cause (\$)<sup>(1)</sup></b>           | <b>Termination With Cause (\$)</b>                           | <b>After Change-in-Control (\$)<sup>(2)</sup></b>               |                        |                   |
| <b>Compensation<sup>(3)</sup>:</b>                        |   |  |   |                        |                   |
| Base Salary   | 127,205   |  | 190,808   | 127,205                | 127,205           |
| Bonus   | 63,603  |  | 95,404  | 63,603                 | 63,603            |
| <b>Equity:</b>  |   |  |   |                        |                   |
| Restricted Stock <sup>(4)</sup><br>Options <sup>(5)</sup> | 18,500  |  | 18,500  | 18,500                 | 18,500            |
| <b>Benefits and Perquisites:</b>                          |   |  |   |                        |                   |
| Post-Termination Health Care                              | 8,370   |  | 12,555  | 8,370                  | 8,370             |
| Accrued Vacation Pay <sup>(6)</sup>                       | 24,463  | 24,463   | 24,463  | 24,463                 | 24,463            |
| <b>Total:</b>   | <b>242,141</b>                                    | <b>24,463</b>  | <b>341,730</b>  | <b>242,141</b>         | <b>242,141</b>    |

(1) Pursuant to the employment agreement, this estimate assumes six months of base salary and benefits after termination.

(2) Provision on change in control provides for nine months salary if terminated, which also increase estimated maximum bonus.

(3) Bonus estimated at 50% of maximum bonus.

(4) Equity awards assumed exercise price of \$0.70, which was the ASTC closing stock price as of June 30, 2013.

(5) Option awards assumed market price of \$0.70, which was the ASTC closing stock price as of June 30, 2013. Unvested options with a strike price above market value as of June 30, 2013, were not included in the calculation.

(6) Assumes five weeks of accrued vacation upon termination (maximum contractual allowance).

**Director Compensation**



## Overview

Astrotech's director compensation program consists of cash-based as well as equity-based compensation. The Board of Directors recognizes that cash compensation is an integral part of the compensation program and has instituted a fixed and variable fee structure to provide compensation relative to the required time commitment of each director. The equity component of Astrotech's director compensation program is designed to build an ownership stake in the Company while conveying an incentive to directors relative to the returns recognized by our Shareholders.

## Cash-Based Compensation

Company directors, other than the Chairman of the Audit Committee and Chairman of the Compensation Committee, receive an annual stipend of \$30,000 paid upon the annual election of each non-employee director or upon joining the Board of Directors. The Chairman of the Audit Committee receives an annual stipend of \$40,000 and the Chairman of the Compensation Committee and the Governance and Nominated Committee receive an annual stipend of \$35,000, recognizing the additional duties and responsibilities of those roles. In addition, each non-employee director receives a meeting fee of \$3,000 for each meeting of the Board of Directors attended in person and \$1,000 for each such meeting attended by conference call.

Audit Committee members received \$750 for attendance to meetings in person or by conference call, Compensation Committee and the Governance and Nominating Committee members received \$500 for attendance to meetings in person or by conference call and Special Committee members received \$500 for attendance to meetings in person or by conference call. All directors are reimbursed ordinary and reasonable expenses incurred in exercising their responsibilities in accordance with Travel and Entertainment Expense Reimbursement policy applicable to all employees of the Company.

### Equity-Based Compensation

Under provisions adopted by the Board of Directors, each non-employee director receives 25,000 shares of restricted common stock issued upon his first election to the Board of Directors, subject to board discretion. Restricted stock and stock options granted typically vest 25% annually, beginning after one year and terminate in 10 years. Already vested shares do not expire upon termination of the director's term on the Board of Directors.

### Pension and Benefits

The non-employee directors are not eligible to participate in the Company's benefits plans, including the 401(k) plan.

### Indemnification Agreements

The Company is party to indemnification agreements with each of its directors that require the Company to indemnify the directors to the fullest extent permitted by Washington state law. The Company's certificate of incorporation also requires the Company to indemnify both the directors and officers of the Company to the fullest extent permitted by Washington state law.

### Fiscal Year 2013 Non-Employee Director Compensation Table

| Name          | Fees Earned<br>or<br>Paid in Cash<br>(\$) | Restricted<br>Stock<br>Awards<br>(\$) | Stock<br>Options<br>(\$) | All other<br>compensation<br>(\$) | Total<br>(\$) |
|---------------|---|---------------------------------------|--------------------------|-----------------------------------|---------------|
| Mark Adams    | 46,500                                    |                                       |                          |                                   | 46,500        |
| John A. Oliva | 62,000                                    |                                       |                          |                                   | 62,000        |

|                               |                |                |
|-------------------------------|----------------|----------------|
| <b>William F. Readdy</b>      | 47,500         | 47,500         |
| <b>Sha-Chelle Manning</b>     | 48,500         | 48,500         |
| <b>Daniel T. Russler, Jr.</b> | 63,250         | 63,250         |
| <b>Total</b>                  | <b>267,750</b> | <b>267,750</b> |

**Item 12.****Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

The following table sets forth as of June 30, 2013, certain information regarding the beneficial ownership of the Company's outstanding common stock held by (i) each person known by the Company to be a beneficial owner of more than five percent of any outstanding class of the Company's capital stock, (ii) each of the Company's directors, (iii) the Company's Chief Executive Officer and two most highly compensated executive officers at the end of the Company's last completed fiscal year, and (iv) all directors and executive officers of the Company as a group. Unless otherwise described below, each of the persons listed in the table below has sole voting and investment power with respect to the shares indicated as beneficially owned by each party.

| Name and Address of Beneficial Owners                                    | Amount and Nature of     | Shares Subject | Total (#)        | Percentage of Class <sup>(1)</sup> |
|--|--------------------------|----------------|------------------|------------------------------------|
|  | Beneficial Ownership (#) | To Options (#) |                  |                                    |
| <b>Certain Beneficial Owners</b>   |                          |                |                  |                                    |
| Bruce & Co., Inc. <sup>(2)</sup>   | 1,070,073                |                | 1,070,073        | 5.5%                               |
| <b>Non-Employee Directors:<sup>(3)</sup></b>                             |                          |                |                  |                                    |
| Mark Adams   | 450,019                  | 41,000         | 491,019          | 2.5%                               |
| John A. Oliva  | 170,000                  | 45,000         | 215,000          | 1.1%                               |
| William F. Readdy  | 150,000                  | 40,000         | 190,000          | 1.0%                               |
| Sha-Chelle Manning   | 135,000                  |                | 135,000          | *                                  |
| Daniel T. Russler  | 25,000                   |                | 25,000           | *                                  |
| <b>Named Executive Officers:</b>   |                          |                |                  |                                    |
| Thomas B. Pickens III  | 3,733,746                | 500            | 3,734,246        | 19.2%                              |
| John M. Porter <sup>(4)</sup>  | 350,000                  |                | 350,000          | 1.8%                               |
| Don M. White Jr.   | 85,900                   | 51,200         | 137,100          | *%                                 |
| Carlisle Kirkpatrick   |                          |                |                  | *                                  |
| <b>All Directors and Named Executive Officers as a Group (9 persons)</b> | <b>5,099,665</b>         | <b>177,700</b> | <b>5,277,365</b> | <b>27.1%</b>                       |

\* Indicates beneficial ownership of less than 1% of the outstanding shares of common stock.

# Includes unvested restricted stock grants.

(1) Calculated pursuant to Rule 13d-3(d) of the Securities Exchange Act of 1934. Under Rule 13d-3(d), shares not outstanding which are subject to options, warrants, rights or conversion privileges exercisable within 60 days are deemed outstanding for the purpose of calculating the number and percentage owned by a person, but not deemed outstanding for the purpose of calculating the number and percentage owned by any other person listed. As of June 30, 2013, we had 19,486,727 shares of common stock outstanding, including 16,666 of restricted stock with voting rights.

(2) Bruce & Co., Inc., is the investment manager for Bruce Fund, Inc., a Maryland registered investment company with its principle business conducted at 20 North Wacker Dr., Suite 2414, Chicago, IL 60606.

(3) The applicable address for all non-employee directors and named executive officers is c/o Astrotech Corporation, 401 Congress Ave., Suite 1650, Austin, TX 78701.

(4) Mr. Porter was terminated on August 3, 2012



**Securities Authorized for Issuance Under Equity Compensation Plans.****Equity Compensation Plan Information**

The following table is as of June 30, 2013.

| Plans Previously<br>Approved                                       | Options<br>Authorized | (a)  | (b)  | (c)   |
|--|-----------------------|--|--|---|
|  |                       | Number of<br>securities<br>to be issued upon<br>exercise of<br>outstanding<br>options,<br>warrants and<br>rights | Weighted-<br>average exercise<br>price of<br>outstanding options,<br>warrants and rights | Number of securities<br>remaining<br>available at June 30,<br>2013<br>For future issuance<br>under equity<br>compensation plans<br>(excluding<br>securities reflected in<br>column (a)) |
| The 1994 Plan <sup>(1)</sup>                                       | 395,000               | 7,500  | \$ 14.53   |   |
| Directors Stock Option<br>Plan <sup>(2)</sup>                      | 50,000                | 3,500  | \$ 6.40  | 41,500  |
| 1997 Employee Stock<br>Purchase Plan <sup>(3)</sup>                | 150,000               |  | N/A  |   |
| 2008 Stock Incentive<br>Plan <sup>(4)</sup>                        | 5,500,000             | 470,150  | \$ 0.55  | 342,501   |
| 2011 Stock Incentive<br>Plan <sup>(5)</sup>                        | 1,750,000             | 694,000  | \$ 1.04  | 1,056,000   |
| 2011 1 <sup>st</sup> Detect Stock<br>Incentive Plan <sup>(6)</sup> | 2,500                 | 700  | \$ 212.00  | 1,800   |

(1) Under the terms of the 1994 Plan, the number and price of the options granted to employees is determined by the Board of Directors and such options vest, in most cases, incrementally over a period of four years and expire no more than ten years after the date of grant. As of October 2010, additional shares cannot be granted from the 1994 Plan.

(2) Options under the Directors Plan vest after one year and expire seven years from the date of grant. No shares were granted from the Directors Plan during fiscal year 2013.

(3) The Employee Stock Purchase plan allowed eligible employees to purchase shares of Common Stock of the Company at prices no less than 85% of the current market price. Company discontinued employee purchases of common stock under the plan in the fourth quarter of fiscal year 2007.

- (4) The 2008 Stock Incentive Plan authorizes the award of stock grants, restricted stock and stock options. The number and price of the awards granted to employees is determined by the Board of Directors and such options vest, in most cases, incrementally over a period of four years and expire no more than ten years after the date of grant. As of June 30, 2013, 16,666 shares of unvested restricted stock were outstanding.
- (5) The 2011 Stock Incentive Plan authorizes the award of incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards payable in cash or common stock, and other incentive awards. The number and price of the awards granted to employees is determined by the Board of Directors, and options expire no more than 10 years from the date of the grant.
- (6) The 2011 1<sup>st</sup> Detect Stock Incentive Plan authorized the award of incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards payable in cash or common stock, and other incentive awards. The number and price of the awards granted to employees is determined by the Board of Directors, and options expire no more than 10 years from the date of the grant.

Additional information on the Company's equity compensation plan can be found under Item 11- Executive Compensation, above.

**Item 13.**

**Certain Relationships and Related Transactions and Director Independence.**

**Director Independence**

The Board of Directors has determined each of the following directors to be an independent director as such term is defined by Nasdaq Listing Rule 5605(a)(2):

Mark Adams

John A. Oliva

William F. Readdy

Sha-Chelle Manning

Daniel T. Russler, Jr.

The Board of Directors has also determined that each member of the Audit Committee, Compensation Committee and Corporate Governance and Nominating Committee during fiscal year 2013 meet the independence requirements applicable to those Committees prescribed by Nasdaq and SEC rules.

**Item 14.**

**Principal Accounting Fees and Services.**

**The Company's Independent Registered Public Accounting Firm**

In March 2012, the Astrotech shareholders ratified the appointment of Ernst & Young LLP as the independent registered public accounting firm to audit the Company's financial statements.

**Audit-Related Fees**



The following table presents fees paid or to be paid for professional audit services rendered by Ernst & Young LLP, the Company's independent registered public accounting firm, for the audit of the Company's annual financial statements during the years ended June 30, 2013 and June 30, 2012. Ernst & Young LLP did not provide tax or other consulting services during 2013 or 2012.

|                                 | <b>Fiscal 2013</b> | <b>Fiscal 2012</b> |
|---------------------------------|--------------------|--------------------|
| <b>Audit Fees<sup>(1)</sup></b> | \$ 190,000         | \$ 206,000         |
| <b>Tax Fees</b>                 |                    |                    |
| <b>All Other Fees</b>           |                    |                    |
| <b>Total All Fees</b>           | <b>\$ 190,000</b>  | <b>\$ 206,000</b>  |

(1) Audit Fees consisted of fees billed for professional services rendered for the audit of the Company's annual financial statements and review of the interim financial statements included in quarterly reports.

#### **Audit Committee Pre-Approval Policy**

The Audit Committee is responsible for appointing, setting compensation for, and overseeing the work of Ernst & Young LLP, the Company's independent registered public accountants. In order to assure that the provision of such services does not impair the auditors' independence, the Audit Committee has established a policy requiring pre-approval of all audit and permissible non-audit services to be provided by independent registered public accountants. The policy provides for the general pre-approval of specific types of services and gives detailed guidance to management as to the specific audit, audit-related, and tax services that are eligible for general pre-approval. The policy requires specific pre-approval of the annual audit engagement, most statutory or subsidiary audits, and all permissible non-audit services for which no general pre-approval exists. For both audit and non-audit pre-approvals, the Audit Committee will consider whether such services are consistent with applicable law and SEC rules and regulations concerning auditor independence.

The policy delegates to the Chairman the authority to grant certain specific pre-approvals; provided, however, that the Chairman is required to report the granting of any pre-approvals to the Audit Committee at its next regularly scheduled meeting. The policy prohibits the Audit Committee from delegating to management the Committee's responsibility to pre-approve services performed by the independent registered public accountants.



**PART IV**

**Item 15.**

**Exhibits, Financial Statement Schedules**

(a) The following documents are filed as part of the report:

Financial Statements.

The following consolidated financial statements of Astrotech Corporation and its wholly-owned and majority-owned subsidiaries and related notes, are set forth herein as indicated below.

|  | <b>Page</b> |
|--|-------------|
| Report of Ernst & Young LLP, Independent Registered Public Accounting Firm | 32          |
| Consolidated Balance Sheets  | 33          |
| Consolidated Statements of Operations                                      | 34          |
| Consolidated Statement of Changes in Stockholders' Equity                  | 35          |
| Consolidated Statements of Cash Flows                                      | 36          |
| Notes to Consolidated Financial Statements                                 | 37          |
| Exhibits   | 82          |

| <b>Exhibit No.</b> | <b>Description of Exhibit</b>   |
|--------------------|---|
| <b>(3)</b>         | <b>Articles of Incorporation and Bylaws</b>   |
| 3.1                | Amended and Restated Articles of Incorporation of the Registrant, as amended (incorporated by reference to Exhibit 4.1 of the Registrant's Registration Statement (Reg. No. 333-126772), and all amendments thereto, filed with the Securities and Exchange Commission on July 21, 2005).   |
| 3.2                | Bylaws of the Registrant (incorporated by reference to the Registrant's registration statement on Form S-1, File No. 33- 97812, and all amendments thereto, filed with the Securities and Exchange Commission on October 5, 1995).  |
| <b>(4)</b>         | <b>Instruments Defining the Rights of Security Holders, including Indentures</b>  |
| 4.1                | Designation of Rights, Terms and Preferences of Series B Senior Convertible Preferred Stock of the Registrant (incorporated by reference to Exhibit 4.3 of the Registrant's Registration Statement (Reg. No. 333-126772), and all amendments thereto, filed with the Securities and Exchange Commission on July 21, 2005).  |
| 4.2                | Preferred Stock Purchase Agreement between the Registrant and DaimlerChrysler Aerospace AG dated as of August 2, 1999 (incorporated by reference to Exhibit 4.2 of the Registrant's Report on Form 8-K filed with the Securities and Exchange Commission on August 19, 1999).   |
| 4.3                | Registration Rights Agreement between the Registrant and DaimlerChrysler Aerospace AG dated as of August 5, 1999 (incorporated by reference to Exhibit 4.3 of the Registrant's Report on Form 8-K filed with the Securities and Exchange Commission on August 19, 1999).  |
| 4.4                | Indenture dated as of October 15, 1997 between the Registrant and First Union National Bank, as Trustee, relating to the Registrant's 8.0% Convertible Subordinated Notes due 2007 (incorporated by reference to Exhibit 4.1 of the Registrant's Registration Statement on Form S-3 (Reg. No. 333-43221) filed with the Securities and Exchange Commission on December 24, 1997). |
| 4.5                | Designation of Right, Terms and Preferences of Series D Junior Participating Preferred Stock of Astrotech Corporation (incorporated by reference to Exhibit 3.1 of Registrant's Form 8-A filed with the Securities and Exchange Commission on July 31, 2009).   |
| 4.6                | Rights Agreement, dated as of July 29, 2009, between Astrotech Corporation and American Stock Transfer & Trust Company, LLC, as Rights Agent (incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-A filed with the Securities and Exchange Commission on July 31, 2009).  |
| 4.7                | Amendment One to Rights Agreement, dated as of July 29, 2010, between Astrotech Corporation and American Stock Transfer & Trust Company, LLC, as Rights Agent (incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-A/A filed with the Securities and Exchange Commission on July 29, 2010).   |
| 4.8                | Amendment Two to Rights Agreement, dated as of August 10, 2011, between Astrotech Corporation and American Stock Transfer & Trust Company, LLC, as Rights Agent (incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-A/A filed with the Securities and Exchange Commission on August 10, 2011).   |

- 4.9 Amendment Three to Rights Agreement, dated as of August 10, 2012, between Astrotech Corporation and American Stock Transfer & Trust Company, LLC, as Rights Agent (incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-A/A filed with the Securities and Exchange Commission on August 10, 2012).

| <b>Exhibit No.</b> | <b>Description of Exhibit</b>  |
|--------------------|--|
| <b>(10)</b>        | <b>Material Contracts</b>  |
| 10.66              | Amendment No.1 to Loan Agreement   |
| <b>(16)</b>        | <b>Letter Regarding Change in Certifying Accountant</b>  |
| 16.1               | Letter from Grant Thornton LLP regarding change in certifying accountant, dated January 18, 2007 (incorporated by reference to Exhibit 16 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 19, 2007). |
| 16.2               | Letter from PMB Helin Donovan, LLP, dated November 19, 2010 (incorporated by reference to Exhibit 16.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on November 22, 2010).   |
| <b>(21)</b>        | <b>Astrotech Corporation and Subsidiaries Subsidiaries of the Registrant</b>   |
| 21.1               | List of Subsidiaries of Astrotech Corporation (incorporated by reference to Exhibit 21.1 of the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on September 28, 2009).  |
| <b>(23)</b>        | <b>Consents of Experts and Counsel</b>   |
| 23.1               | Consent of Ernst & Young LLP.  |
| <b>(31)</b>        | <b>Rule 13a-14(a) Certifications</b>   |
| 31.1               | Certification of Thomas B. Pickens III, the Company's Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.   |
| 31.2               | Certification of Carlisle Kirkpatrick, the Company's Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.  |
| <b>(32)</b>        | <b>Section 1350 Certifications</b>   |
| 32.1               | Certification of Thomas B. Pickens III, the Company's Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.   |
| 32.2               | Certification of Carlisle Kirkpatrick, the Company's Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.  |
| 101.INS*           | XBRL Instance Document   |
| 101.SCH*           | XBRL Schema Document   |
| 101.CAL*           | XBRL Calculation Linkbase Document   |

101.LAB\* XBRL Labels Linkbase Document  
101.PRE\* XBRL Presentation Linkbase Document  
101.DEF\* XBRL Definition Linkbase Document

\*

Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not to be filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under these sections.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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

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

Date: October 15, 2013

By: /s/ Carlisle Kirkpatrick  
Carlisle Kirkpatrick  
Chief Financial Officer

Date: October 15, 2013

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of this registrant in the capacities and on the dates indicated.

|  |   |                  |
|--|---|------------------|
| /s/ Thomas B. Pickens III<br>Thomas B. Pickens III | Chairman of the Board and Chief Executive Officer | October 15, 2013 |
| /s/ Mark Adams                                     | Director  | October 15, 2013 |



Mark Adams

|  |          |                  |
|--|----------|------------------|
| /s/ Sha-Chelle Manning<br>Sha-Chelle Manning | Director | October 15, 2013 |
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| /s/ John A. Oliva<br>John A. Oliva | Director | October 15, 2013 |
|------------------------------------|----------|------------------|

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| /s/ William F. Readdy<br>William F. Readdy | Director | October 15, 2013 |
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| /s/ Daniel T. Russler, Jr.<br>Daniel T. Russler, Jr. | Director | October 15, 2013 |
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|  |                         |                  |
|--|-------------------------|------------------|
| /s/ Carlisle Kirkpatrick<br>Carlisle Kirkpatrick | Chief Financial Officer | October 15, 2013 |
|--|-------------------------|------------------|

**EXHIBIT INDEX****Exhibit**

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