

KAR Auction Services, Inc.  
Form 424B3  
June 06, 2013  
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Filed Pursuant to Rule 424(b)(3)  
Registration No. 333-174038

PROSPECTUS SUPPLEMENT TO PROSPECTUS DATED JUNE 22, 2011

15,000,000 Shares  
**KAR Auction Services, Inc.**  
Common Stock

The shares of common stock are being sold by the selling stockholder. We will not receive any of the proceeds from the shares of common stock sold by the selling stockholder.

Our common stock is listed on the New York Stock Exchange under the symbol KAR. The closing price on the New York Stock Exchange on June 5, 2013 was \$21.69 per share.

The underwriters have an option to purchase a maximum of 2,250,000 additional shares from the selling stockholder.

Investing in our common stock involves risks. See Risk Factors on page S-11.

	Price to Public	Underwriting Discounts and Commissions	Proceeds to Selling Stockholder
Per Share	\$21.25	\$0.796875	\$20.453125
Total	\$318,750,000	\$11,953,125	\$306,796,875

Delivery of the shares of common stock will be made on or about June 11, 2013.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Joint Book-Running Managers

**Credit Suisse**

**J.P. Morgan**

**Goldman, Sachs & Co.**

Lead Managers

**Barclays**

**BMO Capital Markets**

**BofA Merrill Lynch**  
Senior Co-Managers

**Deutsche Bank Securities**

**Baird**

**Barrington Research**

**BB&T Capital Markets**  
The date of this prospectus supplement is June 5, 2013.

**Stephens Inc.**

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You should rely only on the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus or any related free writing prospectus that we may issue. None of us, the selling stockholder or the underwriters have authorized anyone to provide you with information that is different. The selling stockholder is offering to sell these securities and seeking offers to buy these securities only in jurisdictions where the offers and sales are permitted. You should assume that the information appearing in this prospectus supplement, the accompanying prospectus, any related free writing prospectus and the documents incorporated by reference herein and therein is accurate only as of their respective dates. Our business, financial condition, results of operations or prospects may have changed since those dates.

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The distribution of this prospectus supplement and the accompanying prospectus and this offering in certain jurisdictions may be restricted by law. Persons who receive this prospectus supplement and the accompanying prospectus should inform themselves about and observe any such restrictions. This prospectus supplement and the accompanying prospectus do not constitute, and may not be used in connection with, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation. See the section entitled Underwriting.

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**You should read this prospectus supplement and the accompanying prospectus carefully before investing in the common stock. This prospectus supplement and the accompanying prospectus contain the terms of this offering of common stock. This prospectus supplement may add, update or change information in the accompanying prospectus. In addition, the information incorporated by reference in the accompanying prospectus may have added, updated or changed information in the accompanying prospectus. If information in this prospectus supplement is inconsistent with any information in the accompanying prospectus, this prospectus supplement will supersede such information.**

In this prospectus supplement, unless otherwise specified or the context otherwise requires, the following terms have the following meanings:

the Company, we, us and our refer to KAR Auction Services, Inc., a Delaware corporation, and its subsidiaries;

ADESA refers, collectively, to ADESA, Inc., a wholly-owned subsidiary of KAR Auction Services, and ADESA, Inc.'s subsidiaries, including OPENLANE, Inc. ( OPENLANE );

AFC refers, collectively, to Automotive Finance Corporation, a wholly-owned subsidiary of ADESA, and Automotive Finance Corporation's subsidiaries;

Equity Sponsors refers, collectively, to Kelso Investment Associates VII, L.P., GS Capital Partners VI, L.P., ValueAct Capital Master Fund, L.P. and Parthenon Investors II, L.P.;

IAA refers, collectively, to Insurance Auto Auctions, Inc., a wholly-owned subsidiary of KAR Auction Services, and Insurance Auto Auctions, Inc.'s subsidiaries;

KAR Auction Services refers to KAR Auction Services, Inc. and not to its subsidiaries;

KAR LLC refers to KAR Holdings II, LLC, which is owned by affiliates of the Equity Sponsors, other equity co-investors and management of the Company; and

2007 Transactions refers to the following events: On December 22, 2006, KAR LLC entered into a definitive merger agreement to acquire ADESA. The merger occurred on April 20, 2007. Concurrently with the merger, IAA was contributed by affiliates of Kelso & Company and Parthenon Capital and IAA's management to KAR Auction Services. Both ADESA and IAA became wholly-owned subsidiaries of KAR Auction Services.

This prospectus supplement and the accompanying prospectus contain references to a number of trademarks (including service marks) that are our registered trademarks or trademarks for which we have pending applications or common law rights. These include, among others, OPENLANE®, CarsArrive®, LiveBlock®, DealerBlock® and CSAToday® and our logos. Trade names, trademarks and service marks of other companies appearing in this prospectus supplement are the property of their respective holders.

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**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus supplement, the accompanying prospectus and the information incorporated by reference herein and therein contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and which are subject to certain risks, trends and uncertainties. In particular, statements made in this prospectus supplement, the accompanying prospectus and the information incorporated by reference herein and therein that are not historical facts (including, but not limited to, expectations, estimates, assumptions and projections regarding the industry, business, future operating results, potential acquisitions and anticipated cash requirements) may be forward-looking statements. Words such as should, may, will, anticipates, expects, intends, plans, believes, seeks, estimates and expressions identify forward-looking statements. Such statements, including statements regarding our future growth; anticipated cost savings, revenue increases and capital expenditures; dividend declarations and payments; strategic initiatives, greenfields and acquisitions; our competitive position and retention of customers; and our continued investment in information technology, are not guarantees of future performance and are subject to risks and uncertainties that could cause actual results to differ materially from the results projected, expressed or implied by these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the section entitled Risk Factors beginning on page S-11 of this prospectus supplement and in our annual report on Form 10-K for the year ended December 31, 2012 and our quarterly report on Form 10-Q for the quarter ended March 31, 2013, which are incorporated by reference in this prospectus supplement. Some of these factors include:

fluctuations in consumer demand for and in the supply of used, leased and salvage vehicles and the resulting impact on auction sales volumes, conversion rates and loan transaction volumes;

trends in new and used vehicle sales and incentives, including wholesale used vehicle pricing;

the ability of consumers to lease or finance the purchase of new and/or used vehicles;

the ability to recover or collect from delinquent or bankrupt customers;

economic conditions including fuel prices, foreign exchange rates and interest rate fluctuations;

trends in the vehicle remarketing industry;

trends in the number of commercial vehicles being brought to auction, in particular off-lease volumes;

changes in the volume of vehicle production, including capacity reductions at the major original equipment manufacturers;

increases in the number of used vehicles purchased on virtual auction platforms;

the introduction of new competitors;

laws, regulations and industry standards, including changes in regulations governing the sale of used vehicles, the processing of salvage vehicles and commercial lending activities;

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changes in the market value of vehicles auctioned, including changes in the actual cash value of salvage vehicles;

competitive pricing pressures;

costs associated with the acquisition of businesses or technologies;

litigation developments;

our ability to successfully implement our business strategies or realize expected cost savings and revenue enhancements;

our ability to maintain our brand and protect our intellectual property;

our ability to develop and implement information systems responsive to customer needs;

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business development activities, including acquisitions and integration of acquired businesses;

the costs of environmental compliance and/or the imposition of liabilities under environmental laws and regulations;

weather, including increased expenses as a result of Superstorm Sandy;

general business conditions;

our substantial amount of debt;

restrictive covenants in our debt agreements;

our assumption of the settlement risk for vehicles sold;

any impairment to our goodwill or other intangible assets;

our self-insurance for certain risks;

any losses of key personnel;

interruptions to service from our workforce;

changes in effective tax rates;

changes to accounting standards; and

other risks described from time to time in our filings with the SEC.

Many of these risk factors are outside of our control, and as such, they involve risks which are not currently known that could cause actual results to differ materially from those discussed or implied herein. The forward-looking statements in this prospectus supplement are made as of the date on which they are made and we do not undertake to update our forward-looking statements.

Our future growth depends on a variety of factors, including our ability to increase vehicle sold volumes and loan transaction volumes, expand our product and service offerings, including information systems development, acquire and integrate additional business entities, manage expansion, control costs in our operations, introduce fee increases, and retain our executive officers and key employees. We cannot predict whether our growth strategy will be successful. In addition, we cannot predict what portion of overall sales will be conducted through online auctions or other remarketing methods in the future and what impact this may have on our auction business.





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**SUMMARY**

*This summary description about us and our business highlights selected information contained elsewhere in this prospectus supplement or incorporated by reference into this prospectus supplement. It does not contain all the information you should consider before purchasing our securities. This summary may not contain all of the information that may be important to you. You should read in their entirety this prospectus supplement, the accompanying prospectus and any other related free writing prospectus, together with the additional information described under the section entitled "Where You Can Find More Information" beginning on page S-35 of this prospectus supplement. You should pay special attention to the "Risk Factors" section beginning on page S-11 of this prospectus supplement and in our annual report on Form 10-K for the year ended December 31, 2012 and our quarterly report on Form 10-Q for the quarter ended March 31, 2013, which are incorporated by reference in this prospectus supplement, to determine whether an investment in our common stock is appropriate for you.*

**Our Company**

We are a leading provider of vehicle auction services in North America. We facilitate an efficient marketplace by providing auction services for sellers of used, or "whole car," vehicles and salvage vehicles through our 230 physical auction locations as of March 31, 2013, and multiple proprietary Internet venues. In 2012, we facilitated the sale of over 3.3 million used and salvage vehicles. Our revenues are generated through auction fees from both vehicle buyers and sellers, as well as by providing value-added ancillary services, including transportation, reconditioning, inspections, marshalling, titling and floorplan financing. We facilitate the transfer of ownership directly from seller to buyer and generally we do not take title to or ownership of vehicles sold at our auctions. For the three months ended March 31, 2013, our revenues totaled \$557.6 million, and our Adjusted EBITDA was \$136.2 million. For the three months ended March 31, 2013, our net income was \$29.1 million. For the year ended December 31, 2012, our revenues totaled \$1,963 million, and our Adjusted EBITDA was \$500.2 million. For the year ended December 31, 2012, our net income was \$92.0 million. For a reconciliation of net income (loss) to Adjusted EBITDA, which is a non-GAAP financial measure, see "Summary Consolidated Financial Data."

ADESA, our whole car auction services business, is the second largest provider of used vehicle auction services in North America. Vehicles at ADESA's auctions are typically sold by commercial fleet operators, financial institutions, rental car companies, used vehicle dealers and vehicle manufacturers and their captive finance companies to franchised and independent used vehicle dealers. In 2011, we acquired OPENLANE, the premier upstream online platform focused on private label auction sales for automobile original equipment manufacturers, or OEMs, and their captive finance companies. OPENLANE provides a comprehensive remarketing solution to automobile manufacturers, captive finance companies, lease and daily rental car companies, financial institutions and wholesale automobile auctions. IAA, our salvage auction services business, is one of the two largest providers of salvage auction services in North America. Vehicles at our salvage auctions are typically damaged or low-value vehicles that are predominantly sold by automobile insurance companies, non-profit organizations, automobile dealers, vehicle leasing companies and rental car companies to licensed dismantlers, rebuilders, scrap dealers or qualified public buyers. An important component of ADESA's and IAA's services to their buyers is providing short-term inventory-secured financing, known as floorplan financing, primarily to independent used vehicle dealers through our wholly-owned subsidiary AFC.

As of March 31, 2013, we had a network of 67 whole car auction locations and 163 salvage auction locations. Our auction locations are primarily standalone facilities dedicated to either whole car or salvage auctions; however, some of our sites are utilized to service both whole car and salvage customers at the same location. We believe our extensive geographic network and diverse product offerings enable us to leverage relationships with North American providers and buyers of used and salvage vehicles.

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### **Our Industry**

Auctions are the hub of the remarketing system for used and salvage vehicles, bringing professional sellers and buyers together and creating a marketplace for the sale of these vehicles. Whole car auction vehicles include vehicles from dealers turning their inventory, off-lease vehicles, vehicles repossessed by financial institutions and rental and other program fleet vehicles that have reached a predetermined age or mileage. The salvage vehicle auction industry provides a venue for sellers, primarily automobile insurance companies, to dispose or liquidate damaged or low value vehicles to dismantlers, rebuilders, scrap dealers or qualified public buyers. The following are key industry highlights:

#### ***Whole Car Auction Industry Volumes***

During the period from 1999 to 2009, approximately 9 to 10 million used vehicles per year were sold in North America through whole car auctions. Whole car auction volumes were 8.4 million, 7.7 million and 8.2 million (including units sold by OPENLANE in 2012) in 2010, 2011 and 2012, respectively. Data for the whole car auction industry is collected by the National Auto Auction Association, or NAAA, through an annual survey. The reduction in auction volumes since 2009 is attributable to supply shortages in the North American whole car auction industry caused principally by declines in new vehicle sales and lease originations from 2007 to 2009 and declines in repossessions from 2009 to 2012. We expect the industry to experience an increase in whole car auction volumes as a result of increasing new vehicle sales and lease originations since 2009 and improving credit availability.

#### ***Salvage Auction Industry Volumes***

We believe that the North American salvage vehicle auction industry volumes are affected primarily by accident rates, the age of the vehicle fleet on the road, miles driven, weather, the increased complexity of vehicles in operation and the increased utilization of after-market recycled parts within the collision repair industry. Vehicles deemed a total loss by automobile insurance companies represent the largest category of vehicles sold in the salvage vehicle auction industry. As vehicle design becomes more complex with additional enhancements, such as airbags and electrical components, vehicles are more costly to repair following an accident and insurance companies are more likely to declare a damaged vehicle a total loss. In addition, the utilization of recycled parts from salvage vehicles by the collision repair industry continues to increase as the quality of these parts gains wider acceptance and insurance companies attempt to reduce their repair claim costs. We believe that salvage volumes will continue to grow over time as the salvage auction industry expands the number of non-insurance vehicles sold, including charity, direct-from-consumer and dealer sales.

#### ***Consolidated Whole Car and Salvage Auction Markets***

The North American used vehicle auction market is largely consolidated. We estimate that Manheim, a subsidiary of Cox Enterprises, and ADESA together represent approximately 70% of the North American whole car auction market. We estimate that ADESA represents approximately 23% of the North American whole car auction market. The North American salvage vehicle auction market is also largely consolidated with the top two competitors, IAA and Copart, Inc., together representing an estimated 70% of the market, with each representing approximately equivalent shares.

#### ***High Barriers to Entry***

High barriers to entry make it difficult for new entrants to capture significant market share. The required investment in technology and related infrastructure in addition to ongoing maintenance costs required to meet customers' demands present challenges for new entrants. Large tracts of land and a significant investment in facilities and land improvements are required to build new physical auctions. In addition, the need to comply

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with regulatory requirements would pose a challenge for new entrants to build a large-scale operation. Larger participants are also able to better develop relationships with many of the major whole car and salvage sellers and buyers, which increases the sellers' flexibility to redistribute vehicles to markets where demand best matches supply in order to maximize proceeds, while also reducing the cost of disposition.

### **Our Competitive Strengths**

#### ***Leading Provider of Both Whole Car and Salvage Vehicle Auctions***

We are the second largest provider of whole car auctions and the co-leader of salvage vehicle auctions and related services in North America, with estimated market shares of approximately 23% and 35% in the whole car and salvage auction markets, respectively. As of March 31, 2013, we had 67 whole car and 163 salvage auction locations and are the only company in North America with a top two market share position in both the whole car and salvage auction markets. Our market presence, including 12 co-located whole car and salvage facilities, in the 75 largest metropolitan markets in the United States and Canada enables us to attract large whole car and salvage sellers while simultaneously maintaining strong relationships with local franchised and independent automobile dealers. Our auctions attract a high volume of vehicles, thereby ensuring sufficient supply to create the successful marketplaces that buyers and sellers demand. We also have a leading market position in the floorplan financing industry. AFC has 104 branches primarily supporting over 11,000 independent dealers across North America who purchase vehicles primarily from whole car auctions. Our ability to provide floorplan financing facilitates the growth of vehicle sales at auction.

#### ***Sophisticated Internet-Based Auction Services Complement Physical Presence***

The services that we provide are augmented by state-of-the-art information technology solutions, enabling our buyers and sellers to maximize exposure and salability of inventory at all points in the remarketing lifecycle.

#### ***ADESA***

For our whole car customers, we complement physical auctions with ADESA.com. ADESA.com includes LiveBlock® (real-time simulcast of the physical auction via the Internet, provided by our wholly-owned subsidiary LAI), DealerBlock® (24/7 interactive, virtual auctions) and customized private label solutions powered by our wholly-owned subsidiary, OPENLANE, that allow our institutional consignors (automobile manufacturers, captive finance companies and other institutions) to offer vehicles via the Internet prior to arrival at the physical auction.

#### ***IAA***

For our salvage buyers, we complement physical auctions with i-Bid LIVE™, a real-time simulcast of the physical auction via the Internet, which allows both a live and Internet buyer to participate in the auctions. i-Bid LIVE's feature rich user interface allows buyers to search inventory, review photos, set up alerts, shop for and purchase vehicles, bid and buy all from one platform. i-Bid LIVE is available as a mobile application, providing buyers the added flexibility to participate in IAA auctions from a smart phone or tablet.

Suppliers, including insurance companies and other participants, can also better process and manage their salvage inventory with IAA's technology. Specific to insurance company suppliers, IAA's patent-pending title procurement tools provide an efficient method of procuring titles and tracking a vehicle's title in the process. This helps reduce cycle time for insurance companies and provides for faster sales of total loss vehicles through IAA's auctions. In addition, IAA's proprietary Internet-based salvage management tool, CSAToday, provides transparency to suppliers' inventory, as well as provides tools, such as salvage return analysis and electronic assignment interfaces. CSAToday is also mobile-compatible, which provides added efficiency to suppliers.

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### ***Provider of High Value Added, Integrated Vehicle Auction Services***

We offer a full range of integrated pre- and post-auction services aimed at assisting our customers in the redistribution of their vehicles in an efficient and cost-effective manner. Our services are provided by ADESA at its physical auction locations and wholly-owned brands such as AFC, CarsArrive, Professional Auto Remarketing (PAR), AutoVIN and Dent Demon. For the year ended December 31, 2012, we generated a combined total of more than \$600 million of revenue from pre- and post-auction services. Pre-auction services include transportation, reconditioning (such as detailing, body repairs and light mechanical repairs), inspections, storage, titling and other administrative services. Post-auction services include post-sale inspections, reconditioning, the clearing of auction proceeds and collections, floorplan financing, ownership transfer, storage, vehicle delivery and customized reporting and analyses. The combination of our physical auction locations, Internet-based solutions and ancillary services offers our customers a single vendor solution to meet all of their vehicle redistribution needs.

### ***Longstanding Customer Relationships and Diversified Customer Base***

We have established long-term customer relationships with franchised and independent vehicle dealers, institutional customers and automobile insurance companies. Our combined whole car and salvage buyer base exceeds 150,000 registered buyers in over 100 countries. No single customer accounted for more than 2% of our consolidated revenue in 2012, and our average relationship is more than ten years with our top ten vehicle suppliers. We believe this diversity allows us to better withstand changes in the economy and market conditions. ADESA enjoys long-term relationships with major vehicle manufacturers, vehicle finance companies, vehicle fleet companies and rental car companies in North America, including, but not limited to, GM Financial, Capital One Auto Finance, Avis, Chase Auto Finance, Enterprise Rent-A-Car, Ford, GE Capital, General Motors, Hertz, Honda, HSBC, Mercedes-Benz, Santander Consumer, Toyota and Wells Fargo. Furthermore, ADESA, primarily through its OPENLANE technology, operates private label platforms for many leading OEMs and captive finance companies, including Toyota, Ford, Honda, Volkswagen, Hyundai, Chrysler, GM Financial, BMW and others. IAA enjoys long-term relationships with top automobile insurers, including, but not limited to, American Family Insurance, GEICO, Progressive, State Farm, USAA and Zurich Financial Services.

### ***Low Capital Intensity and Resilient Financial Model***

Our low maintenance capital expenditures and working capital requirements enable the business to generate consistently strong cash flows through a diversified mix of operations. Our business segments are complementary to each other and create a resilient platform for future growth. We generally do not take title to or bear the risk of loss for vehicles sold at whole car or salvage auctions. Furthermore, customers do not receive title or possession of vehicles after purchase until payment is received, proof of floorplan financing is provided or credit is approved. These requirements contribute to limited inventory and accounts receivable exposure. We expect our low capital intensity financial model to allow us to produce significant free cash flow in the future enabling us to continue to reduce debt and return capital to shareholders.

### ***Strong Management Team with Track Record of Driving Growth and Improving Efficiency***

Our senior management team continues to implement and execute on various growth initiatives that have resulted in increasing revenue and gross profit expansion during the past five years. Through a better coordination of corporate sales efforts and local auction operations, in addition to numerous strategic Internet initiatives, we have organically grown our revenues at auction while facing decreasing trends in industry volumes. Furthermore, the management team has implemented a disciplined expansion strategy, acquiring or building numerous auction locations and offering more services since 2009. We believe our management team's integration experience and cost discipline will continue to be a competitive advantage as we grow both organically and across the remarketing lifecycle through selective acquisitions. In addition, we have reduced

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costs through the integration of operating systems and introduction of standard operating practices across all auction sites, resulting in improved operating efficiencies, reduced headcount and improved operating profit at existing and acquired sites.

### **Our Business Strategy**

We continue to focus on growing our revenues and profitability through the execution of the following key operating strategies:

#### ***Expand Opportunities for Customers to Buy and Sell Online***

We are focused on enhancing our Internet solutions in all of the key channels, and we will continue to invest in our technology platforms to capitalize on new opportunities and attract new customers. Online vehicle remarketing solutions provide the opportunity to improve the customer experience, expand our volume of transactions and potentially increase proceeds for sellers through greater buyer participation at auctions. We acquired OPENLANE in order to better capitalize on the increasing use of the Internet as a means to purchase wholesale vehicles. Through its OPENLANE technology, ADESA offers comprehensive private label remarketing solutions to automobile manufacturers, captive finance companies, lease and daily rental car companies, financial institutions and wholesale automobile auctions throughout the United States and Canada. IAA is the only national salvage auction company that offers buyers both live and Internet purchasing opportunities. ADESA provides online solutions to sell vehicles directly from a dealership or other interim storage location (upstream selling), online solutions to offer vehicles for sale while in transit to auction locations (midstream selling) and broadcasting video and audio of the physical auctions to online bidders (simulcast).

#### ***Grow Our Dealer Consignment Business***

The dealer consignment business is a highly market-specific business that requires local auction sales representatives who have experience in the used vehicle business and an intimate knowledge of their local market. We have augmented our local auction teams with the addition of corporate-level resources focused on growing the number of dealer vehicles sold at our physical and online auctions. The corporate team assists the local sales representatives in developing and implementing standard best practices for building and maintaining relationships with dealers to increase our market share. Our sales representatives also utilize proprietary technology solutions to maintain and grow the dealer consignment business by strategically matching the supply of vehicles with prospective buyers at auction. We believe this combination of a standard centralized approach with decentralized resources close to large populations of dealers will enhance our relationships with the dealer community and increase dealer volumes at our whole car auctions. On a same store basis, our dealer consignment sales volumes were up approximately 3% and 11% for the three months ended March 31, 2013 and for the twelve months ended December 31, 2012, respectively, compared with the same periods in prior years.

#### ***Continue to Grow Revenue per Vehicle***

From 2008 through 2012, our whole car (excluding OPENLANE) and salvage revenue per vehicle grew at compound annual growth rates of 1.7% and 3.3%, respectively. Revenue per vehicle generally consists of auction fees and fees from ancillary services. Increased utilization of ancillary services, selective fee increases, higher used vehicle prices and the introduction of new product offerings were key components of this growth. We believe these services provide economic benefits to our customers who are willing to utilize our products and services that improve their ability to manage their remarketing efforts and increase their returns. We plan to grow revenue by increasing customer utilization of these existing products and by enhancing our core auction services through such initiatives as increasing the number of vehicles offered both online and at physical auctions.

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### ***Leverage AFC's Products and Services at ADESA and IAA***

We intend to selectively grow AFC while using enhanced credit analysis and risk management techniques to mitigate risk. We will continue to focus on expanding dealer coverage and improving coordination with ADESA and IAA to capitalize on cross-selling opportunities with AFC. By encouraging a collaborative marketing effort between AFC, ADESA and IAA, we believe we can market an enterprise solution more effectively to used vehicle dealers and tailor AFC's financing products to individual dealer needs. We will maintain our focus on generating additional revenues by expanding our suite of floorplan financing and related products and services and leveraging our market position, broad infrastructure and diversified business relationships to capitalize on current market opportunities.

### ***Grow Our Non-Insurance Salvage Auction Customer Base***

More than 12 million vehicles are de-registered annually, but only approximately 3.5 million are sold through salvage auctions, mostly by automobile insurance companies. In order to capture a greater portion of the total unit volume, we are increasingly focused on growing our vehicle supplier base, with a particular focus on non-insurance company customers, which includes charitable organizations, rental car, captive finance and fleet companies, as well as the general public. ADESA's strong customer relationships with used vehicle dealers as well as rental car, captive finance and fleet companies provide an advantage in accessing such segments, as these customers already use ADESA's whole car auction services.

### ***Continue to Improve Operating Efficiency***

We continue to focus on reducing costs by optimizing efficiency at each of our auction locations and consolidating certain management functions. Since 2007, a number of initiatives have been implemented, which have streamlined operations and improved operating efficiencies. As part of these initiatives, we introduced a management operating system to actively monitor and manage staffing levels and, as a result, have realized additional labor efficiency gains. Additional efficiencies have been gained through two of our wholly-owned subsidiaries, AuctionTrac, a vehicle tracking system at ADESA, and CarsArrive, an Internet-based system that allows customers to review instantly price quotes, delivery times, available transportation loads and also to receive instant notification of available shipments.

### ***Use Excess Cash Flow to Reduce Debt and Return Capital to Shareholders***

We generate strong cash flows as a result of our attractive gross margins, the ability to leverage our corporate infrastructure across our multiple auction locations, low maintenance capital expenditures and limited working capital requirements. Management plans to utilize a significant portion of excess cash generated by the business for debt reduction and return capital to shareholders for the foreseeable future. We generated \$90.8 million and \$74.5 million of cash flow from operations for the three months ended March 31, 2013 and 2012, respectively. We generated \$290.2 million and \$305.8 million of cash flow from operations for the years ended December 31, 2012 and 2011, respectively. On November 30, 2012, we announced that our board of directors approved the initiation of a quarterly cash dividend on our common stock and declared an initial quarterly cash dividend of \$0.19 per share, representing an annualized dividend of \$0.76 per share, which was paid in December 2012. After paying any future dividends to shareholders (subject to prior declaration by our board of directors), we expect that significant cash flow will remain to support further de-leveraging and to support growth initiatives.

On April 4, 2013, we paid a cash dividend of \$0.19 per share to stockholders of record at the close of business on March 25, 2013. On May 1, 2013, we announced that our board of directors declared a cash dividend of \$0.19 per share payable on July 3, 2013 to stockholders of record at the close of business on June 24, 2013.

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In April 2013, we made an excess cash flow payment of \$39.4 million on our senior secured term loan facility, or Term Loan B, and prepaid the entire \$150.0 million principal amount of the floating rate senior notes due 2014 with available cash on hand.

### ***Selective Acquisitions and Greenfield Expansion***

Increased demand for single source solutions by our customers and other factors may increase our opportunities to acquire competitors. Both ADESA and IAA have a strong record of acquiring and integrating independent auction operations and improving profitability. We will continue to evaluate opportunities to open and acquire new sites in selected markets in order to effectively leverage our sales and marketing capabilities and expand our geographic presence for both ADESA and IAA. In addition, we may pursue opportunities to acquire additional product offerings in each of our business segments.

### ***Increase Our International Presence***

In both our whole car and salvage vehicle businesses, we have experience managing a global buyer base with relationships in over 100 countries. We believe we are well positioned to grow internationally through both technology-based and physical auction expansion. We continue to identify opportunities to expand certain of our service offerings globally and specifically plan to extend our OPENLANE technology. We expect that our ability to efficiently layer in the OPENLANE product and technology licensing will allow us to conveniently enter mature auction markets.

### **Recent Developments**

On June 1, 2013, a wholly-owned subsidiary of the Company acquired the common stock of PWI Holdings, Inc., the holding company of Preferred Warranties, Inc. ( Preferred Warranties ), a vehicle service contract company. The Company believes that the acquisition of PWI Holdings, Inc. will strengthen the Company's overall offering to independent dealers, AFC's primary customer, and that Preferred Warranties products will be enhanced as a result of being backed by the Company's financial strength and stability. The financial impact of this acquisition will be immaterial to the Company's balance sheet and statement of income in 2013.

### **Our Corporate Information**

Our principal executive offices are located at 13085 Hamilton Crossing Boulevard, Carmel, Indiana 46032, and our telephone number is (800) 923-3725. Our website is located at [www.karauctionservices.com](http://www.karauctionservices.com). The information on, or accessible through, the website is not a part of, or incorporated by reference into, this prospectus supplement. This reference to our website is an inactive textual reference only and is not a hyperlink. You should not consider the contents of our website in making an investment decision with respect to our securities.



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**The Offering**

Common stock offered by the selling stockholder	15,000,000 shares
Option to purchase additional shares from the selling stockholder	2,250,000 shares
Common stock outstanding before and after this offering(1)	137,715,512 shares
Use of proceeds	We will not receive any proceeds from the sale of shares of common stock by the selling stockholder in this offering. The selling stockholder will receive all net proceeds from this offering.
NYSE symbol	KAR
Risk Factors	Investing in our common stock involves risks. See <b>Risk Factors</b> beginning on page S-11 and in our annual report on Form 10-K for the year ended December 31, 2012 and our quarterly report on Form 10-Q for the quarter ended March 31, 2013, which are incorporated by reference in this prospectus supplement, to read about factors you should consider before buying our common stock.
Conflict of Interest	Because affiliates of Goldman, Sachs & Co. beneficially own more than 10% of our outstanding common stock, Goldman, Sachs & Co. is deemed to be an affiliate of the Company within the meaning of Rule 5121 of the Financial Industry Regulatory Authority, or <b>Rule 5121</b> , and is deemed to have a conflict of interest under Rule 5121. In addition, KAR LLC, the selling stockholder and an affiliate of Goldman, Sachs & Co., will receive all of the net proceeds of this offering. Accordingly, this offering will be made in compliance with the applicable provisions of Rule 5121 as required by Rule 5121. Because there is a <b>bona fide public market</b> (as defined in Rule 5121) for our common stock, the Rule 5121 requirement for the participation of a qualified independent underwriter does not apply to this offering.

(1) Based on the number of shares of our common stock outstanding as of May 17, 2013. Does not include 3,350,354 shares of common stock reserved for future issuance under our equity incentive plans or 8,625,256 shares of common stock issuable upon the exercise of stock options outstanding as of May 17, 2013, at a weighted average exercise price of \$11.95 per share. Except as otherwise indicated, the information in this prospectus supplement assumes no exercise of the underwriters' option to purchase additional shares.

**Table of Contents****Summary Consolidated Financial Data**

The following table sets forth our summary consolidated financial data as of the dates and for the periods indicated. The summary consolidated financial data as of and for the years ended December 31, 2012, 2011 and 2010 have been derived from our audited consolidated financial statements and the related notes incorporated by reference in this prospectus supplement. The summary consolidated financial data as of and for the three months ended March 31, 2013 and 2012 have been derived from our unaudited interim consolidated financial statements and the related notes incorporated by reference in this prospectus supplement and includes all adjustments (consisting of normal recurring adjustments) that we consider necessary for a fair presentation of the financial position and the results of operations for these periods. The operating results for the three months ended March 31, 2013 are not necessarily indicative of the results that may be expected for the year ended December 31, 2013.

The following summary consolidated financial data should be read in conjunction with Risk Factors, our audited consolidated financial statements and related notes, and other financial information incorporated by reference in this prospectus supplement.

(Dollars in millions except per share amounts)	Three Months			Years Ended December 31,	
	Ended			2011	2010
	2013	2012	2012		
<b>Operations:</b>					
Operating revenues					
ADESA	\$ 283.6	\$ 270.6	\$ 1,053.5	\$ 1,017.4	\$ 1,075.9
IAA	221.6	189.4	716.1	700.1	610.4
AFC	52.4	46.9	193.8	168.8	136.3
Total operating revenues	557.6	506.9	1,963.4	1,886.3	1,822.6
Operating expenses (exclusive of depreciation and amortization)	432.2	383.5	1,506.2	1,424.6	1,382.5
Operating profit	78.1	74.8	267.0	281.9	268.8
Interest expense	28.8	30.3			

Director since: 2009  
Age: 48  
Board Committees: None

Ms. Manning brings to our Board a wide range of experience in management and executive strategic consulting for the companies, Lockheed Martin, HRL Labs, Zyvex Labs and Texas A&M University focusing on high-technology solutions or

Sha-Chelle Manning is the Director of Corporate Innovation of Pioneer Natural Resources, a large independent oil and gas exploration company. Ms. Manning also held a Managing Director position for Nanoholdings, LLC, a Vice President position at Authentix and a Director of

services.  
Additionally, her interaction with local, state and federal governments throughout her career provides significant experience with government affairs, particularly in the State of Texas.

Alliances position at Zyvex.  
Ms. Manning was a consultant to the Office of the Governor of Texas, Rick Perry, where she led the development of the Texas nanotechnology strategic plan.

Daniel T. Russler, Jr.

Principal, Family Asset Management, LLC

Daniel Russler has more than 25 years of capital markets, development and entrepreneurial experiences, including an extensive background in sales and trading of a broad variety of equity, fixed income and private placement securities. Since 2003, Mr. Russler has been the Principal Partner of Family Asset Management, LLC, a multi-family office providing high net worth individuals and families with financial services.

Director since: 2011

Age: 52

Board Committees: Audit, Compensation (Chair) and Corporate Governance and Nominating

Mr. Russler has extensive knowledge of finance, entrepreneurship, investment allocation and capital raising matters that the Board of Directors feels will add value to the shareholders. The Board of Directors has determined that Mr. Russler meets the qualification guidelines as an “audit committee financial expert” as defined by the SEC rules. Mr. Russler is Chairman of the Compensation Committee and serves on the Corporate Governance and Nominating Committee and Audit Committee.

Ronald (Ron) W. Cantwell

President, VC Holding, Inc.

Ron Cantwell is President of VC Holdings, Inc., through which Mr. Cantwell provides advisory services in corporate and project investment structuring, mergers and acquisitions, financial restructuring and operations management. In addition, Mr. Cantwell has served as Chairman and Chief Executive Officer of Catalyst Group, Inc., and spent nineteen years in public accounting, most recently as a Tax Partner in the Ernst & Young, LLP Dallas office.

Mr. Cantwell graduated with honors from the University of Wisconsin in Madison and is licensed as a certified public accountant. Mr. Cantwell has a 45 year background in corporate and project investment structuring, mergers and acquisitions, financial/tax/regulatory restructuring and reporting and operational management. The Board of Directors has determined that Mr. Cantwell meets the qualification guidelines as an “audit committee financial expert” as defined by the SEC rules. Mr. Cantwell is Chairman of the Audit Committee and serves on the Compensation Committee.

Director since: 2015

Age: 71

Board Committees: Audit  
(Chair) and Compensation

Michael R. Humphrey

President, e2020, Inc.

Michael R. Humphrey has served as Executive Vice President of Edgenuity (previously Education 2020) since August 2011 and previously as its President and CEO from 2009 until August 2011. Prior to joining Education 2020, Mr. Humphrey served as the Co-Founder and former CEO of Austin-based Human Performance Labs and served as Executive Vice President for Compass Learning, driving strategy and development of the company’s curriculum software solutions and assessment tools. Mr. Humphrey is a graduate of Texas Tech University. Mr. Humphrey also currently serves as a Board Member at US Youth Soccer, an organization with over 3 million members. Mr. Humphrey has extensive knowledge in growth based companies. The Board of Directors feels that his knowledge will add value to the shareholders. Mr. Humphrey serves on the Compensation Committee and Corporate Governance and Nominating Committee.

Director since: 2015

Age: 56

Board

Committees: Compensation  
and Corporate Governance  
and Nominating

#### Director Independence and Financial Experts

The Audit Committee, the Compensation Committee and the Corporate Governance and Nominating Committee charters require that each member meet: (i) all applicable criteria defining “independence” that may be prescribed from time to time under NASDAQ Listing Rule 5605(a)(2), Rule 10A-(3) under the Securities Exchange Act of 1934 and other related rules and listing standards, (ii) the criteria for a “non-employee director” within the meaning of Rule 16b-3 promulgated by the SEC under the Securities Exchange Act of 1934 and (iii) the criteria for an “outside director” within the meaning of Section 162(m)(4)(C) of the Internal Revenue Code.

The Company’s Board of Directors also annually makes an affirmative determination that all such “independence” standards have been and continue to be met by the independent directors and members of each of the three committees, that each director qualifying as independent is neither an officer nor an employee of Astrotech or any of its subsidiaries nor an individual that has any relationship with Astrotech or any of its subsidiaries, or with management (either directly or as a partner, shareholder or officer of an entity that has such a relationship) which, in the Board of Directors’ opinion, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. In addition, a director is presumptively considered not independent if:

¶The director, at any time within the past three years, was employed by Astrotech or any of its subsidiaries;

The director or a family member received payments from Astrotech or any of its subsidiaries in excess of \$120,000 during any period of twelve consecutive months within the preceding three years (other than for Board or Committee service, from investments in the Company's securities or from certain other qualifying exceptions);

The director is, or has a family member who is, a partner, an executive officer or controlling shareholder of any entity to which Astrotech made to or received from payments for property or services in the current or in any of the prior three years that exceed

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5% of the recipient's consolidated gross revenues for that year, or \$200,000, whichever is more (other than, with other minor exceptions, payments arising solely from investments in the Company's securities);

The director is, or has a family member who is, employed as an executive officer of Astrotech or any of its subsidiaries any time within the prior three years;

The director is, or has a family member who is, employed as an executive officer of another entity where at any time within the prior three years any of Astrotech's officers served on the compensation committee of the other entity; or

The director is, or has a family member who is, a current partner of Astrotech Corporation's independent auditing firm, or was a partner or employee of that firm who worked on the Company's audit at any time during the prior three years.

The Board of Directors has determined each of the following directors and director nominees to be an "independent director" as such term is defined by Rule 5605(a)(2) of the NASDAQ Listing Rules: Mark Adams, John A. Oliva, William F. Readdy, Sha-Chelle Manning, Daniel T. Russler, Jr., Ronald W. Cantwell and Michael R. Humphrey. The Board of Directors has also determined that each member of the Audit Committee, Compensation Committee and Corporate Governance and Nominating Committee during the past fiscal year and the proposed nominees for the upcoming fiscal year meets the independence requirements applicable to those Committees prescribed by NASDAQ and SEC rules.

Executive Officers and Key Employees of the Company Who Are Not Nominees

Set forth below is a summary of the background and business experience of the executive officers of the Company who are not also nominees of the Board of Directors as of June 30, 2015:

Eric N. Stober

Chief Financial Officer, Treasurer and Secretary

Eric Stober has been the Chief Financial Officer, Treasurer and Secretary of Astrotech Corporation since November 2013. Mr. Stober joined the Company in August of 2008 and has served in various financial roles, most recently as Vice President of Corporate Development. Prior to joining the Company, he worked at the private equity firm Virtus Financial Group, analyzing prospective middle market private equity investments. Additionally, Mr. Stober has started several of his own companies, and he began his professional career working for both The Ayco Company, a Goldman Sachs Company and Lehman Brothers.

With Company Since: 2008

Mr. Stober has an MBA from the McCombs School of Business at the University of Texas where he was the President of the MBA Entrepreneur Society. He also has an undergraduate degree in Finance from the University of Illinois where he graduated with honors.

Age: 37

Rajesh Mellacheruvu

Vice President and Chief Operating Officer

Rajesh Mellacheruvu has been Vice President and Chief Operating Officer of the Company since February 2015. Prior to joining the Company, Mr. Mellacheruvu was the Managing Director of Noumenon Consulting, Inc., providing consultant services on product strategy, management and business operation to 1st Detect Corporation, a subsidiary of the Company, since 2013. Mr. Mellacheruvu was previously employed by ClearCube Technology, Inc., Omega Band and Advance Micro Devices.

With Company Since: 2015

Mr. Mellacheruvu has an MBA in Business Strategy and Finance from Kellogg School of Management at Northwestern University, a Masters in Electrical Engineering from Texas A&M University and a Bachelor's degree in Electronics and Communication Engineering from Osmania University.

Age: 45

Bob Kibler

Chief Executive Officer, 1<sup>st</sup> Detect

Bob Kibler began his tenure with 1st Detect as VP of Sales in June of 2014 and was promoted to CEO of 1st Detect in December of 2014. His responsibilities include driving the technology and development toward commercialization for specific markets and customer sets to put 1st Detect into a significant growth and profit driven organization within the rapidly growing analytical instrument field. He brings almost 40 years of experience within the analytical instrument and solution industry, including positions at Bruker Instruments as VP of Government Affairs, President of BCPS, Director of WW Sales and Marketing at Inficon and Field Management at Hewlett Packard Company.

With Company Since: 2014

Additionally, Mr. Kibler is President and Chairman of the Board of The Gulf Coast Conference, the world's largest conference and association of analytical instrument companies focused on the petrochemical, refining and oil and gas industries. Membership of this group has grown to almost 400 companies and 4000 individuals from 27 countries and all 50 states.

Age: 64





## SECURITY OWNERSHIP OF DIRECTORS, EXECUTIVE OFFICERS AND PRINCIPAL SHAREHOLDERS

The following table sets forth as of June 30, 2015, certain information regarding the beneficial ownership of outstanding Common Stock held by (i) each person known by the Company to be a beneficial owner of more than 5% of any outstanding class of the Company's capital stock, (ii) each of the Company's directors, (iii) the Company's Chief Executive Officer and two most highly compensated executive officers at the end of the Company's last completed fiscal year and (iv) all directors and executive officers of the Company as a group. Unless otherwise described below, each of the persons listed in the table below has sole voting and investment power with respect to the shares indicated as beneficially owned by each party.

Name and Address of Beneficial Owners	Shares of Common Stock (#)(1)	Shares Subject to Options Exercisable Within 60 Days of June 30, 2015	Total Number of Shares Beneficially Owned	Percentage of Class (2)	
<b>Certain Beneficial Owners</b>					
Huckleberry Investments LLP (3)	2,686,888	—	2,686,888	13.0	%
Beck Capital Management (4)	1,401,490	—	1,401,490	6.8	%
Bruce & Co., Inc. (5)	1,070,073	—	1,070,073	5.2	%
<b>Non-Employee Directors: (6)</b>					
Mark Adams	540,019	105,000	645,019	3.1	%
John A. Oliva	225,800	105,000	330,800	1.6	%
William F. Readdy	204,000	105,000	309,000	1.5	%
Sha-Chelle Devlin Manning	104,460	60,000	164,460	*	
Daniel T. Russler	79,000	60,000	139,000	*	
Ronald W. Cantwell	25,000	—	25,000	*	
Michael R. Humphrey	25,000	—	25,000	*	
<b>Named Executive Officers: (6)</b>					
Thomas B. Pickens III	4,135,406	212,500	4,347,906	21.0	%
Eric Stober	311,800	24,000	335,800	1.6	%
Rajesh Mellacheruvu	65,000	—	65,000	*	
All Directors and Executive Officers as a Group (10 persons)	5,715,485	671,500	6,386,985	30.9	%

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

1. Includes unvested restricted stock grants.

Calculated pursuant to Rule 13d-3(d) of the Securities Exchange Act of 1934. Under Rule 13d-3(d), shares not outstanding that are subject to options, warrants, rights or conversion privileges exercisable within 60 days are deemed outstanding for the purpose of calculating the number and percentage owned by a person, but not deemed outstanding for the purpose of calculating the number and percentage owned by any other person listed. As of June 30, 2015, we had 20,700,673 shares of common stock outstanding.

Information based on a Schedule 13G/A filed with the SEC by Huckleberry Investments LLP on January 20, 2015.  
3. Huckleberry Investments LLP, is a fund manager based in the United Kingdom with its principal business conducted at 103 Mount Street, London, W1K 2TJ.

Based on information obtained from a Schedule 13G filed by Beck Capital Management with the SEC on February 4, 2015. Beck Capital Management is an investment adviser with its principal business conducted at 2009 South Capital of Texas Highway, Suite 200, Austin, TX 78746.

5.

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Information based on a Form 13F filed with the SEC by Bruce & Co., Inc. on May 15, 2015. Bruce & Co., Inc., is the investment manager for Bruce Fund, Inc., a Maryland registered investment company with its principal business conducted at 20 North Wacker Drive, Suite 2414, Chicago, IL 60606.

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

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## EXECUTIVE COMPENSATION

The following tables provide information on compensation for the services of our Named Executive Officers (“NEOs”) for fiscal year 2015 and, where required, fiscal year 2014.

## Summary Compensation Table

Name and Principal Position	Fiscal Year	Salary (\$)	Bonus (\$)(1)	Stock Based Awards (\$)(2)(3)	Stock Options (\$)(3)	All Other Compensation (\$)(4)	Total (\$)
Thomas B. Pickens III; Chief Executive Officer	2015	441,273	209,500	2,128,000	—	23,795	2,802,568
	2014	439,000	500,000	—	—	13,773	952,773
Eric N. Stober; Chief Financial Officer	2015	265,524	91,500	1,200,000	—	13,459	1,570,483
	2014	225,000	250,000	—	—	12,431	487,431
Rajesh Mellacheruvu (5); Chief Operating Officer	2015	90,385	30,000	16,117	9,479	4,067	150,048
	2014	—	—	—	—	—	—
Bob Kibler (6); Chief Executive Officer, 1st Detect	2015	164,074	—	—	19,610	3,223	186,907
	2014	—	—	—	—	—	—

1. The bonuses that were awarded in August and September 2014 are for performance in fiscal year 2014. The bonus that was awarded in September 2015 is for performance in fiscal year 2015.

2. The amounts in this column include both stock grants and restricted stock awards for the executives.

The amounts reported represent the aggregate grant date fair market value of the stock-based and option awards granted as computed in accordance with FASB ASC Topic 718. See Note 11 on Form 10-K filed with the SEC on

3. September 22, 2015 for assumptions underlying the valuation of Stock Based Awards and the Stock Options.

Options granted to Mr. Kibler on December 3, 2014 are performance-based options. In order for these options to vest, 1<sup>st</sup> Detect must achieve certain revenue levels.

4. The amounts in this column include the following: supplemental disability insurance premiums; matching contributions under our 401(k) savings plan for Messrs. Mellacheruvu, Kibler and Stober; and payments associated with a car allowance for Mr. Pickens.

5. On February 2, 2015, the Company announced the appointment of Mr. Mellacheruvu as Chief Operating Officer of the Company, effective as of February 2, 2015. The salary amount reflected represents earnings since February 2, 2015.

6. On December 9, 2014, the Company announced the appointment of Mr. Kibler as Chief Executive Officer of the 1<sup>st</sup> Detect division, effective as of December 9, 2014. The salary amount reflected represents earnings since December 9, 2014.

## Employment Agreements

The Company entered into an employment agreement with Mr. Pickens on October 6, 2008, which sets forth, among other things, Mr. Pickens’ minimum base salary, bonus opportunities, provisions with respect to certain payments and other benefits upon termination of employment under certain circumstances such as without “Cause,” “Good Reason” or in event of a “Change in Control” of the Company. Please see Potential Payments Upon Termination or Change in Control for a description of such provisions. Pursuant to the employment agreement between the Company and Mr. Pickens, his required minimum annual base salary is \$360,000. He is eligible for short-term cash incentives, as are all employees of the Company.

## Awards

In both August and September 2014, the Compensation Committee awarded bonuses to directors, NEOs and employees in recognition of individual performance during fiscal year 2014. During fiscal year 2015, the Compensation Committee awarded bonuses to directors, NEOs and employees in recognition of individual performance. Each NEO's maximum bonus is an amount equal to 50% of his annual base salary, subject to Compensation Committee discretion.

### Performance-Based Compensation

We believe that a substantial portion of each NEO's compensation should be in the form of performance-based awards, particularly equity-based awards that align the interests of management with that of the shareholders. Providing long-term compensation such as equity awards allows the Company to attract and incentivize qualified executives with less cash outlay, and to retain the executives over a longer period. During fiscal year 2015, awards were given to the NEOs. 300,000 stock options were granted to Mr. Kibler on December 3, 2014 and are subject to two years of performance-based vesting. On April 7, 2015, the Compensation Committee granted 665,000 shares of stock to Mr. Pickens and 375,000 shares of stock to Mr. Stober. These grants were not subject to vesting. Additionally, Mr. Mellacheruvu received a grant of 65,000 shares of restricted stock and 40,000 stock options; each grant vests in equal annual installments over a three year period subject to his continuous employment with the Company.

### Long-Term Equity Compensation Awards

The Compensation Committee has the authority to grant equity compensation awards under our Astrotech 2008 Stock Incentive Plan (the "2008 Stock Incentive Plan") and the 2011 Stock Incentive Plan (the "2011 Stock Incentive Plan").

#### Summary of the 2008 Stock Incentive Plan

The 2008 Stock Incentive Plan permits the discretionary award of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, other stock-based awards and incentive awards. Any employee or consultant of the Company (or its subsidiaries) or a director of the Company who, in the opinion of the Compensation Committee, is in a position to contribute to the growth, development or financial success of the Company, is eligible to participate in the 2008 Stock Incentive Plan. In any calendar year, no covered employee described in Section 162(m) of the Internal Revenue Code may be granted (in the case of stock options and stock appreciation rights), or have vest (in the case of restricted stock or other stock-based awards), awards relating to more than 3,000,000 shares of common stock, and the maximum aggregate cash payout with respect to incentive awards paid in cash to such covered employees may not exceed \$25,000,000.

The maximum number of shares of the Company's common stock, no par value, that may be delivered pursuant to awards granted under the 2008 Stock Incentive Plan is 5,500,000 shares of common stock. Any shares subject to an award under the 2008 Stock Incentive Plan that are forfeited or terminated, expire unexercised, lapse or are otherwise canceled in a manner such that the shares of common stock covered by such award are not issued may again be used for awards under the 2008 Stock Incentive Plan. A maximum of 5,500,000 shares of common stock may be issued upon exercise of incentive stock options. The maximum number of shares deliverable pursuant to awards granted under the 2008 Stock Incentive Plan is subject to adjustment by the Compensation Committee in the event of certain dilutive changes in the number of outstanding shares. Under the 2008 Stock Incentive Plan, the Company may issue authorized but unissued shares, treasury shares, or shares purchased by the Company on the open market or otherwise. In addition, the number of shares of common stock available for future awards is reduced by the net number of shares issued pursuant to an award.

Our Board of Directors last approved the amended and restated 2008 Stock Incentive Plan on April 7, 2015 during a Board of Directors meeting.

#### Summary of the 2011 Stock Incentive Plan

The 2011 Stock Incentive Plan permits the discretionary award of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, other stock-based awards and incentive awards. Any employee or consultant of the Company (or its subsidiary) or a director of the Company who, in the opinion of the Compensation Committee, is in a position to contribute to the growth, development or financial success of the Company, is eligible to participate in the 2011 Stock Incentive Plan. In any calendar year, no covered employee described in Section 162(m) of the Internal Revenue Code may be granted (in the case of stock options and stock appreciation rights), or have vest (in the case of restricted stock or other stock-based awards), awards relating to more than 800,000 shares of common stock, and the maximum aggregate cash payout with respect to incentive awards paid in cash to such covered employees may not exceed \$5,000,000.

The maximum number of shares of the Company's common stock, no par value, that may be delivered pursuant to awards granted under the 2011 Stock Incentive Plan is 3,750,000 shares of common stock. Any shares subject to an award under the 2011 Stock Incentive Plan that are forfeited or terminated, expire unexercised, lapse or are otherwise

canceled in a manner such that the shares of common stock covered by such award are not issued may again be used for awards under the 2011 Stock Incentive Plan. A maximum of 1,875,000 shares

of common stock may be issued upon exercise of incentive stock options. The maximum number of shares deliverable pursuant to awards granted under the 2011 Stock Incentive Plan is subject to adjustment by the Compensation Committee in the event of certain dilutive changes in the number of outstanding shares. Under the 2011 Stock Incentive Plan, the Company may issue authorized but unissued shares, treasury shares, or shares purchased by the Company on the open market or otherwise. In addition, the number of shares of common stock available for future awards is reduced by the net number of shares issued pursuant to an award.

Our shareholders last approved the amended and restated 2011 Stock Incentive Plan at our June 26, 2014 annual meeting of shareholders.

#### Equity Compensation Plan Information

The following table summarizes information, as of June 30, 2015, regarding our equity compensation plans pursuant to which grants of stock options may be granted from time to time.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available For Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the First Column)
Equity compensation plans approved by security holders:			
2008 Stock Incentive Plan	284,750	\$0.53	—
2011 Stock Incentive Plan	843,000	\$1.86	1,068,740
Equity compensation plans not approved by security holders:			
None	—	\$—	—
Total	1,127,750	\$1.53	1,068,740

#### Outstanding Equity Awards at the End of Fiscal Year 2015

The following table shows certain information about equity awards as of June 30, 2015.

Name	Option Awards (1)			Expiration Date	Stock Awards	
	Number of Securities Underlying Unexercised Options Exercisable (#)(2)	Number of Securities Underlying Unexercised & Unearned Options (#)	Option Exercise Price (\$)		Number of Shares Not Yet Vested (#)(4)	Market Value of Shares Not Yet Vested at Grant Date (\$)
Thomas B. Pickens III	112,500	—	0.71	09/13/2021	—	—
	100,000*	—	1.20	08/21/2022	—	—
Eric N. Stober	14,000	—	0.71	09/13/2021	—	—
	10,000*	—	1.20	08/21/2022	—	—
Rajesh Mellacheruvu	—	40,000	3.20	04/07/2025	65,000	208,000
Bob Kibler (3)	—	300,000	2.60	12/03/2024	—	—

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

1. All exercisable options will expire 90 days after the date of employee's termination.
2. Options granted on September 13, 2011 and August 21, 2012 vested upon the Company's common stock achieving a closing price of \$1.50 on October 21, 2013. These options expire 10 years from the grant date.
3. Options granted to Mr. Kibler on December 3, 2014 are performance-based options. In order for these options to vest, 1<sup>st</sup> Detect must achieve certain revenue levels.



4. Restricted shares awarded to Mr. Mellacheruvu vest over a three year period subject to his continued employment with the Company.

The following table provides information with respect to the vesting of each NEO's outstanding exercisable options:

Schedule of Vested Astrotech Stock Option Grants	Amount Vested (#)(1)
Thomas B. Pickens III	212,500
Eric N. Stober	24,000

1. Options granted on September 13, 2011 and August 21, 2012 vested upon the Company's common stock achieving a closing price of \$1.50 on October 21, 2013.

#### 401(k) Savings Plan

We maintain a tax-qualified retirement plan that provides eligible employees, including the NEOs, with an opportunity to save for retirement on a tax advantaged basis. All participants' interests in their deferrals are 100% vested when contributed. Contributions are allocated to each participant's individual account and are then invested in selected investment alternatives according to the participant's directions. Currently, the Company makes a matching contribution equal to 100% of the first 5% of the compensation a participant contributes to the 401(k) plan. The 401(k) plan is intended to qualify under Sections 401(a) and 501(a) of the Internal Revenue Code. As a tax-qualified retirement plan, contributions to the 401(k) plan and earnings on those contributions are not taxable to the employees until distributed from the 401(k) plan, and all contributions, if any, are deductible by the Company when made. The 401(k) plan does not promise any guaranteed minimum returns or above-market returns; the investment returns are dependent upon actual investment results. Accordingly, when determining annual compensation for executive officers, the Company does not consider the individuals' retirement plan balances and payout projections.

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

As noted above, the Company has entered into an employment agreement with Mr. Pickens that provides for payments and other benefits in connection with termination of his employment for a qualifying event or circumstance and for enhanced payments in connection with such termination after a Change in Control (as defined below). A description of the terms with respect to each of these types of terminations follows.

#### Termination other than after a Change in Control

The employment agreement provides for payments of certain benefits upon the termination of the employment of the NEO. The NEO's rights upon termination of his employment depends upon the circumstances of the termination. For purposes of the employment agreement, Mr. Pickens' employment may be terminated at any time by the Company upon any of the following:

• Death of the NEO;

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

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

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

The NEO may terminate his employment at any time upon any of the following:

• Death of the NEO;

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

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

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

Termination after a Change in Control

A termination after a Change in Control is similar to the severance provisions described above, except that Mr. Pickens becomes entitled to benefits under these provisions only if his employment is terminated within twelve months following a Change in Control. A Change

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in Control for this purpose is defined to mean (i) the acquisition by any person or entity of the beneficial ownership of securities representing 50% or more of the outstanding securities of the Company having the right under ordinary circumstances to vote at an election of the Board of Directors of the Company; (ii) the date on which the majority of the members of the Board of Directors of the Company consists of persons other than directors nominated by a majority of the directors on the Board of Directors at the time of their election and (iii) the consummation of certain types of transactions, including mergers and the sale or other disposition of all, or substantially all, of the Company's assets.

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

## DIRECTOR COMPENSATION

### Overview

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

### Cash-Based Compensation

The Company's directors, other than the Chairman of each the Audit, Compensation and Corporate Governance and Nominating Committees, receive an annual stipend of \$40,000 paid upon the annual election of each non-employee director or upon joining the Board of Directors. The Chairman of the Audit Committee receives an annual stipend of \$55,000, the Chairman of the Compensation Committee receives an annual stipend of \$47,500 and the Chairman of the Corporate Governance and Nominating Committee receives an annual stipend of \$45,000, recognizing the additional duties and responsibilities of each of those roles.

In addition, each non-employee director receives a meeting fee of \$4,000 for each meeting of the Board of Directors attended by such director in person and \$1,500 by conference call.

The Chairman of the Audit Committee receives \$1,250 for attendance at Audit Committee meetings in person or by conference call; all other members of the Audit Committee receive \$1,000 for attendance at meetings in person or by conference call. The Chairman of the Compensation Committee receives \$1,000 for attendance at Compensation Committee meetings in person or by conference call; all other members of the Compensation Committee receive \$750 for attendance at meetings in person or by conference call. The Chairman of the Corporate Governance and Nominating Committee receives \$1,000 for attendance at Corporate Governance and Nominating Committee meetings in person or by conference call; all other members of the Corporate Governance and Nominating Committee receive \$750 for attendance at meetings in person or by conference call. All directors are reimbursed ordinary and reasonable expenses incurred in exercising their responsibilities in accordance with the Business Expense Reimbursement policy applicable to all employees of the Company.

### Equity-Based Compensation

Under provisions adopted by the Board of Directors, each non-employee director receives 25,000 shares of restricted common stock issued upon his first election to the Board of Directors, subject to board discretion. Other stock awards are given to the directors at the discretion of the Compensation Committee. Restricted stock and stock options granted typically terminate in 10 years. Already vested shares do not expire upon termination of the director's term on the Board of Directors.

### Pension and Benefits

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

### Indemnification Agreements

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

## Fiscal Year 2015 Non-Employee Director Compensation Table

Name	Fees Earned or Paid in Cash (\$)	Stock Awards \$(1)	Total (\$)
Mark Adams	46,667	288,000	334,667
John A. Oliva	60,083	288,000	348,083
William F. Readdy	97,750	288,000	385,750
Sha-Chelle Manning	146,750	368,000	514,750
Daniel T. Russler, Jr.	55,917	288,000	343,917
Ronald W. Cantwell	5,500	73,750	79,250
Michael R. Humphrey	5,500	73,750	79,250
Total	418,167	1,667,500	2,085,667

On April 7, 2015, Messrs. Adams, Oliva, Readdy and Russler each received 90,000 shares of Company Common Stock, and Ms. Manning received 115,000 shares of Company Common Stock. On June 18, 2015, the Compensation Committee granted 25,000 shares of restricted stock to each of our new directors, Messrs. Cantwell<sup>1</sup> and Humphrey, which vest over a period of three years. The amounts in this column represent the grant date fair value determined in accordance with FASB ASC Topic 718. A discussion of the assumptions made in the valuation of these stock awards is included in Note 11 of Form 10-K.

The table below provides the number of outstanding stock options and unvested restricted stock held by each non-employee director as of June 30, 2015.

Name	Aggregate Number of Options Outstanding at Fiscal Year End (#)	Aggregate Number of Unvested Restricted Stock Shares Outstanding at Fiscal Year End (#)
Mark Adams	105,000	—
John A. Oliva	105,000	—
William F. Readdy	105,000	—
Sha-Chelle Manning	60,000	—
Daniel T. Russler, Jr.	60,000	—
Ronald W. Cantwell	—	25,000
Michael R. Humphrey	—	25,000
Total	435,000	50,000

## PROPOSAL 2 – APPOINTMENT OF INDEPENDENT AUDITOR

On April 1, 2015, the Astrotech Audit Committee engaged BDO USA, LLP as independent auditor for the fiscal year ended June 30, 2015. With regards to this proposal, the Board of Directors is requesting the shareholders to ratify the appointment of BDO USA, LLP as the Company's independent auditor for the fiscal year ending June 30, 2016. The ratification of the appointment of BDO USA, LLP as our independent registered public accounting firm for fiscal year 2016 requires the affirmative vote of a majority of the total number of votes cast at the Annual Meeting by the holders of shares of our common stock.

### Ratification Requirements and Governance

There is no requirement that the Company submit the appointment of independent auditors to shareholders for ratification or for the appointed auditors to be terminated if the ratification fails, but Astrotech believes that it is sound corporate governance to submit the matter to shareholder vote. The Sarbanes-Oxley Act of 2002 states the Audit Committee is solely responsible for the appointment, compensation and oversight of the independent auditor. As such, the Audit Committee may consider the appointment of other independent auditors if the shareholders choose not to ratify the appointment of BDO USA, LLP. Additionally, the Audit Committee may terminate the appointment of BDO USA, LLP as the Company's independent auditor without the approval of the shareholders whenever the Audit Committee deems such termination appropriate.

### Independence

In making its recommendation to ratify the appointment of BDO USA, LLP as the Company's independent auditor for the fiscal year ending June 30, 2016, the Audit Committee has considered whether the provision of non-audit services by BDO USA, LLP is compatible with maintaining the independence of BDO USA, LLP. Although BDO USA, LLP is engaged to provide tax preparation work, the Audit Committee believes the non-audit services provided do not hinder their independence to Astrotech.

### Annual Meeting Representation

Representatives of BDO USA, LLP are expected to be present at the Annual Meeting and will have the opportunity to make a statement if they desire to do so. They are also expected to be available to respond to appropriate questions from the shareholders present.

### Audit Committee Pre-Approval Policy

The Audit Committee is responsible for appointing, setting compensation for and overseeing the work of BDO USA, LLP, the Company's independent auditor. The Audit Committee's policy requires the pre-approval of all audit and permissible non-audit services to be provided by independent auditors in order to assure that the provision of such services does not impair the auditor's independence. The policy, as amended, provides for the general pre-approval of specific types of services and gives detailed guidance to management as to the specific audit, audit-related and tax services that are eligible for general pre-approval. For both audit and non-audit pre-approvals, the Audit Committee will consider whether such services are consistent with applicable law and SEC rules and regulations concerning auditor independence.

The policy delegates to the Chairman of the Audit Committee the authority to grant certain specific pre-approvals, provided that the Chairman of the Audit Committee is required to report the granting of any pre-approvals to the Audit Committee at its next regularly scheduled meeting. The policy prohibits the Audit Committee from delegating to management the Audit Committee's responsibility to pre-approve services performed by the independent auditors. Requests for pre-approval of services must be detailed as to the particular services proposed to be provided and are to be submitted by the CFO. Each request generally must include a detailed description of the type and scope of services, a proposed staffing plan, a budget of the proposed fees for such services and a general timetable for the performance of such services.

### Audit Fees

Audit fees consist of fees billed for professional services rendered for the audit of the Company's consolidated financial statements, for the review of the interim condensed consolidated financial statements included in quarterly reports, services that are normally provided by BDO USA, LLP in connection with statutory and regulatory filings or engagements and attest services, except those not required by statute or regulation. The aggregate fees billed for the fiscal year 2015 for professional services rendered by BDO USA, LLP was \$142,950. The aggregate fees billed for

the fiscal year 2014 for professional services rendered by BDO USA, LLP was \$0 due to the appointment of BDO USA, LLP as the Company's independent auditor during the fiscal year 2015.

**Audit-Related Fees**

There were no audit-related fees billed by or to be billed by BDO USA, LLP for the fiscal years ended June 30, 2015 and 2014.

**Tax Fees**

Tax fees consist of tax compliance and preparation and other tax services. Tax compliance and preparation consist of fees billed for professional services related to federal and state tax compliance and assistance with tax return preparation. The aggregate fees billed for the fiscal year 2015 for professional services rendered by BDO USA, LLP was \$12,000. The aggregate fees billed for the fiscal year 2014 for professional services rendered by BDO USA, LLP was \$0 due to the appointment of BDO USA, LLP as the Company's independent auditor during the fiscal year 2015.

**All Other Fees**

The Company paid no other fees to BDO USA, LLP during the fiscal years 2015 and 2014.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE RATIFICATION OF THE APPOINTMENT OF BDO USA, LLP AS INDEPENDENT AUDITOR OF THE COMPANY FOR THE FISCAL YEAR ENDING JUNE 30, 2016.



## PROPOSAL 3 – SAY-ON-PAY ADVISORY VOTE ON THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS

### General

Shareholders are being asked to approve on an advisory basis the compensation of our named executive officers required under Section 14A of the Securities Exchange Act of 1934, as amended, including the compensation tables and related material included in this Proxy Statement. This proposal, commonly known as a “Say-on-Pay” proposal, gives you, as a shareholder, the opportunity to express your reviews on our named executive officers’ compensation. Your vote is not intended to address any specific item of our compensation program, but rather to address our overall approach to the compensation of our named executive officers described in this Proxy Statement.

As described under “Executive Compensation,” our executive compensation programs are designed to be competitive with those of other companies that compete for highly skilled technical employees and executives. Our performance-based compensation system is intended to include incentives for innovation and entrepreneurial spirit.

The Compensation Committee oversees our executive compensation program, including the compensation of our named executive officers. All members of our Compensation Committee are independent directors within the meaning of NASDAQ listing standards, and the Compensation Committee engages and receives advice from Mr. Mark Rosen of Pearl Meyer and Partners, an independent compensation consultant.

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

- Establish target compensation levels that are competitive within the industries and the geographic regions in which we compete for executive talent;
- Structure executive compensation so that our executives share in Astrotech’s successes and failures by correlating compensation with target levels based upon business performance;
- Link pay to performance by making a percentage of total executive compensation variable, or “at risk”, through an annual determination of performance-based incentive compensation;
- Align a portion of executive pay with shareholder interests through equity awards; and
- Maintain a company-wide entrepreneurial atmosphere by minimizing special “executive only” benefits or prerequisites.

Our Compensation Committee and our Board believe our overall process effectively implements our compensation philosophy and achieves our goals. Accordingly, we ask you to vote FOR the following resolution at our Annual Meeting:

“RESOLVED, that Astrotech Corporation’s shareholders approve, on an advisory basis, the compensation paid to the named executive officers, as disclosed in this Proxy Statement pursuant Section 14A of the Securities Exchange Act of 1934, as amended, including the compensation tables and related narrative discussion.”

This vote on the named executive officer compensation is advisory, and therefore will not be binding on the Company and will not affect, limit or augment any existing compensation or awards. However, we value our shareholders’ opinions and the Compensation Committee will take into account the outcome of the vote when considering future compensation arrangements.

### Directors’ Recommendation

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THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE SAY-ON-PAY PROPOSAL. PROXIES SOLICITED BY THE BOARD WILL BE SO VOTED UNLESS SHAREHOLDERS SPECIFY A CONTRARY CHOICE IN THEIR VOTING INSTRUCTIONS.

## REPORT OF THE AUDIT COMMITTEE

The Board of Directors has established an Audit Committee of independent directors which operates under a written charter adopted by the Board of Directors. The charter was amended and restated in May 2004. Astrotech's management is responsible for establishing a system of internal controls and for preparing the Company's consolidated financial statements in accordance with U.S. generally accepted accounting principles. Astrotech's independent auditors are responsible for auditing the Company's consolidated financial statements in accordance with standards of the Public Company Accounting Oversight Board and issuing their report based on that audit. Under the Audit Committee's charter, the primary function of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities as to (i) the integrity of the Company's financial statements, (ii) the Company's compliance with legal and regulatory requirements and the Company's Code of Business Conduct and Ethics, (iii) the independent auditors' qualifications and independence and (iv) the performance of the independent auditors. The Audit Committee is also directly responsible for selecting and evaluating the independent auditors, reviewing, with the independent auditors, the plans and scope of the audit engagement and reviewing with the independent auditors their objectivity and independence.

Most members of the Audit Committee are not professional accountants or auditors and, in performing their oversight role, rely without independent verification on the information and representations provided to them by management and Astrotech's independent auditors. Accordingly, the Audit Committee's oversight does not provide an independent basis to certify that the audit of the Company's financial statements has been carried out in accordance with generally accepted auditing standards, that the financial statements are presented in accordance with accounting principles generally accepted in the United States or that Astrotech's independent auditors are in fact "independent" for fiscal year 2015. The Board of Directors has determined that for fiscal year 2015, Ronald W. Cantwell, John A. Oliva and Daniel T. Russler, Jr. were audit committee financial experts and such persons are independent as defined under the federal securities laws.

In connection with the preparation of the audited financial statements included in Astrotech's annual report on Form 10-K for the year ended June 30, 2015:

• The Audit Committee reviewed and discussed the audited financial statements with the independent auditors and management.

The Audit Committee discussed with the independent auditors the matters required to be discussed by Public Company Accounting Oversight Board ("PCAOB") Auditing Standard No. 16, Communications with Audit Committees. In general, this auditing standard requires the auditors to communicate to the Audit Committee certain matters that are incidental to the audit, such as any initiation of, or changes to, significant accounting policies, management judgments, accounting estimates and audit adjustments, disagreements with management and the auditors' judgment about the quality of the Company's accounting principles.

The Audit Committee received from the independent auditors written disclosures and the letter regarding their independence required by PCAOB Rule 3526, and discussed with the auditors their independence. In general, PCAOB Rule 3526 requires the auditors to disclose to the Audit Committee any relationship between the auditors and its related entities and Astrotech that in the auditors' professional judgment may reasonably be thought to bear on independence. The Audit Committee also considered whether the independent auditors' provision of non-audit services to Astrotech was compatible with maintaining their independence.

Based on the review and discussions noted above, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements for the year ended June 30, 2015 be included in Astrotech's annual report on Form 10-K filed with the SEC.

This report is submitted by the members of the Audit Committee of the Board of Directors:

Ronald W. Cantwell (Chairman)

John A. Oliva

Daniel T. Russler, Jr.

The foregoing Audit Committee Report shall not be deemed to be incorporated by reference in any previous or future documents filed by the Company with the Securities and Exchange Commission under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the Company specifically incorporates the report by reference in any such document.

## ADDITIONAL INFORMATION

### Proxy Solicitation Expense

The Company will bear all expenses of the solicitation, including the cost of preparing and mailing the proxy materials. In addition to solicitation by mail, officers and employees of the Company, without receiving any additional compensation, may solicit proxies personally or by telephone or facsimile. For the Annual Meeting, the Company has engaged Morrow & Co., LLC (“Morrow”), 470 West Avenue, Stamford, Connecticut 06902, to assist in soliciting proxies. Morrow has been paid a fee of \$15,000 plus out-of-pocket expenses for this service. In addition, we retained Morrow to request brokerage houses, banks and other custodians or nominees holding stock in their names for others to forward proxy materials to their customers or principals who are the beneficial owners of shares and will reimburse them for their expenses in doing so. The Company does not anticipate that the costs and expenses incurred in connection with this proxy solicitation will exceed those normally expended for a proxy solicitation for those matters to be voted on in the Annual Meeting.

### Deadline for Submission of Shareholder Proposals for Next Year’s Annual Meeting

Shareholders who intend to have a proposal considered for inclusion in our proxy materials for presentation at our 2016 Annual Meeting of Shareholders must submit the proposal to us at our corporate headquarters no later than June 20, 2016, which proposal must be made in accordance with the provisions of Rule 14a-8 of the Exchange Act.

Shareholders who intend to present a proposal at our 2016 Annual Meeting of Shareholders without inclusion of the proposal in our proxy materials are required to provide notice of such proposal to our Corporate Secretary so that such notice is received by our Corporate Secretary at our principal executive offices on or after August 6, 2016 but no later than September 5, 2016. We reserve the right to reject, rule out of order or take other appropriate action with respect to any proposal that does not comply with these and other applicable requirements.

### Discretionary Voting of Proxies on Other Matters

The Board of Directors for the Company knows of no matters to be presented at the Annual Meeting other than those described in this Proxy Statement. In the event that other business properly comes before the meeting, the persons named as proxies will have discretionary authority to vote the shares represented by the accompanying proxy in accordance with their own judgment.

### Householding of Proxy Materials

Some banks, brokers and other nominee record holders may be participating in the practice of “householding” proxy statements and annual reports. This means that only one copy of this Proxy Statement may have been sent to multiple shareholders in your household. The Company will promptly deliver a separate copy of either document to you if you call or write us at the following address and telephone number: 401 Congress Avenue, Suite 1650, Austin, Texas, 78701, Attention: Secretary; telephone: (512) 485-9530. If you want to receive separate copies of the Company’s annual report and proxy statement in the future, or if you are receiving multiple copies and would like to receive only one copy for your household, you should contact your bank, broker or other nominee record holder, or you may contact the Company at the above address or telephone number.

**OTHER MATTERS**

We do not intend to bring any other matters before the Annual Meeting, nor are we aware of any other matters that are to be properly presented to the Annual Meeting by others. In the event that other matters do properly come before the Annual Meeting or any adjournments thereof, it is the intention of the persons named in the Proxy to vote such Proxy in accordance with their best judgment on such matters.

The Form 10-K, including the Company's audited financial statements for the year ended June 30, 2015, is being distributed to all shareholders of record as of the record date.

By Order of the Board of Directors,

Eric Stober  
Chief Financial Officer, Treasurer and Secretary