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

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

(Mark One)

þ **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

o **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	**91-1273737**
(State or other jurisdiction of incorporation or organization)	(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 þ No o

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 o No o

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

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

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
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PART I: FINANCIAL INFORMATION

ITEM 1. Condensed Consolidated Financial Statements

ASTROTECH CORPORATION AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(In thousands, except share data)

	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.

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

	Three Months Ended March 31,		Nine Months Ended 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.

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

	Nine Months Ended March 31, 2010	Nine Months Ended March 31, 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.

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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 co 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.

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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 March 31,				Nine Months Ended 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.

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/fixed 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.

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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 and Income (loss) (in thousands)	**Revenue**	**Income (loss) before income taxes**	**Revenue**	**Income (loss) before income taxes**
ASO	$ 6,647	$ 867	$ 11,604	$ 6,706
Spacetech		(1,893)	245	(3,011)
	$ 6,647	$ (1,026)	$ 11,849	$ 3,695

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

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

Assets (in thousands)	March 31, 2010 Fixed Assets, net	March 31, 2010 Total Assets	June 30, 2009 Fixed Assets, net	June 30, 2009 Total Assets
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 g