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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 March 31, 2014**

**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 (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

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

As of May 7, 2014, there were 19,820,387 shares of the registrant's common stock outstanding.

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**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, 2014	June 30, 2013
	(unaudited)	
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 4,552	\$ 5,096
Accounts receivable, net	2,146	5,317
Prepaid expenses and other current assets	540	503
<b>Total current assets</b>	<b>7,238</b>	<b>10,916</b>
Property and equipment, net	35,590	37,035
Other assets, net	35	51
<b>Total assets</b>	<b>\$ 42,863</b>	<b>\$ 48,002</b>
<b>Liabilities and stockholders' equity</b>		
Current liabilities		
Accounts payable	\$ 264	\$ 2,488
Accrued liabilities and other	1,968	2,430
Deferred revenue	3,197	1,304
Term note payable	5,753	387
<b>Total current liabilities</b>	<b>11,182</b>	<b>6,609</b>
Deferred revenue	237	64
Other liabilities	164	194
Term note payable, net of current portion	—	5,655
<b>Total liabilities</b>	<b>11,583</b>	<b>12,522</b>
Stockholders' equity		
Preferred stock, no par value, convertible, 2,500,000 authorized shares, no issued and outstanding shares, at March 31, 2014 and June 30, 2013	—	—
Common stock, no par value, 75,000,000 shares authorized; 19,812,054 and 19,781,721 shares issued at March 31, 2014 and June 30, 2013	183,813	183,782
Treasury stock, 311,660 shares at cost	(237)	(237)
Additional paid-in capital	788	987
Accumulated deficit	(155,981)	(151,840)
Noncontrolling interest	2,897	2,788
<b>Total stockholders' equity</b>	<b>31,280</b>	<b>35,480</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 42,863</b>	<b>\$ 48,002</b>

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

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

	Three Months Ended		Nine Months Ended	
	March 31,		March 31,	
	2014	2013	2014	2013
	(unaudited)		(unaudited)	
Revenue	\$ 1,556	\$ 4,565	\$ 10,783	\$ 14,815
Cost of revenue	2,308	2,550	8,076	10,581
<b>Gross profit (loss)</b>	<b>(752)</b>	<b>2,015</b>	<b>2,707</b>	<b>4,234</b>
Operating expenses:				
Selling, general and administrative	1,593	1,758	5,540	5,341
Research and development	645	459	1,801	1,494
Total operating expenses	2,238	2,217	7,341	6,835
<b>Loss from operations</b>	<b>(2,990)</b>	<b>(202)</b>	<b>(4,634)</b>	<b>(2,601)</b>
Interest and other expense, net	(61)	(36)	(178)	(121)
<b>Loss before income taxes</b>	<b>(3,051)</b>	<b>(238)</b>	<b>(4,812)</b>	<b>(2,722)</b>
Income tax expense	(2)	—	(9)	—
<b>Net loss</b>	<b>(3,053)</b>	<b>(238)</b>	<b>(4,821)</b>	<b>(2,722)</b>
Less: Net loss attributable to noncontrolling interest	(216)	(125)	(681)	(382)
<b>Net loss attributable to Astrotech Corporation</b>	<b>\$ (2,837)</b>	<b>\$ (113)</b>	<b>\$ (4,140)</b>	<b>\$ (2,340)</b>
Net loss per share attributable to Astrotech Corporation, basic	\$ (0.15)	\$ (0.01)	\$ (0.21)	\$ (0.12)
Weighted average common shares outstanding, basic	19,486	19,463	19,479	19,279
Net loss per share attributable to Astrotech Corporation, diluted	\$ (0.15)	\$ (0.01)	\$ (0.21)	\$ (0.12)
Weighted average common shares outstanding, diluted	19,486	19,463	19,479	19,279

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

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

Nine Months Ended  
March 31,

**2014**      **2013**

(unaudited)

<b>Cash flows from operating activities</b>		
Net loss	\$ (4,821)	\$ (2,722)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Stock-based compensation	605	16
Depreciation and amortization	1,736	1,552
Changes in assets and liabilities:		
Accounts receivable	3,171	952
Deferred revenue	2,066	325
Accounts payable	(2,224)	(2,796)
Other assets and liabilities	(499)	1,705
Net cash provided by (used in) operating activities	<u>34</u>	<u>(968)</u>
<b>Cash flows from investing activities</b>		
Purchases of property, equipment and leasehold improvements	(305)	(936)
Net cash used in investing activities	<u>(305)</u>	<u>(936)</u>
<b>Cash flows from financing activities</b>		
Term loan payment	(289)	(279)
Proceeds for common stock issuance	16	40
Net cash used in financing activities	<u>(273)</u>	<u>(239)</u>
<b>Net change in cash and cash equivalents</b>	(544)	(2,143)
Cash and cash equivalents at beginning of period	5,096	10,177
<b>Cash and cash equivalents at end of period</b>	<u><b>\$ 4,552</b></u>	<u><b>\$ 8,034</b></u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	<u>\$ 177</u>	<u>\$ 188</u>

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

## ASTROTECH CORPORATION AND SUBSIDIARIES

### Notes to Unaudited Condensed Consolidated Financial Statements

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

Astrotech Corporation (Nasdaq: ASTC) (“Astrotech,” “the Company,” “we,” “us” or “our”), a State of Washington corporation, is a commercial aerospace company that was formed in 1984 to leverage the environment of space for commercial purposes. For nearly 30 years, the Company has remained a crucial player in space commerce activities. We have successfully supported the launch of 23 shuttle missions and more than 300 spacecraft. We have designed, operated and built space hardware and processing facilities. We currently own, operate and maintain world-class spacecraft processing facilities; prepare and process scientific research in microgravity and develop and manufacture sophisticated and cutting edge chemical sensor equipment.

#### *Our Business Units*

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

ASO provides support to its government and commercial customers as they successfully process complex communication, earth observation and deep space satellites in preparation for their launch on a variety of launch vehicles. Processing activities include satellite ground transportation; pre-launch hardware integration and testing; satellite encapsulation, fueling and launch pad delivery; and communication linked launch control. Our ASO facilities can accommodate up to five meter class satellites, which includes almost all U.S. based satellites. ASO’s service capabilities include designing and building spacecraft processing equipment and facilities. In addition, ASO provides propellant services including designing, building and testing propellant service equipment for fueling spacecraft. ASO accounted for 97% and 99% of our consolidated revenues for the three and nine months ended March 31, 2014, respectively. Revenue for our ASO business unit is generated primarily from various fixed-priced contracts with launch service providers in both government and commercial markets and from the design, fabrication and use of critical space launch equipment. The services and facilities we provide to our customers support the final assembly, checkout and countdown functions required to launch a spacecraft. The revenue and cash flows generated by ASO are primarily driven by the number of spacecraft launches.

##### *Spacetech*

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

**1<sup>st</sup> Detect** — 1<sup>st</sup> Detect develops, manufactures and sells ultra-small mass spectrometers and related equipment. Mass spectrometers, in general, measure the mass and relative abundance of ions in a sample to create a “mass spectrum”. This resulting mass spectrum is a unique fingerprint for each chemical that can be compared to a reference library of mass spectra to verify the identity of a sample. Mass spectrometers can identify chemicals with more accuracy and precision than competing instruments given their extreme sensitivity and specificity and they are a staple of almost all analytical laboratories. By leveraging technology initiated by an engagement with the National Aeronautics and Space Administration (“NASA”) to develop a mass spectrometer for the International Space Station (“ISS”), the Company has developed a series of instruments that are significantly smaller, lighter, faster and less expensive than competing mass spectrometers, and significantly more sensitive and accurate than other competing chemical detectors. Our efforts have resulted in a technology that can enable real-time mass spectrometry analytics, something no competitor has been able to accomplish, availing mass spectrometry to a number of new applications. Examples include real-time explosives detection in airports and the battlefield, product quality verification, industrial process control, in the field environmental applications and laboratory research.

The Company’s first commercial product, the MMS-1000<sup>TM</sup> is a small, low power mass spectrometer designed initially for the laboratory market at a fraction of the cost of competing mass spectrometers. The unique design of this unit enables mass spectrometric quality chemical analysis in a small (about the size of a shoebox), light and transportable package that operates from less power than a typical light bulb. This allows high quality chemical analysis to be performed in locations where mass spectrometers have not been used before without compromising the quality of the analysis. The OEM-1000 is a mass spectrometer component that is designed to be integrated into an OEM customers’ complementary technology and application. For example, the OEM-1000 has recently been integrated into a Thermogravimetric Analyzer (“TGA”) manufactured by RIGAKU of Tokyo, Japan. The integrated instrument named Thermo iMS2 is the world’s first integrated TGA with MS/MS capabilities and is expected to be well received by the international research and development markets.

**Astrogenetix** — Astrogenetix is a biotechnology company formed to commercialize products processed in the unique environment of microgravity. Astrogenetix pursued an aggressive space access strategy to take advantage of the Space Shuttle program prior to its retirement in 2011. This strategy gave Astrogenetix unprecedented access to research in microgravity, as we flew experiments twelve times over a three year period. In collaboration with NASA, NASA has engaged leading vaccine development experts through a premier educational institution to independently evaluate Astrogenetix’s platform with specific direction to aid in the filing of an Investigational New Drug (“IND”) application for Salmonella. While investment in Astrogenetix has been scaled back considerably until Astrogenetix’s platform is independently verified, the team is also evaluating a vaccine target for Methicillin-Resistant Staphylococcus Aureus (“MRSA”) based on discoveries made in microgravity. In December 2011, the Company negotiated a Space Act Agreement with NASA for a minimum of twenty-eight additional space flights.

## Liquidity and Capital Resources

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

At March 31, 2014, we had cash and cash equivalents of \$4.6 million and our working capital was approximately \$(3.9) million.

The Company has outstanding debt of \$5.8 million as of March 31, 2014. Not including the effect of debt covenant violations, the remaining debt repayments are due as follows (in thousands):

	<b>Fiscal Year 2014<sup>(1)</sup></b>	<b>Fiscal Year 2015</b>	<b>Fiscal Year 2016</b>	<b>Thereafter</b>
Term Note	\$ 98	\$ 403	\$ 418	\$ 4,834

(1) Represents remaining three months in fiscal year 2014.

Our bank financing facilities contain certain affirmative and negative covenants with which we must comply, including the maintenance by us of a debt service coverage ratio of not less than 1.00 to 1.00, maintaining a tangible net worth of not less than \$32.50 million, and maintaining a leverage ratio of not greater than .50 to 1.00. These financial covenants are applicable to the results of ASO. In the event we are not in compliance with a covenant, the bank may, among other things, accelerate all outstanding borrowings, cease extending credit or foreclose on collateral. As of March 31, 2014, we were not in compliance with the debt service coverage ratio and minimum tangible net worth debt covenants. On May 7, 2014, the Company received a waiver for the existing defaults for the current quarter.

In October, 2013 we were notified by a customer that a previously booked payload processing contract would be deferred several weeks. Consequently, our financial projections for fiscal year 2014 indicated that we would likely not be in compliance with our debt service coverage ratio and minimum tangible net worth covenants by the third quarter ended March 31, 2014. As such, on October 11, 2013, we amended the debt agreement with our bank that updated the following with respect to our debt covenants: 1) provided a credit of \$0.50 million and \$2.25 million for the third and fourth quarter of fiscal year 2014, respectively, to our debt service coverage calculation, 2) reduced our minimum tangible net worth requirement to \$32.0 million for the third and fourth fiscal quarter of fiscal year 2014, and 3) required that we maintain a minimum cash balance at the bank of \$2.0 million through June 30, 2014 and \$0.75 million thereafter. In November, 2013 we were subsequently notified by the same customer that this mission would be deferred. As a result of this deferral we did not meet our debt service coverage ratio and minimum tangible net worth covenants in the third quarter of fiscal 2014 and it is probable that we will not be in compliance as of June 30, 2014. As such, we have reclassified our long-term debt to current. We will continue to monitor this matter during the remainder of fiscal year 2014, and if necessary, pursue a debt amendment with our bank.

We believe we have sufficient liquidity and backlog to fund ongoing operations. We expect to utilize existing cash and proceeds from operations to grow our core business offering in ASO and to support strategies for Spacetech. However, in the event that the bank accelerates payments on borrowings due to a debt covenant violation, we would have to secure new funding in order to pay off the debt.

## (2) Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared by Astrotech Corporation in accordance with United States generally accepted accounting principles (“GAAP”) for interim financial information and the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring entries) considered necessary for a fair presentation have been included. Operating results for the nine months ended March 31, 2014 are not necessarily indicative of the results that may be expected for the year ending June 30, 2014. 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, 2013.

## (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 noncontrolling interest accounting for the period ended March 31, 2014, 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.

A rollforward of noncontrolling interest for the nine months ended March 31, 2014 is as follows:

	(In thousands)
<b>Beginning balance at June 30, 2013</b>	<b>\$ 2,788</b>
Net loss attributable to noncontrolling interest	(681)
Capital contribution	789
Stock based compensation	1
<b>Ending balance at March 31, 2014</b>	<b>\$ 2,897</b>

As of March 31, 2014, the Company’s share of income and losses is 86% for 1<sup>st</sup> Detect and 84% for Astrogenetix.



#### (4) Net Loss per Share

Basic net loss per share is based on the weighted average number of common shares outstanding during each period. Diluted net loss per share is based on the weighted average number of common shares outstanding plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method and the if-converted method. Dilutive potential common shares include outstanding stock options and share-based awards. The following table reconciles the numerators and denominators used in the computations of both basic and diluted net loss per share (in thousands, except per share data):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2014	2013	2014	2013
<b>Numerator:</b>				
Net loss attributable to Astrotech Corporation, basic and diluted	\$ (2,837)	\$ (113)	\$ (4,140)	\$ (2,340)
<b>Denominator:</b>				
Denominator for basic net loss per share attributable to Astrotech Corporation — weighted average common stock outstanding	19,486	19,463	19,479	19,279
Dilutive common stock equivalents — common stock options and share-based awards	—	—	—	—
Denominator for diluted net loss per share attributable to Astrotech Corporation — weighted average common stock outstanding and dilutive common stock equivalents	19,486	19,463	19,479	19,279
Basic net loss per share attributable to Astrotech Corporation	\$ (0.15)	\$ (0.01)	\$ (0.21)	\$ (0.12)
Diluted net loss per share attributable to Astrotech Corporation	\$ (0.15)	\$ (0.01)	\$ (0.21)	\$ (0.12)

Options to purchase 1,119,150 shares of common stock at exercise prices ranging from \$0.32 to \$24.10 per share outstanding for the three and nine month periods ended March 31, 2014 and were not included in diluted net loss per share, as the impact to net loss per share is anti-dilutive. Options to purchase 1,147,850 shares of common stock at exercise prices ranging from \$0.30 to \$24.10 per share outstanding from the three and nine months ended March 31, 2013 were not included in diluted net loss per share, as the impact to net loss per share is anti-dilutive.

#### (5) Revenue Recognition

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

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

#### A Summary of Revenue Recognition Methods

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

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

## **(6) Debt**

### *Credit Facilities*

In October 2010, we entered into a financing facility with a commercial bank providing a \$7.0 million term loan note and a \$3.0 million revolving credit facility. The \$7.0 million term loan terminates in October 2015, and the \$3.0 million revolving credit facility expired in October 2012. The Company had no outstanding balance on the revolving credit facility. The term loan requires monthly payments of principal plus interest at the rate of prime plus 0.25%, but not less than 4.0%. The bank financing facilities are secured by the assets of ASO, including accounts receivable, and require us to comply with designated covenants. The balance of the \$7.0 million term loan at March 31, 2014 and 2013 was \$5.8 million and \$6.1 million, respectively.

Our bank financing facilities contain certain affirmative and negative covenants with which we must comply, including the maintenance by us of a debt service coverage ratio of not less than 1.00 to 1.00, maintaining a tangible net worth of not less than \$32.50 million, and maintaining a leverage ratio of not greater than .50 to 1.00. These financial covenants are applicable to the results of ASO. In the event we are not in compliance with a covenant, the bank may, among other things, accelerate all outstanding borrowings, cease extending credit or foreclose on collateral. As of March 31, 2014, we were not in compliance with the debt service coverage ratio and minimum tangible net worth debt covenants. However, on May 7, 2014, the Company received a waiver for the existing defaults.

In October, 2013 we were notified by a customer that a previously booked payload processing contract would be deferred several weeks. Consequently, our financial projections for fiscal year 2014 indicated that we would likely not be in compliance with our debt service coverage ratio and minimum tangible net worth covenants by the third quarter ended March 31, 2014. As such, on October 11, 2013, we amended the debt agreement with our bank that updated the following with respect to our debt covenants: 1) provided a credit of \$0.50 million and \$2.25 million for the third and fourth quarter of fiscal year 2014, respectively, to our debt service coverage calculation, 2) reduced our minimum tangible net worth requirement to \$32.0 million for the third and fourth fiscal quarter of fiscal year 2014, and 3) required that we maintain a minimum cash balance at the bank of \$2.0 million through June 30, 2014 and \$0.75 million thereafter. In November, 2013 we were subsequently notified by the same customer that this mission would be deferred. As a result of this deferral we did not meet our debt service coverage ratio and minimum tangible net worth covenants in the third quarter of fiscal 2014 and it is probable that we will not be in compliance as of June 30, 2014. As such, we have reclassified our long-term debt to current. We will continue to monitor this matter during the remainder of fiscal year 2014, and if necessary, pursue a debt amendment with our bank.

## **(7) Fair Value Measurements**

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 are significant to the fair value of the assets or liabilities.

The following table presents the carrying amounts, estimated fair values and valuation input levels of certain of the Company's financial instruments as of March 31, 2014 and June 30, 2013 (in thousands):

	March 31, 2014		June 30, 2013		Valuation Inputs
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	
Debt	\$ 5,753	\$ 5,753	\$ 6,042	\$ 6,042	Level 2

The carrying value of the Company's debt at March 31, 2014 approximates fair value based on rates available for similar debt available to comparable companies in the marketplace. The carrying amounts of the Company's Level 1 securities include cash and cash equivalents.

#### (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, 2014 and 2013, approximately 53% and 64%, respectively, of our revenues were generated under U.S. Government contracts. Accounts receivable (net of allowance) totaled \$2.1 million at March 31, 2014, of which 29% 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

We currently have two reportable business units: ASO and Spacetech.

ASO is our core business unit with operating facilities located in Titusville, Florida and Vandenberg AFB, California. ASO provides support to its government and commercial customers as they successfully process complex communication, earth observation and deep space satellites in preparation for their launch on a variety of launch vehicles.

Our Spacetech business unit is a technology incubator designed to commercialize space-industry technologies. This business unit is currently pursuing two distinct opportunities: 1<sup>st</sup> Detect and Astrogenetix. Our 1<sup>st</sup> Detect platform develops, manufactures and sells ultra-small mass spectrometers and related equipment. Our Astrogenetix platform is a biotechnology company formed to commercialize products processed in the unique environment of microgravity.

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 and nine months ended March 31, 2014 are as follows (in thousands):

Revenue and Income	Three Months Ended March 31, 2014		Three Months Ended March 31, 2013	
	Revenue	Loss before income taxes	Revenue	Loss before income taxes
ASO	\$ 1,508	\$ (1,521)	\$ 4,565	\$ 655
Spacetech	\$ 48	\$ (1,530)	\$ —	\$ (893)
	\$ 1,556	\$ (3,051)	\$ 4,565	\$ (238)

  

Revenue and Income	Nine Months Ended March 31, 2014		Nine Months Ended March 31, 2013	
	Revenue	Loss before income taxes	Revenue	Loss before income taxes
ASO	\$ 10,653	\$ 49	\$ 14,682	\$ 14
Spacetech	\$ 130	\$ (4,861)	\$ 133	\$ (2,736)
	\$ 10,783	\$ (4,812)	\$ 14,815	\$ (2,722)

  

Assets	March 31, 2014		June 30, 2013	
	Fixed Assets, net	Total Assets	Fixed Assets, net	Total Assets
ASO	\$ 34,290	\$ 40,705	\$ 35,625	\$ 46,159
Spacetech	\$ 1,300	\$ 2,158	\$ 1,410	\$ 1,843
	\$ 35,590	\$ 42,863	\$ 37,035	\$ 48,002

## **(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, environmental and industrial markets. In exchange for the award, 1<sup>st</sup> Detect granted a stock purchase right and a note payable to the State of Texas. As of March 31, 2014, 1<sup>st</sup> Detect has received \$1.8 million in disbursements. The proceeds from the award can only be used to fund development of the Miniature Chemical Detector at 1<sup>st</sup> Detect, not for repaying existing debt or for use in other Company subsidiaries.

The stock purchase right is exercisable at the first Qualifying Financing Event (“QFE”), which is generally a change in control or third party equity investment in 1<sup>st</sup> Detect. The number of shares of stock (common stock or the class or series issued in the financing) of 1<sup>st</sup> Detect available for purchase by the State of Texas, at the price \$0.001 per share (par value), is calculated as the total disbursements of \$1.8 million (numerator) divided by 80% of the stock price established in the QFE (denominator). If a QFE has not occurred before June 30, 2014, the number of shares of common stock of 1<sup>st</sup> Detect available for purchase would equal the total disbursements of \$1.8 million (numerator) divided by \$100 (denominator). As of March 31, 2014 no QFE has occurred.

The principal value of the note is equal to the total disbursements to 1<sup>st</sup> Detect to date of \$1.8 million, accrues interest at 8% per year and cancels automatically at the earlier of (1) selling substantially all of the assets of 1<sup>st</sup> Detect, (2) selling more than 50% of common stock of 1<sup>st</sup> Detect, or (3) March 2020. No payments of interest or principal are due on the note unless there is a default, which would occur if 1<sup>st</sup> Detect moves its operations or headquarters outside of Texas at any time before March 2020. 1<sup>st</sup> Detect has the option to pay back the principal plus accrued interest by June 30, 2014, but repayment does not cancel the State of Texas’ stock purchase right.

Management considers the likelihood of voluntarily repaying the note or of a default event as remote due to the fact that the covenants that would necessitate repayment are within the control of the Company. As such, the \$1.8 million, which was received in two installments of \$0.9 million and \$0.9 million prior to the period ended March 31, 2014, was accounted for as a contribution to equity. As of March 31, 2014, no default events have occurred.

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

### ***The 1994 Plan (“1994 Plan”)***

Under the terms of the 1994 Plan, the number and price of the stock incentive awards granted to employees is determined by the Board of Directors and such grants vest, in most cases, incrementally over a period of four years and expire no more than ten years after the date of grant. At the time of approval, 395,000 shares of our common stock were reserved for issuance under this plan. As of March 31, 2014, there are no shares available for grant. Based on the Articles of the 1994 stock incentive plan, no awards shall be granted more than ten years after the effective date of the plan unless amended.

### ***The Directors’ Stock Option Plan (“Director’s Plan”)***

Options under the Director’s Plan vest after one year and expire seven years from the date of grant. At the time of approval, 50,000 shares of our common stock were reserved for issuance under this plan. As of March 31, 2014, there are 44,000 shares available for future grant.

### ***2008 Stock Incentive Plan (“2008 Plan”)***

The 2008 Plan was created to promote growth of the Company by aligning the long-term financial success of the Company with the employees, consultants and directors. At the time of approval, 5,500,000 shares of our common stock were reserved for issuance under this plan. The 2008 Plan, administered by the Compensation Committee of the Board of Directors, provides for granting of incentive awards in the form of stock options, stock appreciation rights (SARs) and restricted stock to employees, directors and consultants of the Company. Stock options awarded under this plan to date vested upon the Company’s stock achieving a closing price of \$1.50 and expire ten years from grant date or upon employee or director termination. Restricted shares awarded under this plan to date vest 33.33% a year over a three year period and expire upon employee or director termination. There have been no SARs granted from the 2008 Plan. As of March 31, 2014, there are 362,501 shares available for grant under the 2008 Plan.

### ***2011 Stock Incentive Plan (“2011 Plan”)***

The 2011 Plan was designed to increase shareholder value by compensating employees over the long term. The plan is to be used to promote long-term financial success and execution of our business strategy. At the time of approval, 1,750,000 shares of our common stock were reserved for issuance under this plan. The 2011 Plan, administered by the Compensation Committee of the Board of Directors, provides for granting of incentive awards in the form of stock options, stock appreciation rights (SARs) and restricted stock to employees, directors and consultants of the Company. Stock options awarded under this plan to date vested upon the Company’s stock achieving a closing price of \$1.50 and expire ten years from the grant date or upon employee or director termination. Additionally, a single 200,000 stock option grant was awarded to a third party consultant intended to provide incentive which is aligned with management and the shareholders. Vesting for these option shares will occur once certain performance conditions have been fulfilled. There have been no SARs or restricted stock granted from the 2011 Plan. As of March 31, 2014, there are 1,066,000 shares available for grant under the 2011 Plan.

At March 31, 2014, 1,472,501 shares of Common Stock were reserved for future grants of stock incentive grants under the Company’s four stock incentive plans.

### ***1<sup>st</sup> Detect 2011 Stock Incentive Plan (“1<sup>st</sup> Detect Plan”)***

The 1<sup>st</sup> Detect Plan was designed to increase shareholder value by compensating employees over the long term. The plan is to be used to promote long-term financial success and execution of our business strategy. At the time of approval, 2,500 shares of 1<sup>st</sup> Detect stock were reserved for issuance under this plan. The 1<sup>st</sup> Detect Plan, administered by the Board of Directors of 1<sup>st</sup> Detect, provides for granting of incentive awards in the form of stock options to certain directors, officers and employees of 1<sup>st</sup> Detect. The awards vest upon certain performance conditions being met and expire ten years from the grant date. The stock options have an exercise price equal to the fair market value of 1<sup>st</sup> Detect’s common stock on the date of grant as determined by an independent valuation firm. As of March 31, 2014, there are 1,800 shares available for grant under the 1<sup>st</sup> Detect Plan.

## **(12) Income Taxes**

The Company accounts for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts. Valuation allowances are established, when necessary, to reduce deferred tax assets to amounts that are more likely than not to be realized. As of March 31, 2014, the Company has established a full valuation allowance against all of its net deferred tax assets.

FASB ASC 740, *Income Taxes* (FASB ASC 740) addresses the accounting for uncertainty in income taxes recognized in an entity’s financial statements and prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken or expected to be taken on a tax return. The Company has an unrecognized tax benefit of \$0.1 million for the nine months ended March 31, 2014 and 2013.

For the three and nine months ended March 31, 2014 and 2013, the Company’s effective tax rate differed from the federal statutory rate of 35%, primarily due to recording changes to the valuation allowance placed against its net deferred tax assets.

Loss carryovers are generally subject to modification by tax authorities until 3 years after they have been utilized; as such, the Company is subject to examination for the fiscal years ended 2000 through present for federal purposes and fiscal years ended 2006 through present for state purposes.

The Company’s examination by the Internal Revenue Service (“IRS”) for its fiscal years ended June 30, 2008 through 2010, has been closed with no tax due or refund.

### **(13) Commitments and Contingencies**

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

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

***Litigation, Investigations and Audits*** — We are not party to, nor are our properties the subject of, any material pending legal proceedings, other than as set forth below:

On January 10, 2013, a lawsuit was filed against Astrotech Corporation by John Porter, the former Senior Vice President, Chief Financial Officer, Treasurer and Secretary of the Company. In the lawsuit, Mr. Porter alleged various breaches of contract claims in connection with his termination from the Company on August 3, 2012. On April 28, 2014, the Company reached a settlement of all claims asserted by Mr. Porter in this lawsuit. The Company has accrued a liability for this settlement as of March 31, 2014.

On February 20, 2013, a shareholder derivative lawsuit was filed in the District Court of Travis County, Texas against the current directors and chief executive officer of Astrotech Corporation and against the Company, as nominal defendant. The complaint alleged, among other things, that the directors and chief executive officer breached fiduciary duties to the Company in connection with certain corporate transactions, including loans to subsidiaries and purchases of outstanding shares of the Company's common stock. On February 25, 2014 the Texas Court of Appeals dismissed this lawsuit.

Astrotech has been named as a party to a suit filed in the Circuit Court of the Eighteenth Judicial Circuit for Brevard County, Florida. This is an action for foreclosure of certain real estate and for debt. The Company is named as a party because it holds an inferior lien against the property at issue and must be named in the foreclosure action. No monetary relief has been requested against Astrotech.

#### ***Contingent obligation related to 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, environmental and industrial markets (See Note 10). As of June 30, 2012, 1<sup>st</sup> Detect had received \$1.8 million in disbursements. The disbursed amount of \$1.8 million represents a contingency through March 2020, the date of cancellation. If an event of default should occur, the Company would calculate and expense accrued interest and reclassify principal from equity to notes payable in the consolidated financial statements as amounts due to the State of Texas. Management considers the likelihood of an event of default to be remote. As of March 31, 2014, no default events have occurred.

#### ***Contingent obligation related to our five-meter high-bay at VAFB in California***

In September 2009, we completed construction of a 23,000 square foot payload processing facility at VAFB in California which enhanced our capability to process five-meter class satellite payloads. Additionally, in December 2009, we completed construction of a 5,600 square foot office building used by customers for administrative and operational support of teams processing satellites in the new five-meter payload facility. ASO presently leases the 60-acre site located on VAFB in California, where we own four buildings totaling over 50,000 square feet of space. The Company has extended the original land lease, which expired in September 2013. The new lease expires in September 2018, with provisions to extend the lease at the request of the lessee and the concurrence of the lessor. Upon final expiration of the land lease, all improvements on the property revert, at the lessor's option, to the lessor at no cost or we will be required to return the land to the original condition at our cost. We currently have not accrued anything for this potential obligation because we view the likelihood of this happening as remote.

## FORWARD-LOOKING STATEMENTS

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

- The effect of economic conditions in the United States or other space faring nations that could impact our ability to access space and support or gain customers;
- Our ability to raise sufficient capital to meet our long and short-term liquidity requirements;
- Our ability to successfully pursue our business plan and execute our strategy;
- Whether we will fully realize the economic benefits under our NASA and other customer contracts;
- Technological difficulties and potential legal claims arising from any technological difficulties;
- Product demand and market acceptance risks, including our ability to develop and sell products and services to be used by governmental or commercial customers;
- Uncertainty in government funding and support for key space programs;
- The impact of competition on our ability to win new contracts;
- Uncertainty in securing reliable and consistent access to space, including the International Space Station;
- Delays in the timing of performance of our contracts;
- Our ability to meet technological development milestones and overcome development challenges; and
- Risks described in the “Risk Factors” section of this Quarterly Report on Form 10-Q and our 2013 Annual Report on Form 10-K.

Although we believe that the assumptions underlying our forward-looking statements are reasonable, any of the assumptions could be inaccurate, and, therefore, we cannot assure you that the forward-looking statements included in this Quarterly Report on Form 10-Q will prove to be accurate. In light of the significant uncertainties inherent in our forward-looking statements, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved. Some of these and other risks and uncertainties that could cause actual results to differ materially from such forward-looking statements are more fully described in the Risk Factors included in Part II Item 1A of this Report and Part I, Item 1A of our 2013 Annual Report on 10-K and elsewhere in this Quarterly Report on Form 10-Q or in the documents incorporated by reference herein. Except as may be required by applicable law, we undertake no obligation to publicly update or advise of any change in any forward-looking statement, whether as a result of new information, future events or otherwise. In making these statements, we disclaim any obligation to address or update each factor in future filings with the Securities and Exchange Commission (“SEC”) or communications regarding our business or results, and we do not undertake to address how any of these factors may have caused changes to discussions or information contained in previous filings or communications. In addition, any of the matters discussed above may have affected our past results and may affect future results, so that our actual results may differ materially from those expressed in this Quarterly Report on Form 10-Q and in prior or subsequent communications.

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

The following information should be read in conjunction with the unaudited condensed consolidated financial statements and the accompanying notes included in Part I, Item 1 of this Report, and the Risk Factors included in Part II Item 1A of this Report and Part I, Item 1A of our 2013 Annual Report on Form 10-K.

### Business Overview

Astrotech Corporation (Nasdaq: ASTC) ("Astrotech," "the Company," "we," "us" or "our"), a Washington corporation, is a commercial aerospace company that was formed in 1984 to leverage the environment of space for commercial purposes. For nearly 30 years, the Company has remained a crucial player in space commerce activities. We have successfully supported the launch of 23 shuttle missions and more than 300 spacecraft. We have designed, operated and built space hardware and processing facilities. We currently own, operate and maintain world-class spacecraft processing facilities; prepare and process scientific research in microgravity and develop and manufacture sophisticated and cutting edge chemical sensor equipment.

Our efforts are focused on:

- Providing world-class facilities and related support services necessary for the preparation of satellites and payloads.
- Providing satellite and payload processing and integration services and support.
- Designing, fabricating and utilizing equipment and hardware for launch activities.
- Supplying propellant and associated services for spacecraft.
- Managing launch logistics and support.
- Working with development partners to build industry specific applications using our sensor equipment.
- Commercializing unique space-based technologies.

### Our Business Units

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

ASO provides support to its government and commercial customers as they successfully process complex communication, earth observation and deep space satellites in preparation for their launch on a variety of launch vehicles. Processing activities include satellite ground transportation; pre-launch hardware integration and testing; satellite encapsulation, fueling and launch pad delivery; and communication linked launch control. Our ASO facilities can accommodate up to five meter class satellites, which includes almost all U.S.-based satellites. ASO's service capabilities include designing and building spacecraft processing equipment and facilities. In addition, ASO provides propellant services including designing, building and testing propellant service equipment for fueling spacecraft. ASO accounted for 97% and 99% of our consolidated revenues for the three and nine months ended March 31, 2014, respectively. Revenue for our ASO business unit is generated primarily from various fixed-priced contracts with launch service providers in both the government and commercial markets and from the design, fabrication and use of critical space launch equipment. The services and facilities we provide to our customers support the final assembly, checkout and countdown functions required to launch a spacecraft. The revenue and cash flows generated by ASO are primarily driven by 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:

- The continuing limited availability of competing facilities at the major domestic launch sites that can offer comparable services, leading to an increase in government and commercial use of our services.
- Our ability to design and fabricate spacecraft preparation and processing equipment.
- Our ability to control our capital expenditures, which are primarily limited to modifications required to accommodate payload processing for new launch vehicles and upgrading building infrastructure.
- Our ability to complete customer specified facility modifications within budgeted costs and time commitments.



- Uncertainty in government funding and support for key space programs.
- The impact of competition and industry consolidation and our ability to win new contracts.

### **Spacetech**

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

**1<sup>st</sup> Detect** — 1<sup>st</sup> Detect develops, manufactures and sells ultra-small mass spectrometers and related equipment. Mass spectrometers, in general, measure the mass and relative abundance of ions in a sample to create a “mass spectrum”. This resulting mass spectrum is a unique fingerprint for each chemical that can be compared to a reference library of mass spectra to verify the identity of a sample. Mass spectrometers can identify chemicals with more accuracy and precision than competing instruments given their extreme sensitivity and specificity and they are a staple of almost all analytical laboratories. By leveraging technology initiated by an engagement with the National Aeronautics and Space Administration (“NASA”) to develop a mass spectrometer for the International Space Station (“ISS”), the Company has developed a series of instruments that are significantly smaller, lighter, faster and less expensive than competing mass spectrometers, and significantly more sensitive and accurate than other competing chemical detectors. Our efforts have resulted in a technology that can provide mass spectrometry analytics in real-time for explosive device detection in airports and the battlefield, industrial quality and process control, environmental field applications and laboratory research.

The MMS-1000<sup>TM</sup> is a small, low power mass spectrometer designed initially for the laboratory market at a fraction of the cost of competing mass spectrometers. The unique design of this unit enables mass spectrometric quality chemical analysis in a small (about the size of a shoebox), light and transportable package that operates from less power than a typical light bulb. This allows high quality chemical analysis to be performed in locations where mass spectrometers have not been used before without compromising the quality of the analysis. The OEM-1000 is a mass spectrometer component that is designed to be integrated into an OEM customers’ complementary technology and application. The OEM-1000 has recently been integrated into a Thermogravimetric Analyzer (“TGA”) manufactured by RIGAKU of Tokyo, Japan. The integrated instrument named Thermo iMS2 is the world’s first integrated TGA with MS/MS capabilities and is expected to be well received by the international research and development markets.

**Astrogenetix** — Astrogenetix is a biotechnology company formed to commercialize products processed in the unique environment of microgravity. Astrogenetix pursued an aggressive space access strategy to take advantage of the Space Shuttle program prior to its retirement in 2011. This strategy gave Astrogenetix unprecedented access to research in microgravity, as we flew experiments twelve times over a three year period. In collaboration with NASA, NASA has engaged leading vaccine development experts through a premier educational institution to independently evaluate Astrogenetix’s platform with specific direction to aid in the filing of an Investigational New Drug (“IND”) application for Salmonella. While investment in Astrogenetix has been scaled back considerably until Astrogenetix’s platform is independently verified, the team is also evaluating a vaccine target for Methicillin-Resistant Staphylococcus Aureus (“MRSA”) based on discoveries made in microgravity. In December 2011, we negotiated a Space Act Agreement with NASA for a minimum of twenty eight additional space flights.

### **Critical Accounting Policies**

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

Management believes there have been no significant changes during the period ended March 31, 2014 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 2013 Annual Report on Form 10-K.

## Results of Operation

### Quarter ended March 31, 2014 compared to Quarter ended March 31, 2013:

Selected consolidated financial data for the quarter ended March 31, 2014 and 2013 is as follows (dollars in thousands):

	Quarter Ended March 31,	
	2014	2013
Revenue	\$ 1,556	\$ 4,565
Cost of revenue	2,308	2,550
<b>Gross profit (loss)</b>	<b>(752)</b>	<b>2,015</b>
<b>Gross margin</b>	<b>(48)%</b>	<b>44%</b>
Selling, general and administrative	1,593	1,758
Research and development	645	459
<b>Operating expenses</b>	<b>\$ 2,238</b>	<b>\$ 2,217</b>
Interest and other expense, net	(61)	(36)
Income tax expense	(2)	—
<b>Consolidated net loss</b>	<b>\$ (3,053)</b>	<b>\$ (238)</b>
Less: Net loss attributable to noncontrolling interest	(216)	(125)
<b>Net loss attributable to Astrotech Corporation</b>	<b>\$ (2,837)</b>	<b>\$ (113)</b>

**Revenue** — Total revenue decreased \$3.0 million, or 65.9% during the third quarter of fiscal 2014 compared to the third quarter of fiscal 2013 primarily due to decreased mission related service revenue as a result of two fewer missions during the third quarter of fiscal 2014 compared to the third quarter of fiscal 2013.

**Gross Profit (Loss)** — Gross profit decreased \$2.8 million during the third quarter of fiscal 2014 compared to the third quarter of fiscal 2013 primarily due to our decrease in revenue as described above.

**Operating Expenses** — Our operating expenses increased negligibly during the third quarter of fiscal 2014 compared to the same period in the prior fiscal year. Significant changes to operating expenses included the following:

- Selling, general and administrative expense decreased by \$0.2 million and was a result of lower legal expense, lobbying expense, director's fees, marketing expense and incentive compensation related costs offset by higher consulting and recruiting expense.
- Research and development expense increased by \$0.2 million and was a result of the delivery and installation of one 1<sup>st</sup> Detect unit to a potential customer last year, which was recorded as an offset to research and development expense, increased depreciation expense due to leasehold improvements at 1<sup>st</sup> Detect, and higher material costs offset by a reduction in legal costs related to patents, as well as lower subcontractor costs.

## Nine months ended March 31, 2014 compared to nine months ended March 31, 2013:

Selected consolidated financial data for the nine months ended March 31, 2014 and 2013 is as follows (dollars in thousands):

	Nine Months Ended March 31,	
	2014	2013
Revenue	\$ 10,783	\$ 14,815
Cost of revenue	8,076	10,581
<b>Gross profit</b>	<b>2,707</b>	<b>4,234</b>
<b>Gross margin</b>	<b>25%</b>	<b>29%</b>
Selling, general and administrative	5,540	5,341
Research and development	1,801	1,494
<b>Operating expenses</b>	<b>\$ 7,341</b>	<b>\$ 6,835</b>
Interest and other expense, net	(178)	(121)
Income tax expense	(9)	—
<b>Consolidated net loss</b>	<b>\$ (4,821)</b>	<b>\$ (2,722)</b>
Less: Net loss attributable to noncontrolling interest	(681)	(382)
<b>Net loss attributable to Astrotech Corporation</b>	<b>\$ (4,140)</b>	<b>\$ (2,340)</b>

**Revenue** — Total revenue decreased \$4.0 million, or 27.2% for the nine months ended March 31, 2014 compared to the nine months ended March 31, 2013 primarily due to lower mission and non-mission specific project related revenue.

**Gross Profit** — Gross profit decreased \$1.5 million, or 36.1% for the nine months ended March 31, 2014 compared to the nine months ended March 31, 2013 primarily due to our decrease in revenue as described above.

**Operating Expenses** — Our operating expenses increased \$0.5 million, or 7.4% during the nine months ended March 31, 2014 compared to the same period in the prior fiscal year. Significant changes to operating expenses included the following:

- Selling, general and administrative expense increased \$0.2 million primarily driven by the immediate vesting of stock options awarded under our 2008 and 2011 stock incentive plans when the Company's stock achieved a closing price of \$1.50, higher consulting related costs within our corporate and 1<sup>st</sup> Detect operations, a severance payment related to the resignation of our former Chief Financial Officer, offset by decreased legal and incentive compensation related costs and lower marketing expense.
- Research and development expense increased \$0.3 million as a result of the delivery and installation of three 1<sup>st</sup> Detect units to potential customers last year, which was recorded as an offset to research and development expense, increased depreciation expense due to leasehold improvements at 1<sup>st</sup> Detect, offset by lower patent related legal costs and lower material costs.

## Liquidity and Capital Resources

The following table summarizes our cash flows from operating, investing and financing activities (in thousands):

	Nine Months Ended March 31,		
	2014	2013	change
Net cash flows from:			
Operating activities	\$ 34	\$ (968)	\$ 1,002
Investing activities	(305)	(936)	631
Financing activities	(273)	(239)	(34)
<b>Net increase in cash and cash equivalents</b>	<b>\$ (544)</b>	<b>\$ (2,143)</b>	<b>\$ 1,599</b>

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

At March 31, 2014, we had cash and cash equivalents of \$4.6 million and our working capital was approximately \$(3.9) million. As of March 31, 2013, we had cash and cash equivalents of \$8.0 million and our working capital was approximately \$2.8 million. Cash and cash equivalents decrease by approximately \$0.5 million during the nine months ended March 31, 2014.

### ***Operating Activities***

Cash provided by operations increased by \$1.0 million during the nine months ended March 31, 2014 compared to the nine months ended March 31, 2013. This increase in cash flow was primarily attributable to a decrease in accounts receivable and other liabilities, the timing of payments in accounts payable which was attributable to our GSE work, as well as an increase in deferred revenue.

### ***Investing Activities***

Net cash used in investing activities decreased by \$0.6 million during the nine months ended March 31, 2014 compared to the nine months ended March 31, 2013 as a result of decreased investments in leasehold improvement capital expenditures at ASO compared to the prior fiscal year.

### ***Financing Activities***

Net cash used in financing activities increased negligibly due to lower proceeds on the issuance of common stock during the nine months ended March 31, 2014 compared to the nine months ended March 31, 2013.

### **Debt**

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

In October 2010, we entered into a financing facility with a commercial bank providing a \$7.0 million term loan note and a \$3.0 million revolving credit facility. The \$7.0 million term loan terminates in October 2015, and the \$3.0 million revolving credit facility expired in October 2012. The Company had no outstanding balance on the revolving credit facility. The term loan requires monthly payments of principal plus interest at the rate of prime plus 0.25%, but not less than 4.0%. The bank financing facilities are secured by the assets of ASO, including accounts receivable, and require us to comply with designated covenants. The balance of the \$7.0 million term loan at March 31, 2014 and 2013 was \$5.8 million and \$6.1 million, respectively.

Our bank financing facilities contain certain affirmative and negative covenants with which we must comply, including the maintenance by us of a debt service coverage ratio of not less than 1.00 to 1.00, maintaining a tangible net worth of not less than \$32.50 million, and maintaining a leverage ratio of not greater than .50 to 1.00. These financial covenants are applicable to the results of ASO. In the event we are not in compliance with a covenant, the bank may, among other things, accelerate all outstanding borrowings, cease extending credit or foreclose on collateral. As of March 31, 2014, we were not in compliance with the debt service coverage ratio and minimum tangible net worth debt covenants. On May 7, 2014, the Company received a waiver for the existing defaults for the current quarter.

#### ***Debt Covenant Compliance***

The Company's remaining debt repayments are due as follows, not including the effect of debt covenant violations (in thousands):

	<b>Fiscal Year 2014<sup>(1)</sup></b>	<b>Fiscal Year 2015</b>	<b>Fiscal Year 2016</b>	<b>Thereafter</b>
Term Note	\$ 98	\$ 403	\$ 418	\$ 4,834

(1) Represents remaining three months in fiscal year 2014.

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

As of March 31, 2014, we were not in compliance with the debt service coverage ratio and tangible net worth debt covenants.

In October, 2013 we were notified by a customer that a previously booked payload processing contract would be deferred several weeks. Consequently, our financial projections for fiscal year 2014 indicated that we would likely not be in compliance with our debt service coverage ratio and minimum tangible net worth covenants by the third quarter ended March 31, 2014. As such, on October 11, 2013, we amended the debt agreement with our bank that updated the following with respect to our debt covenants: 1) provided a credit of \$0.50 million and \$2.25 million for the third and fourth quarter of fiscal year 2014, respectively, to our debt service coverage calculation, 2) reduced our minimum tangible net worth requirement to \$32.0 million for the third and fourth fiscal quarter of fiscal year 2014, and 3) required that we maintain a minimum cash balance at the bank of \$2.0 million through June 30, 2014 and \$0.75 million thereafter. In November, 2013 we were subsequently notified by the same customer that this mission would be deferred. As a result of this deferral we did not meet our debt service coverage ratio and minimum tangible net worth covenants in the third quarter of fiscal 2014 and it is probable that we will not be in compliance as of June 30, 2014. As such, we have reclassified our long-term debt to current. We will continue to monitor this matter during the remainder of fiscal year 2014, and if necessary, pursue a debt amendment with our bank.

### ***Liquidity and Capital Resources***

Our future capital requirements will depend on a number of factors, including our success in developing and expanding markets for our products, payments under possible future strategic arrangements, continued progress of our research and development of potential products, the need to acquire licenses to new technology, costs associated with increasing our manufacturing and development facilities, costs associated with strategic acquisitions including integration costs and assumed liabilities, litigation expense, the status of competitive products and potential cost associated with both protecting and defending our intellectual property. In addition, actions taken as a result of the ongoing internal evaluation of our business could result in expenditures not currently contemplated in our estimates for 2014. We believe, however, that our existing cash and cash equivalents are sufficient to fund our operating expenses, capital equipment requirements and other expected liquidity requirements for the coming year. Factors that could affect our capital requirements, in addition to those listed above include continued collections of accounts receivable consistent with our historical experience, uncertainty surrounding mission launch schedules and our ability to manage product development efforts.

We believe we have sufficient liquidity and backlog to fund ongoing operations for at least the next fiscal year. We expect to utilize existing cash and proceeds from operations to grow our core business offering in ASO and to support strategies for Spacotech. However, in the event that the bank accelerates payments on borrowings due to a debt covenant violation, we would have to secure new funding in order to pay off the debt.

### **Income Taxes**

The Company accounts for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts. Valuation allowances are established, when necessary, to reduce deferred tax assets to amounts that are more likely than not to be realized. As of March 31, 2014, the Company has established a full valuation allowance against all of its net deferred tax assets.

FASB ASC 740, Income Taxes (FASB ASC 740) addresses the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken or expected to be taken on a tax return. The Company has an unrecognized tax benefit of \$0.1 million for the three months ended March 31, 2014 and 2013.

For the three and nine months ended March 31, 2014 and 2013, the Company's effective tax rate differed from the federal statutory rate of 35%, primarily due to recording changes to the valuation allowance placed against its net deferred tax assets.

Loss carryovers are generally subject to modification by tax authorities until 3 years after they have been utilized; as such, the Company is subject to examination for the fiscal years ended 2000 through present for federal purposes and fiscal years ended 2006 through present for state purposes.

The Company's examination by the Internal Revenue Service ("IRS") for its fiscal years ended June 30, 2008 through 2010, has been closed with no tax due or refund.

### **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 2013 Annual Report on Form 10-K.

### ITEM 4. CONTROLS AND PROCEDURES

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

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

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

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Exchange Act Rule 13a-15(d) during the quarter ended March 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II: OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

On January 10, 2013, a lawsuit was filed against Astrotech Corporation by John Porter, the former Senior Vice President, Chief Financial Officer, Treasurer and Secretary of the Company. In the lawsuit, Mr. Porter alleged various breaches of contract claims in connection with his termination from the Company on August 3, 2012. On April 28, 2014, the Company reached a settlement of all claims asserted by Mr. Porter in this lawsuit.

On February 20, 2013, a shareholder derivative lawsuit was filed in the District Court of Travis County, Texas against the current directors and chief executive officer of Astrotech Corporation and against the Company, as nominal defendant. The complaint alleged, among other things, that the directors and chief executive officer breached fiduciary duties to the Company in connection with certain corporate transactions, including loans to subsidiaries and purchases of outstanding shares of the Company's common stock. On February 25, 2014 the Texas Court of Appeals dismissed this lawsuit.

Astrotech has been named as a party to a suit filed in the Circuit Court of the Eighteenth Judicial Circuit for Brevard County, Florida. This is an action for foreclosure of certain real estate and for debt. The Company is named as a party because it holds an inferior lien against the property at issue and must be named in the foreclosure action. No monetary relief has been requested against Astrotech.

### ITEM 1A. RISK FACTORS

Other than the substitution of the first following risk factor for the final risk factor in our 2013 Annual Report on Form 10-K and the addition of the second following risk factor, there have been no material changes in the risk factors described in our 2013 Annual Report on Form 10-K.

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

On November 13, 2012, we received written notification from NASDAQ indicating that the minimum bid price of our common stock had fallen below \$1.00 for 30 consecutive trading days and that we were therefore not in compliance with NASDAQ Listing Rule 5550(a)(2). On October 30, 2013, we received written notification from NASDAQ that for the previous ten business days, from October 16, 2013 to October 29, 2013, the closing bid price of the Company's common stock had been at \$1.00 per share or greater and the Company has regained compliance with Listing Rule 5550(a)(2). However, we cannot provide any assurance that we will be able to maintain future compliance with this requirement. Any delisting of our common stock from the NASDAQ Capital Market could adversely affect our ability to attract new investors, decrease the liquidity of our outstanding shares of common stock, reduce our flexibility to raise additional capital, reduce the price at which our common stock trades and increase the transaction costs inherent in trading such shares with overall negative effects for our shareholders. In addition, delisting of our common stock could deter broker-dealers from making a market in or otherwise seeking or generating interest in our common stock, and might deter certain institutions and persons from investing in our securities at all. For these reasons, delisting could adversely affect our business, financial condition and results of operations.

*Our cash and cash equivalents may not be sufficient to fund our operating expenses, capital equipment requirements and other expected liquidity requirements.*

Our future capital requirements will depend on a number of factors, including our success in developing and expanding markets for our products, payments under possible future strategic arrangements, continued progress of our research and development of potential products, the need to acquire licenses to new technology, costs associated with increasing our manufacturing and development facilities, costs associated with strategic acquisitions including integration costs and assumed liabilities, litigation expense, the status of competitive products and potential cost associated with both protecting and defending our intellectual property. Additionally, actions taken as a result of the ongoing internal evaluation of our business could result in expenditures that are not currently contemplated. Factors that could affect our capital requirements, in addition to those listed above include continued collections of accounts receivable consistent with our historical experience, uncertainty surrounding mission launch schedules and our ability to manage product development efforts.

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

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

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

During the quarter ended March 31, 2014, we did not issue any unregistered securities or repurchase any of our securities.

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## ITEM 5. OTHER INFORMATION

Not applicable.

## ITEM 6. EXHIBITS

The following exhibits are filed herewith:

<u>Exhibit No.</u>	<u>Description</u>
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
32	Certification pursuant to Rule 13a-14(b) of the Securities and Exchange Act of 1934.
101	The following financial information from the Company's Quarterly Report on Form 10-Q, for the period ended March 31, 2014, formatted in eXtensible Business Reporting Language: (i) Unaudited Condensed Consolidated Balance Sheets, (ii) Unaudited Condensed Consolidated Statements of Operations, (iii) Unaudited Condensed Consolidated Statements of Cash Flows, (v) Notes to Unaudited Condensed Consolidated Financial Statements. <sup>(1)</sup>

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

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

Astrotech Corporation

Date: May 14, 2014

/s/ Eric Stober

Eric Stober

Chief Financial Officer



**Certification of Chief Executive Officer  
Section 302 Certification**

I, Thomas B. Pickens III, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Astrotech Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared; and
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal three months (the registrant's fourth fiscal three months in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 14, 2014

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

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**Certification of Chief Financial Officer  
Section 302 Certification**

I, Eric Stober, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Astrotech Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared; and
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal three months (the registrant's fourth fiscal three months in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 14, 2014

/s/ Eric Stober

Eric Stober  
Chief Financial Officer

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**Certification Pursuant to 18 U.S. Section 1350,  
as Adopted Pursuant to Section 906 of the Sarbanes- Oxley Act of 2002**

Each of the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, in his capacity as an officer of Astrotech Corporation ("Astrotech"), that, to the best of his knowledge, the Quarterly Report of Astrotech on Form 10-Q for the period ended March 31, 2014, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operation of Astrotech.

Date: May 14, 2014

/s/ Thomas B. Pickens III

Thomas B. Pickens III  
Chief Executive Officer

/s/ Eric Stober

Eric Stober  
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Astrotech and will be retained by Astrotech and furnished to the Securities and Exchange Commission or its staff upon request.

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