

ASTROTECH Corp \WA\
Form 10-Q
May 17, 2010

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2010

OR

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

For the transition period from _____ to _____

Commission File Number: 0-27206

Astrotech Corporation

(Exact name of registrant as specified in this charter)

Washington

(State or other jurisdiction
of incorporation or organization)

91-1273737

(I.R.S. Employer
Identification No.)

401 Congress Avenue, Suite 1650

Austin, Texas 78701

(Address of principal executive offices and zip code)

(512) 485-9530

(Registrant's telephone number, including area code)

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

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

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

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

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

As of May 11, 2010 there were 19,137,406 shares of the registrant's common stock outstanding.

**ASTROTECH CORPORATION AND SUBSIDIARIES
QUARTERLY REPORT ON FORM 10-Q
TABLE OF CONTENTS**

| | Page |
|--|-------------|
| <u>PART I: FINANCIAL INFORMATION</u> | 2 |
| <u>ITEM 1. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS</u> | 2 |
| <u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u> | 15 |
| <u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u> | 20 |
| <u>ITEM 4. CONTROLS AND PROCEDURES</u> | 20 |
| <u>PART II: OTHER INFORMATION</u> | 20 |
| <u>ITEM 1. LEGAL PROCEEDINGS</u> | 20 |
| <u>ITEM 1A. RISK FACTORS</u> | 20 |
| <u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u> | 21 |
| <u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u> | 21 |
| <u>ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</u> | 22 |
| <u>ITEM 5. OTHER INFORMATION</u> | 22 |
| <u>ITEM 6. EXHIBITS</u> | 23 |
| <u>Exhibit 10.1</u> | |
| <u>Exhibit 10.2</u> | |
| <u>Exhibit 10.3</u> | |
| <u>Exhibit 10.4</u> | |
| <u>Exhibit 31.1</u> | |
| <u>Exhibit 31.2</u> | |
| <u>Exhibit 32</u> | |

Table of Contents**PART I: FINANCIAL INFORMATION**

ITEM 1. Condensed Consolidated Financial Statements

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

(In thousands, except share data)

| | March 31, 2010 (unaudited) | June 30, 2009 |
|--|----------------------------------|------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 6,253 | \$ 4,730 |
| Accounts receivable, net | 8,270 | 12,279 |
| Short-term note receivable, net | 675 | |
| Prepaid expenses and other current assets | 955 | 591 |
| Total current assets | 16,153 | 17,600 |
| Property & equipment, net | 39,972 | 40,226 |
| Other assets, net | 34 | 402 |
| Long-term note receivable, net | | 691 |
| Total assets | \$ 56,159 | \$ 58,919 |
| Liabilities and Stockholders Equity | | |
| Current liabilities | | |
| Accounts payable | \$ 650 | \$ 2,965 |
| Accrued liabilities and other | 2,161 | 2,356 |
| Deferred revenue | 1,271 | 3,594 |
| Term note payable | 3,415 | 267 |
| Senior convertible notes payable- 5.5% | 5,111 | |
| Other | 72 | |
| Total current liabilities | 12,680 | 9,182 |
| Deferred revenue | 598 | 649 |
| Term note payable, net of current portion | | 3,324 |
| Senior convertible notes payable- 5.5% | | 5,111 |
| Other | | 105 |
| Total liabilities | 13,278 | 18,371 |
| Stockholders Equity | | |
| Preferred stock, no par value, convertible, 2,500,000 authorized shares, 0 issued and outstanding shares, at March 31, 2010 and June 30, 2009 | | |
| Common stock, no par value, 75,000,000 shares authorized 16,953,511 and 16,754,378 shares issued at March 31, 2010 and June 30, 2009, respectively | 183,459 | 183,341 |
| Treasury stock, 311,660 shares at cost | (237) | (237) |

| | | |
|--|-----------|-----------|
| Additional paid-in capital | 934 | 1,663 |
| Retained deficit | (142,388) | (144,219) |
| Noncontrolling Interest | 1,113 | |
| Total stockholders' equity | 42,881 | 40,548 |
| Total liabilities and stockholders' equity | \$ 56,159 | \$ 58,919 |

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

ASTROTECH CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(In thousands, except per share data)

| | Three Months Ended | | Nine Months Ended | |
|--|---------------------------|-----------------|--------------------------|-----------------|
| | March 31, | | March 31, | |
| | 2010 | 2009 | 2010 | 2009 |
| | (unaudited) | | (unaudited) | |
| Revenue | \$ 6,647 | \$ 11,849 | \$ 22,489 | \$ 21,608 |
| Costs of revenue | 3,360 | 4,825 | 8,962 | 11,593 |
| Gross profit | 3,287 | 7,024 | 13,527 | 10,015 |
| Operating expenses: | | | | |
| Selling, general and administrative | 3,170 | 2,671 | 9,515 | 6,520 |
| Research and development | 1,117 | 553 | 2,119 | 1,636 |
| Total operating expenses | 4,287 | 3,224 | 11,634 | 8,156 |
| Income (loss) from operations | (1,000) | 3,800 | 1,893 | 1,859 |
| Gain on notes repurchased | | | | 665 |
| Interest and other expense, net | (26) | (105) | (366) | (329) |
| Income (loss) before income taxes | (1,026) | 3,695 | 1,527 | 2,195 |
| Income tax expense | 53 | (93) | (22) | (93) |
| Net income (loss) | (973) | 3,602 | 1,505 | 2,102 |
| Less: Net loss attributable to noncontrolling interest | | (326) | (326) | |
| Net income (loss) attributable to Astrotech Corporation | \$ (647) | \$ 3,602 | \$ 1,831 | \$ 2,102 |
| Net income (loss) per share-basic | \$ (0.04) | \$ 0.22 | \$ 0.11 | \$ 0.13 |
| Weighted average common shares outstanding, basic | 16,610 | 16,547 | 16,531 | 16,444 |
| Net income (loss) per share, diluted | \$ (0.04) | \$ 0.21 | \$ 0.10 | \$ 0.12 |
| Weighted average common shares outstanding, diluted | 16,610 | 17,316 | 18,278 | 16,867 |

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

ASTROTECH CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(In thousands)

| | Nine Months Ended | |
|---|--------------------------|-----------------|
| | March 31, | |
| | 2010 | 2009 |
| | (unaudited) | |
| Cash flows from operating activities | | |
| Net income | \$ 1,505 | \$ 2,102 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Stock-based compensation | 753 | 251 |
| Depreciation and amortization | 1,601 | 1,687 |
| Gain on note repurchase | | (665) |
| Other | | 27 |
| Changes in assets and liabilities: | | |
| Accounts receivable | 4,009 | (5,530) |
| Deferred revenue | (2,374) | 1,673 |
| Accounts payable | (2,315) | (859) |
| Advances for construction contract | | (4,568) |
| Restricted cash | | 5,162 |
| Other assets and liabilities | (184) | 723 |
| Net cash provided by operating activities | 2,995 | 3 |
| Cash flows from investing activities | | |
| Purchases of property, equipment and leasehold improvements | (1,347) | (538) |
| Net cash used in investing activities | (1,347) | (538) |
| Cash flows from financing activities | | |
| Proceeds from issuance of common stock | 75 | |
| Proceeds received from revolving credit facility, net of prepayments | | 550 |
| Repurchase of Treasury Stock | | (120) |
| Term loan payment | (200) | (200) |
| Repurchase of notes | | (1,085) |
| Net cash used in financing activities | (125) | (855) |
| Net change in cash and cash equivalents | 1,523 | (1,390) |
| Cash and cash equivalents at beginning of period | 4,730 | 2,640 |
| Cash and cash equivalents at end of period | \$ 6,253 | \$ 1,250 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid for interest | \$ 278 | \$ 388 |

Cash paid for income taxes

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**ASTROTECH CORPORATION AND SUBSIDIARIES****Notes to Unaudited Condensed Consolidated Financial Statements****1. Description of the Company and Operating Environment**

Astrotech Corporation (Nasdaq: ASTC) (Astrotech, the Company, we, us or our) is a commercial aerospace company that provides spacecraft payload processing and government services, designs and manufactures space hardware, and develops space technologies for use on Earth.

Astrotech has experience supporting both manned and unmanned missions to space with product and service support including space hardware design and manufacturing, research and logistics expertise, engineering and support services, and payload processing and integration. Through new business initiatives such as 1st Detect and Astrogenetix, Astrotech is paving the way in the commercialization of space by translating space-based technology into terrestrial applications.

Our Business Units

Astrotech Space Operations, Inc. (ASO) ASO is the leading commercial supplier of satellite launch processing services in the United States. ASO provides processing support for government and commercial customers for their complex communication, Earth observation and deep space satellites. ASO's spacecraft processing facilities are among the elite in the industry, with more than 300,000 square feet of space that can support the largest, five-meter class satellites. ASO has provided launch processing support for government and commercial customers for nearly a quarter century, successfully processing more than 280 spacecraft. ASO's turn-key approach to the total satellite life cycle leverages the Company's legacy in ground processing operations, and engineering and support services. By offering the satellite customer mission design and planning, ground and launch operations, and mission operations and end-user enhancement, ASO provides End-to-End Mission Assurance for its customers. This includes assistance with mission design, regulatory planning, preliminary engineering and more detailed systems, mechanical, software, electrical, and optical engineering services.

Spacetech Our other business unit is an incubator intended to develop space-industry technologies into commercial applications to be sold to consumers and industry. Spacetech has developed three business initiatives to date: 1st Detect Corporation (1st Detect), Astrogenetix Inc. (Astrogenetix) and AirWard Corporation (Airward). 1st Detect Corporation's business began under a Space Act Agreement with the National Aeronautics and Space Administration (NASA) for a chemical detection unit to be used on the International Space Station. 1st Detect engineers have developed a Miniature Chemical Detector, a device in the mass spectrometer market that we believe will fill a niche by being highly accurate, lightweight, battery-powered, durable and inexpensive. Astrogenetix is a development-stage biotechnology company created to use the unique environment of space to develop novel therapeutic products. A natural extension of the many years of experience preparing, launching, and operating over 1,500 science payloads in space, Astrogenetix is in the process of developing products from microgravity discoveries. AirWard designed and manufactured shipping containers to transport oxygen bottles and oxygen generators for commercial aircraft. Further investment in Airward was suspended in the period ended March 31, 2010, as the initiative has not yielded the anticipated return for shareholders.

2. Basis of Presentation

In the opinion of Astrotech management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the Company's interim financial statements.

The results of operations for the three and nine months ended March 31, 2010 are not necessarily indicative of full year results. Our results of operations typically fluctuate significantly from quarter to quarter. The interim unaudited condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements included in our 2009 Annual Report on Form 10-K, as amended (the 2009 10-K).

Certain amounts reported in previous periods have been reclassified to conform to the current period presentation.

Table of Contents**3. Noncontrolling Interest**

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

Noncontrolling Interest

| | | |
|--|----|--------------|
| Beginning balance at July 1, 2009 | \$ | |
| Net loss attributable to noncontrolling interest | | (326) |
| Distributions of restricted stock | | 1,439 |
| Ending balance at March 31, 2010 | \$ | 1,113 |

As of March 31, 2010 the Company's share of income and losses is 86% for 1st Detect and 79% for Astrogenetix.

4. Net Income (loss) per Share

Basic net income (loss) per share is computed on the basis of the weighted average number of shares of common stock outstanding during the period. Diluted net income (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. The reconciliation and the components of basic and diluted net income (loss) per share are as follows (in thousands, except per share data):

| | Three Months Ended | | Nine Months Ended | |
|---|---------------------------|-------------|--------------------------|-------------|
| | March 31, | | March 31, | |
| | 2010 | 2009 | 2010 | 2009 |
| Numerator: | | | | |
| Net income (loss), basic and diluted | \$ (647) | \$ 3,602 | \$ 1,831 | \$ 2,102 |
| Denominator: | | | | |
| Denominator for basic net income (loss) per share weighted average common stock outstanding | 16,610 | 16,547 | 16,531 | 16,444 |
| Dilutive common stock equivalents common stock options and share-based awards | | 769 | 1,747 | 423 |
| Denominator for diluted net income (loss) per share weighted average common stock outstanding and dilutive common stock equivalents | 16,610 | 17,316 | 18,278 | 16,867 |
| Basic net income (loss) per share | \$ (0.04) | \$ 0.22 | \$ 0.11 | \$ 0.13 |
| Diluted net income (loss) per share | \$ (0.04) | \$ 0.21 | \$ 0.10 | \$ 0.12 |

The senior convertible notes payable outstanding for the three and nine months ended March 31, 2010 and 2009, which are convertible into 340,904 shares of common stock at \$15.00 per share, have not been included in the computation of diluted net income (loss) per share as the impact to net income (loss) per share is anti-dilutive.

Options to purchase 40,900 shares of common stock at exercise prices ranging from \$4.40 to \$48.75 per share outstanding for the three and nine months ended March 31, 2010, were not included in diluted net income (loss) per share, as the impact to net income (loss) per share is anti-dilutive. Options to purchase 1,217,891 and 1,182,891 shares of common stock at exercise prices ranging from \$0.30 to \$51.25 per share outstanding for the three and nine months ended March 31, 2009, respectively, were not included in diluted net income (loss) per share, as the impact to net income (loss) per share is anti-dilutive.

Table of Contents**5. Revenue Recognition**

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

Revenue generated by Astrotech's payload processing facilities is recognized ratably over the occupancy period of the satellite while in the Astrotech facilities. For the multi-year guaranteed-mission contract with United Launch Alliance, revenue is billed and recognized on a quarterly basis. 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

| Services/Products Provided | Contract Type | Method of Revenue Recognition |
|--|--|---|
| Payload Processing Facilities | Firm Fixed Price Mission Specific | Ratably, over the occupancy period of a satellite within the facility from arrival through launch |
| | Firm Fixed Price Guaranteed Number of Missions | For multi-year contract payments recognized ratably over the contract period |
| Commercial Space Habitat Modules, Integration & Operations Support Services and Construction contracts | Firm Fixed Price | Percentage-of-completion based on costs incurred |
| Configuration Management, Engineering Services | Cost Reimbursable Award/Fixed Fee | Reimbursable costs incurred plus award/fee |
| Commercial Products | Specific Purchase Order Based | At shipment |

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. Revenue for ASO recognized under a building modification contract with a government agency was accounted for under the percentage-of-completion method based on costs incurred over the period of the agreement.

6. Debt***Credit Facilities***

In February 2008, we entered into a financing facility with a bank providing a \$4.0 million term loan maturing February 2011. In March 2010, the Company secured a \$2.0 million revolving credit facility, terminating in February 2011, by completing the third amendment to the original loan agreement dated February 6, 2008. The term loan requires monthly payments of principal plus interest at the rate of prime plus 1.75%, and the revolving credit facility incurs interest at the rate of prime plus 0.75%, but not less than 5.0%. 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 \$4.0 million term loan at March 31, 2010 was \$3.4 million. There was no outstanding balance on the revolving credit facility at March 31, 2010.

Senior Convertible Notes

At March 31, 2010, Astrotech had \$5.1 million of senior convertible notes outstanding which mature on October 15, 2010 and pay interest semi-annually on April 15 and October 15.

Table of Contents**7. Fair Value Measurement**

In general, fair values utilize quoted prices in active (when available) markets for identical assets or liabilities. The following table presents the carrying amounts and estimated fair values of certain of the Company's financial instruments as of March 31, 2010 and June 30, 2009, (in thousands):

| | March 31, 2010 | | June 30, 2009 | |
|---------------------------------------|-----------------|------------|-----------------|------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Term loan payable | \$ 3,415 | \$ 3,415 | \$ 3,591 | \$ 3,591 |
| Senior convertible notes payable 5.5% | \$ 5,111 | \$ 2,658 | \$ 5,111 | \$ 2,650 |

The fair value of our long-term debt is estimated based on the current rates offered for similar financial instruments. The carrying amounts of cash and cash equivalents, accounts receivable, notes receivable, and accounts payable approximate their fair market value due to the relatively short duration of these instruments.

In April 2009, the FASB issued guidance changing fair value accounting. This pronouncement requires disclosures about fair value of financial instruments in interim financial statements as well as in annual financial statements and requires those disclosures in summarized financial information in interim financial statements. We adopted this guidance on July 1, 2009 and the adoption of these changes had no impact on the consolidated financial statements.

8. Business and Credit Risk Concentration

A substantial portion of our revenue has been generated under contracts with the U.S. Government. During the nine months ended March 31, 2010 and 2009, approximately 53% and 57%, respectively, of our revenues were generated under U.S. Government contracts. Accounts receivable totaled \$8.3 million at March 31, 2010, of which, 50% is attributed to the U.S. Government.

The Company maintains funds in bank accounts that may exceed the limit insured by the Federal Deposit Insurance Corporation, or FDIC. In October 2008, the FDIC increased its insurance to \$250,000 per depositor, and to an unlimited amount for non-interest bearing accounts. The risk of loss attributable to these uninsured balances is mitigated by depositing funds in what we believe to be high credit quality financial institutions. The Company has not experienced any losses in such accounts.

9. Segment Information

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

Key financial metrics for the three months ended March 31, 2010 are as follows:

| | Three Months Ended March 31, 2010 | | Three Months Ended March 31, 2009 | |
|---|--------------------------------------|-----------------------------------|--------------------------------------|-----------------------------------|
| | Revenue | Income (loss) before income taxes | Revenue | Income (loss) before income taxes |
| Revenue and Income (loss) (in thousands) | | | | |
| ASO | \$ 6,647 | \$ 867 | \$ 11,604 | \$ 6,706 |
| Spacetechn | | (1,893) | 245 | (3,011) |
| | \$ 6,647 | \$ (1,026) | \$ 11,849 | \$ 3,695 |

Table of Contents

Key financial metrics for the nine months ended March 31, 2010 are as follows:

| | Nine Months Ended March 31, 2010 | | Nine Months Ended March 31, 2009 | |
|---|-------------------------------------|--|-------------------------------------|--|
| | Revenue | Income (loss) before income taxes | Revenue | Income (loss) before income taxes |
| Revenue and Income (loss) (in thousands) | | | | |
| ASO | \$ 22,489 | \$ 6,546 | \$ 21,003 | \$ 9,671 |
| Spacetech | | (5,019) | 605 | (7,476) |
| | \$ 22,489 | \$ 1,527 | \$ 21,608 | \$ 2,195 |

| | March 31, 2010 | | June 30, 2009 | |
|----------------------------------|----------------------|-----------------|----------------------|-----------------|
| | Fixed Assets, net | Total Assets | Fixed Assets, net | Total Assets |
| Assets (in thousands) | | | | |
| ASO | \$ 39,749 | \$ 51,496 | \$ 39,815 | \$ 52,595 |
| Spacetech | 223 | 4,663 | 411 | 6,324 |
| | \$ 39,972 | \$ 56,159 | \$ 40,226 | \$ 58,919 |

10. Equity and Other Long Term Incentive Plans

As of March 31, 2010, 61,785 shares of Common Stock were reserved for future grants under the 2008 Stock Incentive Plan. In the nine months ended March 31, 2010 and 2009, we recognized compensation expense of \$0.6 million and \$0.2 million, respectively, for restricted stock and stock options outstanding.

On January 19, 2010, an independent committee of the board of directors of 1st 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 1st Detect. The awards vest 50% a year over a 2 year period. We recognized compensation expense of \$25,000 for restricted stock and warrants outstanding in 2010. The Company utilized the Black-Scholes methodology in determining the fair market value of the warrants of \$7,000 of which \$1,000 was recognized in 2010.

The foregoing description is a summary and is qualified in its entirety by reference to the form of the Restricted Stock Agreement, which is filed as Exhibit 10.1 hereto and is incorporated by reference, and the form of the Stock Purchase Warrant, which is filed as Exhibit 10.2 hereto and is incorporated by reference.

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. The awards vest 50% a year over a 2 year period. We recognized compensation expense of \$32,000 for restricted stock and warrants outstanding in 2010. The Company utilized the Black-Scholes methodology in determining the fair market value of the warrants of \$6,000 of which \$1,000 was recognized in 2010.

The foregoing description is a summary and is qualified in its entirety by reference to the form of the Restricted Stock Agreement, which is filed as Exhibit 10.3 hereto and is incorporated by reference, and the form of the Stock Purchase Warrant, which is filed as Exhibit 10.4 hereto and is incorporated by reference.

Equity Grants

In the first and second quarters of fiscal 2010, the Compensation Committee of the Board of Directors granted directors, named executive officers and employees 1,995,559 and 410,000, respectively, of restricted shares in recognition of the positive fiscal 2009 financial and operating performance. The shares were issued from the 2008 Stock Incentive Plan, vest 33.33% a year over a three year period and expire upon employee termination.

Stock Options

There were no options granted in the nine months ended March 31, 2010. Compensation costs recognized related to vested stock option awards during this time was \$1,000. At March 31, 2010 and 2009, there was \$0.1 million and \$0.2 million, respectively, of total unrecognized compensation cost related to non-vested stock options, which is expected to be recognized over a weighted average period of 2.5 years.

Table of Contents

The Company's stock options activity for the three months ended March 31, 2010 was as follows:

| | Shares (in thousands) | Weighted Average Exercise Price |
|----------------------------------|--------------------------------------|--|
| Outstanding at December 31, 2009 | 971 | \$ 1.25 |
| Granted | | |
| Exercised | (63) | 0.45 |
| Cancelled or expired | (26) | 1.40 |
| Outstanding at March 31, 2010 | 882 | \$ 1.30 |

The Company's stock options activity for the nine months ended March 31, 2010 was as follows:

| | Shares (in thousands) | Weighted Average Exercise Price |
|----------------------------------|--------------------------------------|--|
| Outstanding at December 31, 2009 | 1,125 | \$ 2.27 |
| Granted | | |
| Exercised | (174) | 0.43 |
| Cancelled or expired | (69) | 19.42 |
| Outstanding at March 31, 2010 | 882 | \$ 1.30 |

Restricted Stock

At March 31, 2010 and 2009, there was \$2.6 million and \$0.2 million of unrecognized compensation costs related to restricted stock, respectively, which is expected to be recognized over a weighted average period of 2.4 years.

The Company's restricted stock activity for the three months ended March 31, 2010 was as follows:

| | Shares (in thousands) | Weighted Average Grant-Date Fair Value |
|---------------------------------|----------------------------------|---|
| Non-vested at December 31, 2009 | 2,629 | \$ 1.20 |
| Granted | | |
| Vested | (12) | 0.45 |
| Cancelled or expired | | |
| Non-vested at March 31, 2010 | 2,617 | \$ 1.20 |

Table of Contents

The Company's restricted stock activity for the nine months ended March 31, 2010 was as follows:

| | Shares (in thousands) | Weighted Average Grant-Date Fair Value |
|------------------------------|----------------------------------|---|
| Non-vested at June 30, 2009 | 243 | \$ 0.52 |
| Granted | 2,406 | 1.27 |
| Vested | (12) | 0.45 |
| Cancelled or expired | (20) | 0.70 |
| Non-vested at March 31, 2010 | 2,617 | \$ 1.20 |

Restricted Stock 1st Detect

At March 31, 2010, there was \$0.2 million of unrecognized compensation costs related to restricted stock and warrants, which is expected to be recognized over a weighted average period of 1.8 years.

1st Detect restricted stock activity for the three months ended March 31, 2010 was as follows:

| | Shares | Weighted Average Grant-Date Fair Value |
|---------------------------------|---------------|---|
| Non-vested at December 31, 2009 | | \$ |
| Granted | 1,180 | 212.00 |
| Vested | | |
| Cancelled or expired | | |
| Non-vested at March 31, 2010 | 1,180 | \$ 212.00 |

Restricted Stock Astrogenetix

At March 31, 2010, there was \$0.3 million of unrecognized compensation costs related to restricted stock and warrants, which is expected to be recognized over a weighted average period of 1.8 years.

Astrogenetix restricted stock activity for the three months ended March 31, 2010 was as follows:

| | Shares | Weighted Average Grant-Date Fair Value |
|---------------------------------|---------------|---|
| Non-vested at December 31, 2009 | | \$ |
| Granted | 1,950 | 167.00 |
| Vested | | |
| Cancelled or expired | | |
| Non-vested at March 31, 2010 | 1,950 | \$ 167.00 |

Table of Contents**11. Early Termination of Cost Plus Award Fee Contract**

In May 2008, the Company received a letter from ARES Corporation (ARES) notifying us of ARES 's intent to terminate the Cost Plus Award Fee Subcontract No. SGS-0311403.00. The provision referred to in ARES 's correspondence provides for termination for convenience. The Company has consistently received excellent reviews for its performance under the Subcontract and has earned near maximum award fees. Previously, 45 employees of the Company were engaged under the Subcontract, which resulted in no revenue for the current fiscal quarter.

The Company and ARES have not resolved certain issues relative to the early termination of the Subcontract, including, but not limited to, a receivable from ARES under this contract totaling \$1.5 million. The Company is evaluating its contractual rights and other options with respect to ARES 's claimed termination of the Subcontract, including ARES 's obligations with respect to such claimed termination.

12. Purchase of Common Stock and Convertible Notes

Common stock or senior convertible notes 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.

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 March 31, 2010, we had repurchased 311,660 shares of common stock at a cost of \$0.2 million, which represents an average cost of \$0.76 per share, and \$1.1 million of senior convertible notes payable. As a result, the Company is authorized to repurchase an additional \$5.7 million of securities under this program.

Repurchase of Outstanding Notes

On October 31, 2008, the Company purchased \$1,750,000 principal amount of its outstanding 5.5% convertible notes due October 2010 from Curtiswood Capital LLC. Mr. R. Scott Nieboer, a director of the Company until his resignation on September 30, 2009, was a beneficial owner of the repurchased securities. The repurchased notes were acquired at an established market price on the day of trade and will be retired by the Company. The Company recognized a gain of \$0.7 million on the transaction in the three months ended December 31, 2008.

13. Strategic Financial and Business Alternatives

In September 2009, the Company announced that the Board of Directors has engaged investment banking firm Lazard Ltd. to advise the Company in exploring strategic financial and business alternatives to enhance shareholder value. The range of alternatives which may be considered could include strategic acquisitions, a sale of some or all of the company 's assets or a variety of other possible transactions. There can be no assurance regarding the timing of or whether the Company will elect to pursue any of the strategic alternatives it may consider, that shareholders will favor any proposed transaction, or that any such alternatives will result in changes to the Company 's plans or will be consummated.

14. Board of Director Resignation

On September 30, 2009, R. Scott Nieboer resigned from the Astrotech Board of Directors and the Audit Committee of the Board of Directors. Mr. Nieboer 's decision to resign is not a result of a disagreement with the Company related to the Company 's operations, policies or practices. In October 2009, the Board of Directors appointed current director Sha-Chelle Manning to fill the vacancy on the Audit Committee.

15. Related Party Transactions***James D. Royston***

In December 2008, the Company entered into a seven month, renewable lease agreement with Mr. Royston, President of Astrotech, to lease a house located in Melbourne, Florida to be used by employees of the Company while conducting business on behalf of the Company. The lease provides for monthly rental payments of \$2,900 to Mr. Royston with expenses of utilities and consumables to be paid by the Company. The lease was terminated by the Company in September 2009 and subsequently, reinstated during October 2009.

Table of Contents***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 was recorded in the nine months ended March 31, 2010 for these awards.

Executive Compensation

On January 19, 2010, an independent committee of the Board of Directors of 1st Detect, a subsidiary of the Astrotech Corporation (the Company), 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 1st Detect'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: 300 shares, 680 warrants; John Porter: 200 shares, 180 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 9.8%, John Porter would hold 3.8% and the Company would hold 70% of the outstanding shares of 1st Detect based on the number of fully-diluted shares as of the date of the grants.

On January 19, 2010, an independent committee of the Board of Directors of Astrogenetix, a subsidiary of the Company, 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; James D. Royston: 300 shares. 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%, John Porter would hold 13%, James D. Royston would hold 3% and the Company would hold 62% of the outstanding shares of Astrogenetix based on the number of fully-diluted shares as of the date of the grants.

The restricted stock issuances to certain officers and directors described above are a component of the noncontrolling interest, as described in Note 3.

16. Subsequent Events

In March 2010, 1st Detect received notification that it was the recipient of a \$1.8 million investment from the Texas Emerging Technology Fund (TETF). In April 2010, the first half of the investment, \$0.9 million, was received by 1st Detect. The investment is being used to fund the development and marketing of the Miniature Chemical Detector, a portable mass spectrometer which is designed to serve the security, healthcare and industrial markets.

Table of Contents

FORWARD-LOOKING STATEMENTS

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

The effect of economic conditions in the U.S. or other space faring nations that could impact our ability to access space and support or gain customers;

Uncertainty about, and our ability to raise sufficient capital to meet our long and short-term liquidity requirements;

Our ability to successfully pursue our business plan;

Whether we will fully realize the economic benefits under our NASA and other customer contracts;

Continued availability and use of the U.S. Space Shuttle and the International Space Station;

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 the manned and unmanned space programs that replace the Space Shuttle Program;

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;

Delays in the timing of performance of other contracts; and

Risks described in the Risk Factors section of our 2009 Form 10-K (as amended) and this Form 10-Q. Although we believe that the assumptions underlying our forward-looking statements are reasonable, any of the assumptions could be inaccurate, and, therefore, we cannot assure you that the forward-looking statements included in this Form 10-Q will prove to be accurate. In light of the significant uncertainties inherent in our forward-looking statements, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved. Some of these and other risks and uncertainties that could cause actual results to differ materially from such forward-looking statements are more fully described in the Risk Factors included in Part II Item 1A of this Report and Part I, Item 1A of our 2009 10-K (as amended) and elsewhere in this Form 10-Q or in the documents incorporated by reference herein. Except as may be required by applicable law, we undertake no obligation to publicly update or advise of any change in any forward-looking statement, whether as a result of new information, future events or otherwise. In making these statements, we disclaim any obligation to address or update each factor in future filings with the Securities and Exchange Commission (SEC) or communications regarding our business or results, and we do not undertake to address how any of these factors may have caused changes to discussions or information contained in previous filings or communications. In addition, any of the matters discussed above may have affected our past results and may affect future results, so that our actual results may differ materially from those expressed in this Form 10-Q and in prior or subsequent communications.

Table of Contents

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

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

OVERVIEW

Astrotech was formed in 1984 to leverage the environment of space for commercial purposes. For the last 25 years, the Company has remained a crucial player in space commerce activities. We have supported the launch of 23 shuttle missions and more than 280 spacecraft, building space hardware and processing facilities, and preparing and processing scientific research for microgravity.

We offer products and services in the following areas:

Facilities and support services necessary for the preparation of satellites and payloads for launch.

End-to-End Mission Assurance: a turn-key approach to the total satellite lifecycle.

Commercialization of space-based technologies into real-world applications.

Expertise in qualifying hardware for spaceflight and the habitability and occupational challenges of space.

Our Business Units

Astrotech Space Operations (ASO)

ASO provides support for its government and commercial customers to 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 satellite preparation services. In addition to satellite processing, ASO offers engineering services capabilities that encompass the entire life cycle of a satellite. ASO accounted for 100% of our consolidated revenues for the three and nine months ended March 31, 2010. Revenue for our ASO business unit is generated from various fixed-priced contracts with launch service providers in both the commercial and government markets. The services and facilities we provide to our customers support the final assembly, checkout, and countdown functions associated with preparing a spacecraft for launch. The revenue and cash flows generated from our ASO operations are related to the number of spacecraft launches, which reflects the growth in the satellite-based communications industries and the requirement to replace aging satellites. Other factors that have impacted, and are expected to continue to impact earnings and cash flows for this business include:

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

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

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

Our ability to control and reduce costs in order to maximize profitability of our fixed-priced contracts.

Table of Contents**Spacetech**

Our other business unit is an incubator intended to commercialize space-industry technologies into commercial applications to be sold to consumers and industry. The 1st Detect Miniature Chemical Detector, Astrogenetix microgravity processing platform and the AirWard hazardous cargo containers are all initiatives developed under our Spacetech business unit. The 1st Detect Miniature Chemical Detector, which is in development, is a low power, portable chemical detection device intended to be utilized for a variety of applications. 1st Detect has been awarded a Developmental Testing and Evaluation designation from the U.S. Department of Homeland Security as a promising anti-terrorism technology, is the recipient of a Phase I award from the U.S. Army's Chemical and Biological Defense (CBD) Small Business Innovation Research (SBIR) Program and has received a \$1.8 million investment commitment from the Texas Emerging Technology Fund. Astrogenetix is performing drug discovery in microgravity as part of the National Lab Pathfinder Missions designed by NASA. Astrogenetix has identified a vaccine candidate for Salmonella and is currently testing Methicilin Resistant Staphylococcus Aureus (MRSA).

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of our financial condition and results of operations are based upon our unaudited condensed consolidated financial statements, which have been prepared in accordance with United States generally accepted accounting principles for interim financial statements. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Estimates and assumptions are reviewed periodically. Actual results may differ from these estimates under different assumptions or conditions.

Management believes there have been no significant changes during the nine months ended March 31, 2010 to the items that we disclosed as our critical accounting policies and estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations in the 2009 10-K (as amended).

RESULTS OF OPERATIONS**Three months ended March 31, 2010 compared to three months ended March 31, 2009:**

Selected consolidated financial data for the three months ended March 31, 2010 and 2009 is as follows (dollars in thousands):

| | Three Months Ended March 31, | |
|--|---|--------------|
| | 2010 | 2009 |
| Revenue | \$ 6,647 | \$ 11,849 |
| Gross profit | 3,287 | 7,024 |
| Gross margin | 49% | 59% |
| Selling, general and administrative | 3,170 | 2,671 |
| Research and development | 1,117 | 553 |
| Operating expenses | 4,287 | 3,224 |
| Interest and other expense, net | (26) | (105) |
| Income tax expense | 53 | (93) |
| Consolidated net income (loss) | (973) | 3,602 |
| Less: Net loss attributable to noncontrolling interest | (326) | |

| | | | | |
|--|-----------|--------------|-----------|--------------|
| Net income (loss) attributable to Astrotech Corporation | \$ | (647) | \$ | 3,602 |
|--|-----------|--------------|-----------|--------------|

Table of Contents

Revenue. Total revenue decreased to \$6.6 million for the three months ended March 31, 2010, from \$11.8 million for the comparable period in fiscal 2009. The decrease was primarily attributable to a decreased launch schedule at ASO. Additionally, the three months ended March 31, 2009 includes revenue earned constructing our newest 5-meter high bay at Vandenberg Air Force Base. That project was complete in first quarter of fiscal year 2010.

Gross Profit. Gross profit decreased to \$3.3 million for the three months ended March 31, 2010, from \$7.0 million for the comparable period in fiscal 2009. The gross margin decreased to 49% for the three months ended March 31, 2010 as compared with 59% for the comparable period in fiscal 2009. The decrease in gross profit was attributable to a decrease in satellite payload processing at ASO and the completion of the payload processing facility at Vandenberg Air Force Base during the first quarter of fiscal year 2010.

Selling, General and Administrative Expense. Selling, general and administrative expense increased to \$3.2 million for the three months ended March 31, 2010 from \$2.7 million for the comparable period in fiscal 2009. The increase was primarily attributable to increased employee incentive compensation expense, an increase in business development personnel and higher outside consulting fees. As a percentage of revenue, selling, general and administrative expenses increased to 48% for the three months ended March 31, 2010, on lower revenue, as compared to 23% for the comparable period in fiscal 2009.

Research and Development Expense. Research and development expense increased to \$1.1 million for the three months ended March 31, 2010 from \$0.6 million for the comparable period in fiscal 2009. As a percentage of revenue, research and development expense increased to 17% for the three months ended March 31, 2010 as compared with 5% for the comparable period in fiscal 2009. The increase in expense was the result of our investments in the development of the 1st Detect mini-mass spectrometer and the Astrogenetix microgravity processing platform.

Interest and Other Expense, net. Interest and other expense, net, decreased to \$0.03 million for the three months ended March 31, 2010, as compared with \$0.1 million for the comparable period in fiscal 2009. Interest expense on the term loan and senior convertible notes was offset by higher interest income from our short-term cash investment in the period ended March 31, 2010 due to the larger cash balance available for investment.

Nine months ended March 31, 2010 compared to nine months ended March 31, 2009:

Selected consolidated financial data for the nine months ended March 31, 2010 and 2009 is as follows (dollars in thousands):

| | Nine Months Ended March, | |
|---|-------------------------------------|-----------------|
| | 2010 | 2009 |
| Revenue | \$ 22,489 | \$ 21,608 |
| Gross profit | 13,527 | 10,015 |
| Gross margin | 60% | 46% |
| Selling, general and administrative | 9,515 | 6,520 |
| Research and development | 2,119 | 1,636 |
| Operating expenses | 11,634 | 8,156 |
| Gain on notes repurchased | | 665 |
| Interest and other expense, net | (366) | (329) |
| Income tax expense | (22) | (93) |
| Consolidated net income | 1,505 | 2,102 |
| Less: Net loss attributable to noncontrolling interest | (326) | |
| Net income attributable to Astrotech Corporation | \$ 1,831 | \$ 2,102 |

Table of Contents

Revenue. Total revenue increased to \$22.5 million for the nine months ended March 31, 2010, from \$21.6 million for the comparable period in fiscal 2009. The increase was primarily attributable to an increased launch schedule during the first two quarters at ASO and additional revenue associated with the completion of the construction for our payload processing facility at Vandenberg Air Force Base.

Gross Profit. Gross profit increased to \$13.5 million for the nine months ended March 31, 2010, from \$10.0 million for the comparable period in fiscal 2009. The gross margin increased to 60% the nine months ended March 31, 2010, up from 46% for the comparable period in fiscal 2009. The increase in gross profit was primarily attributable to an increase in overall payload processing volume.

Selling, General and Administrative Expense. Selling, general and administrative expense increased to \$9.5 million for the nine months ended March 31, 2010, up from \$6.5 million for the comparable period in fiscal 2009. The increase was primarily attributable to increased employee incentive compensation expense, for the hiring of additional business development personnel, increased outside fees, additional legal expenses and an increase in insurance premiums. As a percentage of revenue, selling, general and administrative expenses increased to 42% the nine months ended March 31, 2010 as compared to 30% for the comparable period in fiscal 2009.

Research and Development Expense. Research and development expense increased to \$2.1 million for the nine months ended March 31, 2010, from \$1.6 million for the comparable period in fiscal 2009. As a percentage of revenue, research and development expense increased to 9% the nine months ended March 31, 2010 as compared with 8% for the comparable period in fiscal 2009. The increase in expense was the result of our investments in the development of the 1st Detect mini-mass spectrometer and the Astrogenetix microgravity processing platform.

Gain on Notes Repurchased. In the nine months ended March 31, 2009, there was a gain of \$0.7 million on the repurchase of \$1.8 million of our senior convertible notes.

Interest and Other Expense, net. Interest and other expense, net, increased to \$0.4 million for the nine months ended March 31, 2010 as compared to \$0.3 million for the comparable period in fiscal 2009. Interest expense relates to interest on the senior convertible notes and the term loan, offset by interest income primarily from our money market. Also included in other expense for the nine months ended March 31, 2010 is the write-off of \$0.2 million of aerospace metals.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2010, we had cash and cash equivalents of \$6.3 million and our working capital was approximately \$3.5 million. As of March 31, 2009, we had cash and restricted cash-on-hand of \$4.5 million and our working capital was approximately \$3.3 million.

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

| | Nine Months Ended March 31, | |
|---|--|-------------|
| | 2010 | 2009 |
| Net cash provided by (used in) operating activities | \$ 2,995 | \$ 3 |
| Net cash used in investing activities | (1,347) | (538) |
| Net cash used in financing activities | (125) | (855) |
| Net change in cash and cash equivalents | \$ 1,523 | \$ (1,390) |

Table of Contents***Operating Activities***

During the nine months ended March 31, 2010, net cash provided by operations was \$3.0 million and included net income of \$2.3 million. During the nine months ended March 31, 2009, net cash provided by operations was \$3,000 and included net income of \$2.1 million.

Changes in assets and liabilities affecting our operating cash flows for the nine months ended March 31, 2010 are as follows:

Assets. Accounts receivable decreased \$4.0 million during the nine months ended March 31, 2010. This was a result of the timing of payments received by the Company, including the collection of amounts due on the facility construction at Vandenberg Air Force Base.

Liabilities. Cash provided by operating activities was used primarily to reduce accounts payable, which decreased \$2.3 million in the nine months ended March 31, 2010. Deferred revenue decreased \$2.4 million in the nine months ended March 31, 2010. Deferred revenue represents amounts collected from customers for projects, products, or services expected to be provided at a future date. The change is a result of a timing difference between cash collections on payload processing customer contracts and amounts earned as revenue.

Investing Activities

In the nine months ended March 31, 2010, cash used in investing activities was \$1.3 million, up from \$0.5 million cash used in the comparable period in fiscal 2009. The \$1.3 million use of cash in the nine months ended March 31, 2010, was attributable to the completion of construction on our administrative building at Vandenberg Air Force Base.

Financing Activities

Cash used in financing activities for the nine months ended March 31, 2010, was \$0.1 million, down from \$0.9 million for the comparable period in fiscal 2009. During the nine months ended March 31, 2010, the Company made interest payment on our term loan of \$0.2 million. During the nine months ended March 31, 2009, the Company purchased \$1.8 million in principal amount of its outstanding senior convertible notes offset by a gain of \$0.7 million, made interest payments on our term loan of \$0.2 million, repurchased treasury stock of \$0.1 million and had proceeds of \$0.6 million from our revolving credit facility.

| | March 31, 2010 | | June 30, 2009 | |
|---|----------------------------|-----------------------|----------------------------|-----------------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Term loan payable | \$ 3,415 | \$ 3,415 | \$ 3,591 | \$ 3,591 |
| Senior convertible notes payable - 5.5% | \$ 5,111 | \$ 2,658 | \$ 5,111 | \$ 2,650 |

Maturity of Outstanding Debt

Over the next year, the \$5.1 million of senior convertible notes and the \$3.4 million term loan will become due. The Company believes that we will have sufficient working capital to repay the senior convertible notes at maturity in October 2010. The term loan is expected to be replaced with a new debt facility. There can be no assurance that additional or replacement debt financing will be available in the future or that we will have sufficient cash flow in order to make these repayments.

Table of Contents

Off-Balance Sheet Arrangements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have no material changes to the disclosure made on this matter in our 2009 10-K (as amended).

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures, as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934 (Exchange Act), which are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as of the end of the period covered by this quarterly report. Based on the evaluation and criteria of these disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

(b) Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Exchange Act Rule 13a-15(d) during the quarter ended March 31, 2010, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Currently, the Company is not a party to any material pending legal proceedings, which in management's opinion, would have a material adverse effect on our business, financial condition, or results of operation.

ITEM 1A. RISK FACTORS

Material risks relating to our business and the ownership of our securities, which are in addition to those described in Item 1-A of our 2009 10-K (as amended), include the following:

The review of strategic alternatives may not enhance shareholder value

In September 2009, the Company announced that the Board of Directors has engaged investment banking firm Lazard Ltd. to advise the Company in exploring strategic financial and business alternatives to enhance shareholder value. The range of alternatives which may be considered could include strategic acquisitions, a sale of some or all of the company's assets or a variety of other possible transactions. There can be no assurance regarding the timing of or whether the Company will elect to pursue any of the strategic alternatives it may consider, that shareholders will favor any proposed transaction, or that any such alternatives will result in changes to the Company's plans or will be consummated. In addition, in 2010, we have incurred significant costs in order to evaluate these strategic alternatives. There can be no assurance that the costs incurred will result in a transaction.

Table of Contents

Our Spacotech business unit is in an early development stage. It has earned no 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 development stage with no 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 enterprise including, but not limited to, risks related to capital requirements, failure to establish business relationships and competitive disadvantages as against larger and more established companies. The Spacotech business unit will require substantial amounts of funding to develop, test and 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 product development program may not lead to commercial products, either because our product candidates fail to be effective, are not attractive to the market or because we lack the necessary financial or other resources or relationships to pursue our programs through commercialization.

The Spacotech business unit can be expected to experience significant operating losses until it can generate sufficient revenues to cover its operating costs. The Spacotech business unit currently has no commercial products and there can be no assurance that the business will be able to develop, manufacture or market any 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 marketing and development programs or to market any products which it may develop.

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 the third parties from whom it licenses intellectual property, fail 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 upon its results of operations and financial condition.

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

During the quarter ended March 31, 2010, we did not issue any unregistered securities or repurchase any of our securities.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

During the quarter ended March 31, 2010, we did not have any defaults upon our senior securities.

Table of Contents

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Astrotech Corporation (the Company) held its Annual Meeting of Shareholders (the Annual Meeting) on March 5, 2010, at the Company's headquarters located in Austin, Texas. Shareholders representing 14,751,876 shares or 77.6% of the Company's outstanding shares of common stock were present in person or by proxy at the Annual Meeting. The proposals below are described in detail in the Company's proxy statement dated January 26, 2010.

Three proposals were included for voting:

- 1) *Election of six directors to the Company's Board of Directors;*

Director Nominee:

Thomas B. Pickens III

Mark Adams

Lance W. Lord

John A. Olivia

William F. Readdy

Sha-Chelle Manning

- 2) *Ratification of the appointment of PMB Helin Donovan, LLP as independent registered public accountants for the Company;*

- 3) *Approval of the Company's 2010 Stock Incentive Plan.*

Proposals 1 and 2 were approved; proposal 3 did not receive the necessary votes for approval.

ITEM 5. OTHER INFORMATION

Not applicable.

Table of Contents

ITEM 6. EXHIBITS

The following exhibits are filed herewith:

| Exhibit No. | Description |
|--------------------|---|
| 10.1 | Form of Restricted Stock Agreement 1st Detect Corporation |
| 10.2 | Form of Stock Purchase Warrant 1st Detect Corporation |
| 10.3 | Form of Restricted Stock Agreement Astrogenetix, Inc. |
| 10.4 | Form of Stock Purchase Warrant Astrogenetix, Inc. |
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934. |
| 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934. |
| 32 | Certification Pursuant to Rule 13a-14(b) of the Securities and Exchange Act of 1934. |

Table of Contents

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

Astrotech Corporation

Date: May 17, 2010

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

/s/ John M. Porter
John M. Porter
Senior Vice President and Chief Financial
Officer