

ASTROTECH Corp \WA\  
Form 10-Q  
February 04, 2011

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

(Mark One)

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

**For the quarterly period ended December 31, 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: 001-34426**

**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 February 1, 2011 there were 19,270,238 shares of the registrant's common stock outstanding.



**ASTROTECH CORPORATION AND SUBSIDIARIES**  
**QUARTERLY REPORT ON FORM 10-Q**  
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## ITEM 1. Condensed Consolidated Financial Statements

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

(In thousands, except share data)

|  | December 31,<br>2010<br>(unaudited) | June 30,<br>2010 |
|--|-------------------------------------|------------------|
| <b>Assets</b>  |                                     |                  |
| Current assets   |                                     |                  |
| Cash and cash equivalents  | \$ 7,210                            | \$ 8,085         |
| Accounts receivable, net   | 2,502                               | 5,676            |
| Short-term note receivable, net  |                                     | 675              |
| Prepaid expenses and other current assets  | 750                                 | 528              |
| <b>Total current assets</b>  | <b>10,462</b>                       | <b>14,964</b>    |
| Property & equipment, net  | 39,229                              | 39,920           |
| Other assets, net  | 242                                 | 19               |
| Long-term note receivable, net   | 675                                 |                  |
| <b>Total assets</b>  | <b>\$ 50,608</b>                    | <b>\$ 54,903</b> |
| <b>Liabilities and Stockholders' Equity</b>  |                                     |                  |
| Current liabilities  |                                     |                  |
| Accounts payable   | \$ 525                              | \$ 859           |
| Accrued liabilities  | 1,267                               | 2,083            |
| Deferred revenue   | 1,449                               | 854              |
| Term note payable  | 348                                 | 3,356            |
| Senior convertible notes payable- 5.5%   |                                     | 5,111            |
| Other current liabilities  | 36                                  | 78               |
| <b>Total current liabilities</b>   | <b>3,625</b>                        | <b>12,341</b>    |
| Deferred revenue   | 533                                 | 350              |
| Term note payable, net of current portion  | 6,595                               |                  |
| <b>Total liabilities</b>   | <b>10,753</b>                       | <b>12,691</b>    |
| Stockholders' equity   |                                     |                  |
| Preferred stock, no par value, convertible, 2,500,000 authorized shares, 0 issued and outstanding shares, at December 31, 2010 and June 30, 2010 |                                     |                  |
| Common stock, no par value, 75,000,000 shares authorized; issued: 18,240,491 shares at December 31, 2010; 17,081,543 shares at June 30, 2010     | 183,699                             | 183,515          |
| Treasury stock, 311,660 shares at cost   | (237)                               | (237)            |
| Additional paid-in capital   | 1,094                               | 639              |
| Accumulated deficit  | (146,687)                           | (143,959)        |

|   |                  |                  |
|---|------------------|------------------|
| Noncontrolling interest                           | 1,986            | 2,254            |
| <b>Total stockholders' equity</b>                 | <b>39,855</b>    | <b>42,212</b>    |
| <b>Total liabilities and stockholders' equity</b> | <b>\$ 50,608</b> | <b>\$ 54,903</b> |

See accompanying notes to unaudited condensed consolidated financial statements.

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

|  | <b>Three Months Ended</b> |                 | <b>Six Months Ended</b> |                 |
|--|---------------------------|-----------------|-------------------------|-----------------|
|  | <b>December 31,</b>       |                 | <b>December 31,</b>     |                 |
|  | <b>2010</b>               | <b>2009</b>     | <b>2010</b>             | <b>2009</b>     |
|  | (unaudited)               |                 | (unaudited)             |                 |
| Revenue  | \$ 4,641                  | \$ 8,080        | \$ 9,947                | \$ 15,842       |
| Cost of revenue  | 3,438                     | 2,674           | 6,924                   | 5,602           |
| <b>Gross profit</b>  | <b>1,203</b>              | <b>5,406</b>    | <b>3,023</b>            | <b>10,240</b>   |
| Operating expenses:  |                           |                 |                         |                 |
| Selling, general and administrative  | 2,119                     | 3,270           | 4,426                   | 6,345           |
| Research and development   | 883                       | 328             | 1,706                   | 1,002           |
| Total operating expenses   | 3,002                     | 3,598           | 6,132                   | 7,347           |
| <b>Income (loss) from operations</b>                                       | <b>(1,799)</b>            | <b>1,808</b>    | <b>(3,109)</b>          | <b>2,893</b>    |
| Interest and other expense, net  | (35)                      | (79)            | (138)                   | (339)           |
| <b>Income (loss) before income taxes</b>                                   | <b>(1,834)</b>            | <b>1,729</b>    | <b>(3,247)</b>          | <b>2,554</b>    |
| Income tax expense   | (5)                       | (50)            | (11)                    | (75)            |
| <b>Net income (loss)</b>   | <b>(1,839)</b>            | <b>1,679</b>    | <b>(3,258)</b>          | <b>2,479</b>    |
| Less: Net loss attributable to noncontrolling interest                     | (277)                     |                 | (534)                   |                 |
| <b>Net income (loss) attributable to Astrotech Corporation</b>             | <b>\$ (1,562)</b>         | <b>\$ 1,679</b> | <b>\$ (2,724)</b>       | <b>\$ 2,479</b> |
| Net income (loss) per share attributable to Astrotech Corporation, basic   | \$ (0.09)                 | \$ 0.10         | \$ (0.15)               | \$ 0.15         |
| Weighted average common shares outstanding, basic                          | 17,853                    | 16,534          | 17,627                  | 16,504          |
| Net income (loss) per share attributable to Astrotech Corporation, diluted | \$ (0.09)                 | \$ 0.09         | \$ (0.15)               | \$ 0.14         |
| Weighted average common shares outstanding, diluted                        | 17,853                    | 18,590          | 17,627                  | 17,897          |

See accompanying notes to unaudited condensed consolidated financial statements.





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

|  | <b>Six Months Ended<br/>December 31,</b> |                |
|--|--|----------------|
|  | <b>2010</b>                              | <b>2009</b>    |
|  | (unaudited)                              |                |
| <b>Cash flows from operating activities</b>  |  |                |
| Net income (loss)  | \$ (3,258)                               | \$ 2,479       |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |  |                |
| Stock-based compensation   | 777                                      | 333            |
| Depreciation and amortization  | 1,104                                    | 1,066          |
| Other  | 10                                       |                |
| Changes in assets and liabilities:   |  |                |
| Accounts receivable  | 3,174                                    | 2,871          |
| Deferred revenue   | 778                                      | (625)          |
| Accounts payable   | (334)                                    | (2,407)        |
| Advances for construction contract   |  | 411            |
| Other assets and liabilities   | (1,331)                                  | (539)          |
| Net cash provided by operating activities  | <b>920</b>                               | <b>3,589</b>   |
| <b>Cash flows from investing activities</b>  |  |                |
| Purchases of property, equipment and leasehold improvements                              | (413)                                    | (1,185)        |
| Net cash used in investing activities  | <b>(413)</b>                             | <b>(1,185)</b> |
| <b>Cash flows from financing activities</b>  |  |                |
| Term loan repayment  | (3,356)                                  | (117)          |
| Senior convertible notes repayment   | (5,111)                                  |                |
| Proceeds from term loan  | 6,943                                    |                |
| Proceeds from issuance of common stock   | 142                                      | 29             |
| Net cash used in financing activities  | <b>(1,382)</b>                           | <b>(88)</b>    |
| <b>Net change in cash and cash equivalents</b>   | <b>(875)</b>                             | <b>2,316</b>   |
| Cash and cash equivalents at beginning of period   | 8,085                                    | 4,730          |
| <b>Cash and cash equivalents at end of period</b>  | <b>7,210</b>                             | <b>7,046</b>   |
| Supplemental disclosures of cash flow information:                                       |  |                |
| Cash paid for interest   | \$ 215                                   | \$ 234         |
| Cash paid for income taxes   | \$                                       | \$             |

See accompanying notes to unaudited condensed consolidated financial statements.



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**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 1<sup>st</sup> Detect Corporation ( 1<sup>st</sup> Detect ) and Astrogenetix, Inc. ( 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 ( 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 150,000 square feet of clean room space that can support the largest, five-meter class satellites. ASO has provided launch processing support for government and commercial customers for more than a quarter century, successfully processing more than 285 spacecraft.

***Spacetechn***

Spacetechn is an incubator intended to develop space-industry technologies into commercial applications to be sold to consumers and industry. Spacetechn is currently focused on two business initiatives: 1<sup>st</sup> Detect and Astrogenetix. 1<sup>st</sup> Detect'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. 1<sup>st</sup> Detect engineers are developing a Miniature Chemical Detector, a device based on mass spectrometry, that we believe will fill a niche by being highly accurate, lightweight, battery-powered, durable and inexpensive. Astrogenetix is a 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.

**(2) Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared by Astrotech Corporation in accordance with United States generally accepted accounting principles for interim financial information and the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by United States generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring entries) considered necessary for a fair presentation have been included. Operating results for the three and six months ended December 31, 2010 are not necessarily indicative of the results that may be expected for the year ending June 30, 2011. These financial statements should be read in conjunction with the financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended June 30, 2010.

**Table of Contents****(3) Noncontrolling Interest**

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

|  | <b>(In thousands)</b> |
|--|-----------------------|
| <b>Beginning balance at June 30, 2010</b>        | <b>\$ 2,254</b>       |
| Net loss attributable to noncontrolling interest | (534)                 |
| Capital contribution                             | 213                   |
| Stock based compensation                         | 53                    |
| <b>Ending balance at December 31, 2010</b>       | <b>\$ 1,986</b>       |

As of December 31, 2010 the Company's share of income and losses is 86% for 1<sup>st</sup> Detect and 83% 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. Reconciliation and the components of basic and diluted net income (loss) per share are as follows (in thousands), except per share data:

|   | <b>Three Months Ended<br/>December 31,</b> |             | <b>Six Months Ended<br/>December 31,</b> |             |
|---|--|-------------|--|-------------|
|   | <b>2010</b>                                | <b>2009</b> | <b>2010</b>                              | <b>2009</b> |
| <b>Numerator:</b>   |  |             |  |             |
| Net income (loss) attributable to Astrotech Corporation, basic and diluted  | \$ (1,562)                                 | \$ 1,679    | \$ (2,724)                               | \$ 2,479    |
| <b>Denominator:</b>   |  |             |  |             |
| Denominator for basic net income (loss) per share attributable to Astrotech Corporation weighted average common stock outstanding   | 17,853                                     | 16,534      | 17,627                                   | 16,504      |
| Dilutive common stock equivalents common stock options and share-based awards   |  | 2,056       |  | 1,393       |
| Denominator for diluted net income (loss) per share attributable to Astrotech Corporation weighted average common stock outstanding and dilutive common stock equivalents | 17,853                                     | 18,590      | 17,627                                   | 17,897      |

|  |    |        |    |      |    |        |    |      |
|--|----|--------|----|------|----|--------|----|------|
| Basic net income (loss) per share attributable to<br>Astrotech Corporation   | \$ | (0.09) | \$ | 0.10 | \$ | (0.15) | \$ | 0.15 |
| Diluted net income (loss) per share attributable to<br>Astrotech Corporation | \$ | (0.09) | \$ | 0.09 | \$ | (0.15) | \$ | 0.14 |

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The Senior Convertible Notes payable outstanding as of December 31, 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 for the three and six months ended December 31, 2009, as the impact to net income (loss) per share is anti-dilutive. As of December 31, 2010, the Company paid off the \$5.1 million of its Senior Convertible notes which matured on October 15, 2010, and have not been included in the computation of diluted net income (loss) per share. Options to purchase 27,700 shares of common stock at exercise prices ranging from \$4.40 to \$34.38 per share outstanding for the three and six months ended December 31, 2010 were not included in diluted net loss per share, as the impact to net loss per share is anti-dilutive. Options to purchase 44,900 shares of common stock at exercise prices ranging from \$4.40 to \$48.75 per share outstanding for the three and six months ended December 31, 2009 were not included in diluted net income per share as the impact to net income per share is anti-dilutive.

**(5) Revenue Recognition**

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

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

**A Summary of Revenue Recognition Methods**

| <b>Services/Products Provided</b>  | <b>Contract Type</b>                              | <b>Method of Revenue Recognition</b>  |
|--|---|---|
| Payload Processing Facilities  | Firm Fixed Price<br>Mission Specific              | Ratably, over the occupancy period of a satellite within the facility from arrival through launch |
|  | Firm Fixed Price<br>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<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                        | Reimbursable costs incurred as related research and development expenses are incurred             |

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.



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**(6) Debt**

***Credit Facilities***

In October 2010, we entered into a financing facility with a commercial bank providing a \$7.0 million term loan note and a \$3.0 million revolving credit facility. The \$7.0 million term loan terminates in October 2015 and the \$3.0 million revolving credit facility expires October 2012. The term loan requires monthly payments of principal plus interest at the rate of prime plus 0.25%, but not less than 4.0%. The revolving credit facility allows multiple advances not to exceed \$3.0 million, based on eligible accounts receivable, and incurs interest at the rate of prime plus 0.25%, but not less than 4.0%. The bank financing facilities are secured by the assets of ASO, including accounts receivable, and require us to comply with designated covenants. The balance of the \$7.0 million term loan at December 31, 2010 was \$6.9 million and there was no outstanding balance on the revolving credit facility at December 31, 2010.

The legacy term note outstanding at September 30, 2010 of \$3.3 million was paid in full upon entering into the new financing arrangement. The legacy term note and credit financing facility have been closed as of October 2010.

The Company was in compliance with all covenants as of December 31, 2010.

***Senior Convertible Notes***

The \$5.1 million of Senior Convertible Notes were retired in October 2010. The Company paid the \$5.1 million of principal, plus accrued interest of \$0.1 million, on the Senior Convertible Notes at the scheduled maturity.

**(7) Fair Value Measurement**

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

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

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

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

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



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The following table presents the carrying amounts, estimated fair values and valuation input levels of certain of the Company's financial instruments as of December 31, 2010 and June 30, 2010 (in thousands):

|                                       | <b>December 31, 2010</b>   |                       | <b>June 30, 2010</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> |                             |
| Debt                                  | \$ 6,943                   | \$ 6,943              | \$ 3,356                   | \$ 3,356              | Level 2                     |
| Senior convertible notes payable 5.5% |                            |                       | 5,111                      | 4,808                 | Level 1                     |
|                                       | \$ 6,943                   | \$ 6,943              | \$ 8,467                   | \$ 8,164              |                             |

The carrying amounts of cash and cash equivalents, accounts receivable, notes receivable, and accounts payable approximate their fair market value due to the relatively short duration of these instruments.

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

A substantial portion of our revenue has been generated under contracts with the U.S. Government. During the six months ended December 31, 2010 and 2009, approximately 64% and 64%, respectively, of our revenues were generated under U.S. Government contracts. Accounts receivable totaled \$2.5 million at December 31, 2010 of which 70% was attributable to the U.S. Government.

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

**(9) Segment Information**

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

Key financial metrics for the six months ended December 31, 2010 are as follows:

|                                  | <b>Six Months Ended<br/>December 31, 2010</b>    |            | <b>Six Months Ended<br/>December 31, 2009</b>    |            |
|----------------------------------|--|------------|--|------------|
| <b>Revenue and Income (Loss)</b> | <b>Income (loss)<br/>before income<br/>taxes</b> |            | <b>Income (loss)<br/>before income<br/>taxes</b> |            |
| <b>(in thousands)</b>            | <b>Revenue</b>                                   |            | <b>Revenue</b>                                   |            |
| <b>ASO</b>                       | \$ 9,860   | \$ 233     | \$ 15,842  | \$ 5,679   |
| <b>Spacetech</b>                 | \$ 87  | \$ (3,480) | \$   | \$ (3,125) |
|                                  | \$ 9,947   | \$ (3,247) | \$ 15,842  | \$ 2,554   |

|                       | <b>December 31, 2010</b>     |                     | <b>June 30, 2010</b>         |                     |
|-----------------------|------------------------------|---------------------|------------------------------|---------------------|
| <b>Assets</b>         | <b>Fixed<br/>Assets, net</b> | <b>Total Assets</b> | <b>Fixed<br/>Assets, net</b> | <b>Total Assets</b> |
| <b>(in thousands)</b> |                              |                     |                              |                     |
| <b>ASO</b>            | \$ 38,909                    | \$ 47,207           | \$ 39,670                    | \$ 48,670           |
| <b>Spacetech</b>      | \$ 320                       | \$ 3,401            | \$ 250                       | \$ 6,233            |
|                       | \$ 39,229                    | \$ 50,608           | \$ 39,920                    | \$ 54,903           |



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**(10) State of Texas Funding**

In March 2010, the Texas Emerging Technology Fund awarded 1<sup>st</sup> Detect \$1.8 million for the development and marketing of the Miniature Chemical Detector, a portable mass spectrometer designed to serve the security, healthcare and industrial markets. In exchange for the award, 1<sup>st</sup> Detect granted a common stock purchase right and a note payable to the State of Texas. As of December 31, 2010, 1<sup>st</sup> Detect has received the first of two \$0.9 million 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, 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 Qualifying Financing Event (denominator). If the first Qualifying Financing Event does not occur within eighteen months of the agreement effective date, the number of shares available for purchase will equal the total disbursements (numerator) divided by \$100 (denominator).

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 December 31, 2011, 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. As such, the first \$0.9 million installment was accounted for as a contribution to equity in the period ended June 30, 2010. As of December 31, 2010, no default events have occurred.

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

As of December 31, 2010, 447,480 shares of Common Stock were reserved for future grants under the 2008 Stock Incentive Plan. In the six months ended December 31, 2010 and 2009, we recognized compensation expense of \$0.4 million and \$0.5 million, respectively, for restricted stock and stock options outstanding.

On January 19, 2010, an independent committee of the Board of Directors of 1<sup>st</sup> Detect 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. The awards vest 50% a year over a 2 year period. We recognized compensation expense of \$0.2 million for restricted stock and warrants outstanding for the six months ended December 31, 2010.

On January 19, 2010, an independent committee of the Board of Directors of Astrogenetix approved a grant of 1,550 restricted stock shares, of which 300 have been cancelled, 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 \$0.2 million for restricted stock and warrants outstanding for the six months ended December 31, 2010.

***Equity Grants***

In the first and second quarters of fiscal year ended June 30, 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.

**Table of Contents*****Stock Options***

There were no options granted in the six months ended December 31, 2010. At December 31, 2010 and 2009, there was \$0.1 million and \$0.2 million, respectively, of total unrecognized compensation costs related to non-vested stock options, which is expected to be recognized over a weighted average period of 1.8 years.

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

|                                   | <b>Shares<br/>(in<br/>thousands)</b> | <b>Weighted<br/>Average<br/>Exercise Price</b> |
|-----------------------------------|--------------------------------------|--|
| Outstanding at September 30, 2010 | 404                                  | \$ 1.81  |
| Granted                           |                                      |  |
| Exercised                         |                                      |  |
| Cancelled or expired              | (8)                                  | 13.05  |
| Outstanding at December 31, 2010  | 396                                  | \$ 1.59  |

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

|                                  | <b>Shares<br/>(in<br/>thousands)</b> | <b>Weighted<br/>Average<br/>Exercise Price</b> |
|----------------------------------|--------------------------------------|--|
| Outstanding at June 30, 2010     | 745                                  | \$ 1.45  |
| Granted                          |                                      |  |
| Exercised                        | (329)                                | 0.43   |
| Cancelled or expired             | (20)                                 | 15.20  |
| Outstanding at December 31, 2010 | 396                                  | \$ 1.59  |

***Restricted Stock***

At December 31, 2010 and 2009, there was \$1.3 million and \$2.9 million of unrecognized compensation costs related to restricted stock, respectively, which is expected to be recognized over a weighted average period of 1.6 years.

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

|                                  | <b>Shares<br/>(in thousands)</b> | <b>Weighted<br/>Average<br/>Grant-Date<br/>Fair Value</b> |
|----------------------------------|----------------------------------|---|
| Non-vested at September 30, 2010 | 1,673                            | \$ 1.13   |
| Granted                          |                                  |   |
| Vested                           | (276)                            | 1.14  |
| Cancelled or expired             |                                  |   |
| Non-vested at December 31, 2010  | 1,397                            | \$ 1.13   |

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

|                                 | <b>Shares<br/>(in thousands)</b> | <b>Weighted<br/>Average<br/>Grant-Date<br/>Fair Value</b> |
|---------------------------------|----------------------------------|---|
| Non-vested at June 30, 2010     | 2,336                            | \$ 1.17   |
| Granted                         |                                  |   |
| Vested                          | (849)                            | 1.15  |
| Cancelled or expired            | (90)                             | 1.85  |
| Non-vested at December 31, 2010 | 1,397                            | \$ 1.13   |

**Table of Contents*****Restricted Stock 1<sup>st</sup> Detect***

At December 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 1.0 years.

1<sup>st</sup> Detect restricted stock activity for the three months ended December 31, 2010 was as follows:

|                                  | <b>Shares</b> | <b>Weighted<br/>Average<br/>Grant-Date<br/>Fair Value</b> |
|----------------------------------|---------------|---|
| Non-vested at September 30, 2010 | 1,180         | \$ 212.00   |
| Granted                          |               |   |
| Vested                           |               |   |
| Cancelled or expired             |               |   |

|                                 |       |           |
|---------------------------------|-------|-----------|
| Non-vested at December 31, 2010 | 1,180 | \$ 212.00 |
|---------------------------------|-------|-----------|

1<sup>st</sup> Detect restricted stock activity for the six months ended December 31, 2010 was as follows:

|                             | <b>Shares</b> | <b>Weighted<br/>Average<br/>Grant-Date<br/>Fair Value</b> |
|-----------------------------|---------------|---|
| Non-vested at June 30, 2010 | 1,180         | \$ 212.00   |
| Granted                     |               |   |
| Vested                      |               |   |
| Cancelled or expired        |               |   |

|                                 |       |           |
|---------------------------------|-------|-----------|
| Non-vested at December 31, 2010 | 1,180 | \$ 212.00 |
|---------------------------------|-------|-----------|

***Restricted Stock Astrogenetix***

At December 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 1.0 years.

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

|                                  | <b>Shares</b> | <b>Weighted<br/>Average<br/>Grant-Date<br/>Fair Value</b> |
|----------------------------------|---------------|---|
| Non-vested at September 30, 2010 | 1,250         | \$ 167.00   |
| Granted                          |               |   |
| Vested                           |               |   |
| Cancelled or expired             |               |   |

|                                 |       |           |
|---------------------------------|-------|-----------|
| Non-vested at December 31, 2010 | 1,250 | \$ 167.00 |
|---------------------------------|-------|-----------|



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Astrogenetix restricted stock activity for the six months ended December 31, 2010 was as follows:

|                                 | <b>Shares</b> | <b>Weighted<br/>Average<br/>Grant-Date<br/>Fair Value</b> |
|---------------------------------|---------------|---|
| Non-vested at June 30, 2010     | 1,550         | \$ 167.00   |
| Granted                         |               |   |
| Vested                          |               |   |
| Cancelled or expired            | 300           | 167.00  |
| Non-vested at December 31, 2010 | 1,250         | \$ 167.00   |

**(12) Income Taxes**

The Company accrues a provision for federal, and state at the applicable statutory rates adjusted for non-deductible expenses, tax-exempt income, and the application of a valuation allowance for certain deferred tax assets for which management believes there is uncertainty regarding their realization. The provision for income taxes may include amounts intended to satisfy unfavorable adjustments by tax authorities in any current or future examination of the Company's income tax returns.

For the three and six months ended December 31, 2010 and 2009, the Company's effective tax rate differed from the federal statutory rate of 35%, primarily due to recording an increase in the valuation allowance against net U.S. deferred tax assets as there is substantial doubt we will realize the majority of the benefit of our 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 not under examination.

The Company had no liability for unrecognized tax benefits at December 31, 2010 or June 30, 2010.

**(13) Early Termination of Cost Plus Award Fee Contract**

The Company and ARES have resolved certain issues relative to the early termination of the subcontract in May 2008, including, but not limited to, a receivable from ARES under this contract totaling \$1.4 million. The Company wrote off \$0.1 million of unbilled receivables in connection with this agreement in the period ended June 30, 2010. In July 2010, the Company received \$1.2 million from ARES. The remaining \$0.2 million balance is expected to be paid upon completion of the 2005 through 2008 governmental audits by the DCAA.

**(14) Purchase of Common Stock**

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



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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 December 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.

### **(15) Board of Director Resignation**

On June 18, 2010, General (Ret.) Lance W. Lord resigned from the Board of Directors of Astrotech and as the Chief Executive Officer of Astrotech Space Operations. The vacancy on the Board of Directors created by General Lord's resignation is not expected to be filled until the next annual meeting. The role of Chief Executive Officer, Astrotech Space Operations, will remain open pending a review of internal and external candidates.

### **(16) 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 was recorded in the six months ended December 31, 2010 for these awards.

#### ***Executive Compensation***

On January 19, 2010, an independent committee of the Board of Directors of 1<sup>st</sup> 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 1<sup>st</sup> 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.

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 1<sup>st</sup> 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 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%, John Porter would hold 13% and the Company would hold 65% 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 resulted in noncontrolling interest, as described in Note 3.



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**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;

Delays in the timing of performance of contracts;

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 U.S. Government and other customer contracts;

Technological difficulties and potential legal claims arising from any technological difficulties;

Product demand and market acceptance risks, including our ability to develop and sell products and services to be used by 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, including access to, and use of, the International Space Station; and

Risks described in the Risk Factors section of our 2010 Form 10-K.

Although we believe that the assumptions underlying our forward-looking statements are reasonable, any of the assumptions could be inaccurate, and, therefore, we cannot assure you that the forward-looking statements included in this 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 2010 10-K 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.



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

The following information should be read in conjunction with the unaudited condensed consolidated financial statements and the accompanying notes included in Part I, Item 1 of this Report, and the Risk Factors included in Part II Item 1A of this Report and Part I, Item 1A of our 2010 10-K.

**Overview**

Astrotech was formed in 1984 to leverage the environment of space for commercial purposes. For the last 27 years, the Company has remained a crucial player in space commerce activities. We have supported the launch of 23 shuttle missions and more than 285 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.

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. ASO accounted for 98% of our consolidated revenues for the three months ended December 31, 2010 and 99% of our consolidated revenues for the six months ended December 31, 2010. Revenue for our ASO business unit is primarily 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. 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 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 Spacetech business unit is an incubator intended to commercialize space-industry technologies into applications to be sold to consumers and industry. The 1<sup>st</sup> Detect Miniature Chemical Detector and the Astrogenetix microgravity processing platform are initiatives being developed under our Spacetech business unit. The 1<sup>st</sup> 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. 1<sup>st</sup> Detect has been awarded a Developmental Testing and Evaluation designation from the U.S. Department of Homeland Security as a promising anti-terrorism technology, and is the recipient of a Phase I and Phase II award from the U.S. Army's Chemical and Biological Defense (CBD) Small Business Innovation Research (SBIR) Program. Additionally, 1<sup>st</sup> Detect received a \$1.8 million award from the Texas Emerging Technology Fund. Astrogenetix is performing drug discovery in microgravity and NASA has designated this work as the National Lab Pathfinder Missions. Astrogenetix has identified a vaccine candidate for Salmonella and is currently conducting microgravity research on MRSA.

**Critical Accounting Policies**

The discussion and analysis of our financial condition and results of operations are based upon our unaudited condensed consolidated financial statements, which have been prepared in accordance with 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 three and six months ended December 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 our 2010 10-K.

**Results of Operation****Three months ended December 31, 2010 compared to three months ended December 31, 2009:**

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

|  | <b>Three Months Ended<br/>December 31,</b> |                 |
|--|--|-----------------|
|  | <b>2010</b>                                | <b>2009</b>     |
| <b>Revenue</b>   | \$ 4,641                                   | \$ 8,080        |
| <b>Gross profit</b>                                    | 1,203                                      | 5,406           |
| <b>Gross margin</b>                                    | <b>26%</b>                                 | <b>67%</b>      |
| Selling, general and administrative                    | 2,119                                      | 3,270           |
| Research and development                               | 883  | 328             |
| <b>Operating expenses</b>                              | <b>\$ 3,002</b>                            | <b>\$ 3,598</b> |
| Interest and other expense, net                        | (35)                                       | (79)            |
| Income tax expense                                     | (5)  | (50)            |
| <b>Consolidated net income (loss)</b>                  | <b>\$ (1,839)</b>                          | <b>\$ 1,679</b> |
| Less: Net loss attributable to noncontrolling interest | (277)                                      |                 |

|  |           |                |           |              |
|--|-----------|----------------|-----------|--------------|
| <b>Net income (loss) attributable to Astrotech Corporation</b> | <b>\$</b> | <b>(1,562)</b> | <b>\$</b> | <b>1,679</b> |
|--|-----------|----------------|-----------|--------------|

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*Revenue.* Total revenue decreased to \$4.6 million for the three months ended December 31, 2010, from \$8.1 million for the comparable period in fiscal 2010. This decrease is primarily attributable to a decreased launch schedule. Additionally, the three months ended December 31, 2009 includes revenue earned from the multi-year guaranteed mission contract with United Launch Alliance.

*Gross Profit.* Gross profit decreased to \$1.2 million for the three months ended December 31, 2010, from \$5.4 million for the comparable period in fiscal 2010. The decrease in gross profit was attributable to the decline in revenue and an increase in variable mission related expenses.

*Selling, General and Administrative Expense.* Selling, general and administrative expense decreased to \$2.1 million for the three months ended December 31, 2010, from \$3.3 million for the comparable period in fiscal 2010. The decrease was primarily attributable to a reduction in outside consulting fees and reduced costs associated with lower headcount as part of the fiscal year 2011 corporate realignment.

*Research and Development Expense.* Research and development expense increased to \$0.9 million for the three months ended December 31, 2010, from \$0.3 million for the comparable period in fiscal 2010. The increase was primarily attributable to our continued investments in the development of the 1<sup>st</sup> Detect Miniature Chemical Detector, including an increase in headcount and stock based compensation.

**Six months ended December 31, 2010 compared to six months ended December 31, 2009:**

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

|  | <b>Six Months Ended<br/>December 31,</b> |                  |
|--|--|------------------|
|  | <b>2010</b>                              | <b>2009</b>      |
| <b>Revenue</b>   | \$ <b>9,947</b>                          | \$ <b>15,842</b> |
| <b>Gross profit</b>  | <b>3,023</b>                             | <b>10,240</b>    |
| <b>Gross margin</b>  | <b>30%</b>                               | <b>65%</b>       |
| Selling, general and administrative                            | 4,426                                    | 6,345            |
| Research and development                                       | 1,706                                    | 1,002            |
| <b>Operating expenses</b>                                      | \$ <b>6,132</b>                          | \$ <b>7,347</b>  |
| Interest and other expense, net                                | (138)                                    | (339)            |
| Income tax expense   | (11)                                     | (75)             |
| <b>Consolidated net income (loss)</b>                          | \$ <b>(3,258)</b>                        | \$ <b>2,479</b>  |
| Less: Net loss attributable to noncontrolling interest         | (534)                                    |                  |
| <b>Net income (loss) attributable to Astrotech Corporation</b> | \$ <b>(2,724)</b>                        | \$ <b>2,479</b>  |

*Revenue.* Total revenue decreased to \$9.9 million for the six months ended December 31, 2010, from \$15.8 million for the comparable period in fiscal 2010. This decrease is primarily attributable to a decreased launch schedule. Additionally, the six months ended December 31, 2009 includes revenue earned for the completion of construction on our newest 5-meter satellite facility and associated building improvement projects at Vandenberg Airforce Base ( VAFB ) and revenue earned from the multi-year guaranteed mission contract with United Launch Alliance.

*Gross Profit.* Gross profit decreased to \$3.0 million for the six months ended December 31, 2010, from \$10.2 million for the comparable period in fiscal 2010. The decrease in gross profit was attributable to the decline in revenue and an increase in variable mission related expenses.



*Selling, General and Administrative Expense.* Selling, general and administrative expense decreased to \$4.4 million for the six months ended December 31, 2010, from \$6.3 million for the comparable period in fiscal 2010. The decrease was primarily attributable to a reduction in outside consulting fees and reduced costs associated with lower headcount as part of the fiscal year 2011 corporate realignment.

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**Research and Development Expense.** Research and development expense increased to \$1.7 million for the six months ended December 31, 2010, from \$1.0 million for the comparable period in fiscal 2010. The increase was primarily attributable to our continued investments in the development of the 1<sup>st</sup> Detect Miniature Chemical Detector, including an increase in headcount and stock based compensation.

**Interest and Other Expense, net.** Interest and other expense, net, decreased to \$0.1 million for the six months ended December 31, 2010, from \$0.3 million for the comparable period in fiscal 2010. The six months ended December 31, 2009 includes the write-off of \$0.2 million of aerospace metals and interest expense relating to the Senior Convertible Notes, which were retired in October 2010.

**Liquidity and Capital Resources**

As of December 31, 2010, we had cash and cash equivalents of \$7.2 million and our working capital was approximately \$6.8 million. As of December 31, 2009, we had cash and cash equivalents of \$7.0 million and our working capital was approximately \$6.9 million.

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

|  | <b>Six Months Ended<br/>December 31,</b> |                 |
|--|--|-----------------|
|  | <b>2010</b>                              | <b>2009</b>     |
| Net cash provided by operating activities      | \$ 920                                   | \$ 3,589        |
| Net cash used in investing activities          | (413)                                    | (1,185)         |
| Net cash used in financing activities          | (1,382)                                  | (88)            |
| <b>Net change in cash and cash equivalents</b> | <b>\$ (875)</b>                          | <b>\$ 2,316</b> |

**Operating Activities**

Cash provided by operations for the six months ended December 31, 2010 was \$1.0 million as compared to \$3.6 million of cash provided by operations for the six months ended December 31, 2009. Significant noncash items affecting operating cash flows at December 31, 2010 were depreciation and amortization of \$1.1 million and employee incentive compensation of \$0.8 million. Significant noncash items affecting operating cash flows at December 31, 2009 were depreciation and amortization of \$1.1 million and employee incentive compensation of \$0.3 million.

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

**Assets.** Accounts receivable decreased \$3.2 million during the six months ended December 31, 2010. This is the result of the timing of payments received by the Company and the receipt of \$1.2 million relating to the ARES contract (See note 13).

**Liabilities.** Deferred revenue increased \$0.8 million in the six months ended December 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**

Cash used in investing activities for the six months ended December 31, 2010 was \$0.4 million as compared with \$1.2 million for the six months ended December 31, 2009. The decline in capital expenditures resulted from the completion of an administrative customer support building at VAFB in 2009.

**Financing Activities**

Cash used in financing activities for the six months ended December 31, 2010 was \$1.4 million as compared with cash used in financing activities of \$0.1 million for the six months ended December 31, 2009.



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*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 expires October 2012. The term loan requires monthly payments of principal plus interest at the rate of prime plus 0.25%, but not less than 4.0%. The revolving credit facility allows multiple advances not to exceed \$3.0 million, based on eligible accounts receivable, and incurs interest at the rate of prime plus 0.25%, but not less than 4.0%. The bank financing facilities are secured by the assets of ASO, including accounts receivable, and require us to comply with designated covenants. The balance of the \$7.0 million term loan at December 31, 2010 was \$6.9 million and there was no outstanding balance on the revolving credit facility at December 31, 2010.

The legacy term note outstanding in October 2010 of \$3.3 million was paid in full upon entering into the new financing facility. The legacy term note and credit financing facility have been closed as of October 2010.

The Company was in compliance with all covenants as of December 31, 2010.

*Senior Convertible Notes.* The \$5.1 million of Senior Convertible Notes were retired in October 2010. The company paid the \$5.1 million of principal, plus accrued interest of \$0.1 million, on the Senior Convertible Notes at the scheduled maturity.

### **Income Taxes**

The Company accrues a provision for federal, and state at the applicable statutory rates adjusted for non-deductible expenses, tax-exempt income, and the application of a valuation allowance for certain deferred tax assets for which management believes there is uncertainty regarding their realization. The provision for income taxes may include amounts intended to satisfy unfavorable adjustments by tax authorities in any current or future examination of the Company's income tax returns.

For the three and six months ended December 31, 2010 and 2009, the Company's effective tax rate differed from the federal statutory rate of 35%, primarily due to recording an increase in the valuation allowance against net U.S. deferred tax assets as there is substantial doubt we will realize the majority of the benefit of our 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 not under examination.

The Company had no liability for unrecognized tax benefits at December 31, 2010 or June 30, 2010.

### **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 2010 10-K.

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

#### **(a) Evaluation of Disclosure Controls and Procedures**

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



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

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Exchange Act Rule 13a-15(d) during the quarter ended December 31, 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**

There have been no material changes in the risk factors described in our 2010 10-K.

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

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

**ITEM 5. OTHER INFORMATION** Not applicable.

**ITEM 6. EXHIBITS**

The following exhibits are filed herewith:

| <b>Exhibit No.</b> | <b>Description</b>  |
|--------------------|---|
| 10                 | Loan Agreement, dated as of October 21, 2010, by and among Astrotech Space Operations, Inc., Astrotech Corporation, Astrotech Florida Holdings, Inc., and American Bank, N.A. (filed as Exhibit 10.1 to the Registrant's Report on Form 8-K, filed on October 26, 2010 and incorporated herein by reference). |
| 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.  |

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

Astrotech Corporation

Date: February 4, 2011

/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