SPACEHAB INC \WA\
Form 10-K/A
June 12, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 3)

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended June 30, 2005

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

Commission File No. 0-27206

SPACEHAB, Incorporated

(Exact name of registrant as specified in this charter)

Washington	**91-1273737**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

12130 Highway 3, Building 1

Webster, Texas 77598-1504

(713) 558-5000

Securities Registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock (no par value)	**NASDAQ National Market**

Securities Registered pursuant to Section 12(g) of the Act: None

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨ an accelerated filer ¨ or a non-accelerated filer þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES ¨ NO þ

The aggregate market value of the registrants voting and non-voting common equity held by non-affiliates of the registrant, based upon the closing price of such stock on the NASDAQ National Market on such date of $2.13 was approximately $26,893,227 as of December 31, 2004.

As of September 13, 2005, 12,671,179 shares of the registrant s common stock, no par value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Proxy Statement for the Annual Meeting of Stockholders to be held December 1, 2005.	Parts I, II, and III of Form 10-K

EXPLANATORY NOTE

When SPACEHAB, Inc amended its Fiscal Year 2005 Form 10-K on October 5, 2005, only the changes from the originally filed 2005 Form 10-K were included, and not the full text of the items being amended. Therefore, SPACEHAB is amending the 2005 Form 10-K to include the entire text of Items 7, 8 and 15, as they were amended by the October 5, 2005 amendment to the 2005 Form 10-K. No changes to the information have been made since October 5, 2005. This amendment is for presentation purposes only.

Note: There are no other changes to the original Form 10-K filing other than those outlined above. This Form 10-K/A does not reflect events occurring after the filing of the original Form 10-K, or modify or update the disclosures therein in any way other than as required to reflect the amendment set forth below.

PART II

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with, and is qualified in its entirety by reference to, our audited consolidated financial statements and notes thereto included elsewhere in this report.

We operate in three main areas generally related to space flight activities within the aerospace industry: space assets and mission support services for manned and unmanned space exploration and research missions; commercial and exploratory satellite pre-launch services; and engineering services in support of government space operations. We also operate a retail space merchandise business and provide space-related educational services. Because of the diversity among the operations of our activities, we report the results of each business as a separate segment in our consolidated financial statements. Our consolidated financial results also reflect corporate-level expenses such as general and administrative, interest, and depreciation and amortization, but because of their nature, these items are not reported as a separate segment.

Overview

In 2004 the White House issued a new vision for U.S. space leadership. We view the President s commitment to space exploration, the human space flight program, and the plan for missions to the Moon, Mars, and beyond as positive indicators that will reinvigorate the space program, likely yielding benefits to the aerospace and space commerce industries. We believe that this vision provides NASA with a clear focus, will stabilize the NASA program, and will increase funding for the new pursuits.

We believe the impacts of this vision will materialize over time, and we will continue to align our business direction to remain a constructive force in the human space flight program. In the long term, we believe that our core competencies offer opportunities to continue to provide services as well as to design, build, and operate assets that could support initiatives beyond low Earth orbit. We plan to pursue these new opportunities. In the near term, our primary objective of our SFS and SGS segments is to continue providing services to NASA and the space community in support of the space shuttle and the International Space Station programs. Even with the renewed vision, we expect that the space shuttle and ISS will remain an integral part of the human space flight program for years to come. We are currently supporting three of the next five scheduled space shuttle flights and are pursuing additional missions that will be important for completing the final assembly of the space station. In January 2005 we received authorization to proceed on integration and operations activities for the STS-116 shuttle mission currently scheduled for a no earlier than date of July 2006. In addition, we received authorization for new contract work to add a deployable stowage platform to the STS-118 shuttle mission scheduled to launch for a no earlier than date of December 2006. This deployable storage platform will be permanently affixed to the orbiting station.

We are actively engaged in defining commercial payload service solutions capable of meeting the ISS on-orbit re-supply and return requirements more efficiently than the space shuttle. These activities, some of which leverage our international strategic partnerships and intellectual property rights, include the development of an affordable cargo transportation system based on existing commercial launch vehicles and our modular payload integration architecture to transport pressurized and unpressurized cargo to and from the space station. We further believe that our experience and expertise in the conceptual design, development, ground processing, and on-orbit operations support of payload and crew accommodations position us well for a role in the development of NASA s space exploration systems, the envisioned next phase in human exploration of space.

In September 2004 our SFS business unit was awarded a six-month NASA study contract valued at approximately $1.0 million to support the space agency s new exploration initiatives. We defined concepts for accomplishing human lunar exploration with a focus on innovative solutions and commercial approaches that could be reapplied to missions to Mars and beyond. In March 2005 we were awarded a contract option for an additional six-month effort valued at nearly $1.0 million, which we completed after the close of our 2005 fiscal year.

Business Segments

Following is a brief discussion of each of our four business segments, including a list of key factors that have affected, and are expected to continue to affect, their respective earnings and cash flows. We also present a brief discussion of our corporate-level expenses along with a summary of our current liquidity position and items that could impact our liquidity position in fiscal year 2006 and beyond.

SPACEHAB Flight Services. This business unit generates revenue by providing space shuttle-based, turnkey services that include customer access to space via our pressurized modules and unpressurized cargo carriers; integration and

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operations support to logistics suppliers transporting their cargo onboard our modules and carriers to and from the orbiting station; and/or integration and operations support to scientists and technologists responsible for experiments performed aboard module and ICC research platforms.

We also offer on a space-available basis for each mission, access to space onboard the space shuttle, Russian *Progress*, and European Space Agency Automated Transfer Vehicle cargo vehicles under commercial contracts with non-NASA customers, including both government and private customers. Commercial contracts with non-NASA customers will continue to be established directly between us and our commercial customers.

Additionally, during the space shuttle stand-down period, we provided cargo shipment coordination services to NASA for all U.S. cargo shipped to the ISS via the Russian *Progress* space vehicle. These services are provided under contract to Lockheed Martin, the prime Cargo Mission Contract contractor to NASA. We are also providing research access to space and on the space station to JAXA through RSC Energia, a major Russian aerospace enterprise. We contracted through V.J.F. Russian Consulting with RSC Energia for construction of certain space research equipment, access to Russian *Progress* launch vehicles, and research space aboard the ISS when the originally-scheduled services on the space shuttle were suspended due to the *Columbia* tragedy.

The primary factors impacting our SFS business unit earnings and cash flows are the number of space shuttle missions flown and the configuration of the cargo handling and research logistics required for each mission. Our revenues and earnings, if any, from each mission are dependent upon the space assets required in the cargo or research logistics configuration and the mission support services required to employ those assets. Other factors that have impacted, and are expected to continue to impact, earnings and cash flows for this business unit include:

- Congress funding for NASA and the allocation of that funding to ISS operations and space shuttle cargo missions
- The return to flight of the U.S. space shuttle
- The role of international space research projects flying on future space shuttle and Russian and European Space Agency missions
- The growth of space exploration programs within NASA and NASA s commitment to the President s Vision for Space Exploration regarding enhancement of the role of commercial enterprise in space exploration programs
- Our ability to control our capital expenditures, particularly those for spare or replacement parts for space assets

Astrotech Space Operations. Revenue is generated from various fixed-price contracts with launch service providers in both the commercial and government markets. The services and facilities we provide to our customers support the final assembly, checkout, and countdown functions associated with preparing a satellite for launch.

The earnings and cash flows generated from our Astrotech operations are related to the number of commercial satellite launches, which reflect the growth in the satellite-based communication industries, and the requirement to replace aging satellites. Other factors that have impacted, and are expected to continue to impact, earnings and cash flows for this business include:

- Our ability to control our capital expenditures, which primarily are limited to modifications to accommodate payload processing for new launch vehicles, maintenance and safety, environmental and reliability projects, and other costs, through disciplined management and safe, efficient operations
- The continuing limited availability of competing facilities at the major domestic launch sites that can offer compatible services, leading to an increase in government use of our services

SPACEHAB Government Services. Our SGS business unit generates revenue by providing support to the U.S. Government in the areas of large-scale configuration and data management programs such as the ISS; specialized hardware design, development, and fabrication; and safety

and quality support services. This business unit offers a wide array of products and services in these varied fields. This business unit currently provides configuration management services as a subcontractor of ARES under their PI&C contract with NASA.

Earnings from our SGS business unit operations are dependent on our ability to continue to win contracts with NASA or other government entities through the competitive bidding process and our performance under those contracts in achieving performance bonuses. Other factors that have impacted, and are expected to continue to impact, earnings and cash flows for this business include:

Continuation through 2008 of our PI&C contract with the ISS program

Our ability to maintain small business qualification for our SGS business unit under NASA contracting rules

Our ability to control costs within our budget commitments

Space Media. Our SMI business unit operates a retail store and internet store offering space-themed products and is engaged in space-related educational programs and other space-themed activities. Revenue and earnings in our retail operations are dependent upon general enthusiasm for the space exploration program, advertising and promotion, and competition.

Corporate and Other. Significant items impacting future earnings and cash flows include:

Interest expense, which is significantly less in fiscal year 2005 as compared to fiscal year 2004, due to the repayment of a substantial portion of our mortgage debt during fiscal year 2004 using proceeds from Boeing s early termination of their satellite preparation contract with our Astrotech business unit

General and administrative costs and our ability to continue to manage future overhead costs

The ultimate settlement of our claim against NASA for indemnification of our losses on the Space Shuttle *Columbia* mission and/or our tort claim

Income taxes, with respect to which we currently only pay alternative minimum tax and minimal state income taxes; income taxes will also be impacted by our ability to realize our significant deferred tax assets, including loss carry forwards

Critical Accounting Policies

Revenue Recognition. Our business units revenue is derived primarily from long-term contracts with the U.S. Government and commercial customers. Revenues under these contracts are recognized using the methods described below. Estimating future costs and, therefore, revenues and profits, is a process requiring a high degree of management judgment. See Risk Factors Our financial results could be affected if the estimates that we use in accounting for contracts are incorrect and need to be changed. We base our estimate on historical experience and on various assumptions that are believed to be reasonable under the circumstances including the negotiation of an equitable adjustment on the Research and Logistics Mission Support contract which was added to the contract as a pricing amendment due to the delay in the return to flight. Costs to complete include, when appropriate, material, labor, subcontracting costs, lease costs, commissions, insurance and depreciation. Our business units personnel perform periodic contract status and performance reviews. In the event of a change in total estimated contract cost or profit, the cumulative effect of such change is recorded in the period that the change in estimate occurs.

A Summary of Revenue Recognition Methods Follows:

Business Unit	Services/Products Provided	Contract Type	Method of Revenue Recognition
SFS	Commercial Space Habitat Modules, Integration & Operations Support Services	Firm Fixed Price	Percentage-of-completion based on costs incurred
SGS	Configuration Management, Engineering Services	Cost Plus Award/Fixed Fee	Reimbursable costs incurred plus award/fixed fee when incurred
ASO	Payload Processing Facilities	Firm Fixed Price Mission Specific	Ratably, over the occupancy period of a satellite within the facility from arrival through launch
		Firm Fixed Price Guaranteed Number of Missions	For multi-year contract payments recognized ratably over the contract period
SMI	Space-Themed Commercial Products/Activities	Retail	Internet and retail sales recognized when goods are shipped

Goodwill. In assessing the recoverability of goodwill and other intangibles, we must make assumptions regarding the estimated future cash flows and other factors to determine the fair value of the respective assets. If and when these circumstances or their related assumptions change in the

future, we may be required to record impairment charges for these assets. We adopted Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets, on July 1, 2002 under which we ceased to amortize goodwill and instead analyze goodwill at least annually for impairment issues. The remaining goodwill on the balance sheet as of December 2003 was tested for impairment and was written off in fiscal year 2004.

Long-Lived Assets. In assessing the recoverability of long-lived assets, fixed assets, assets under construction and intangible assets, we evaluate the recoverability of those assets in accordance with the provisions of the Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. This Statement requires that certain of our long-lived fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

RESULTS OF OPERATIONS

Results of Operations for the Years Ended June 30, 2005, 2004 and 2003

Overview. In this section we discuss our results of operations, both on a consolidated basis and, where appropriate, by business unit for our fiscal years ended June 30, 2005, 2004, and 2003. Where we report earnings or loss on a per share basis, we have done so on a diluted earnings per share basis. The weighted average number of common shares applicable to diluted earnings for 2005, 2004, and 2003 were 14,190,281, and 14,141,949, and 12,285,467, respectively.

We had net income (loss) of $5.3 million or $0.37 per diluted share on revenues of $59.4 million for our 2005 fiscal year compared to $2.1 million or $0.15 per diluted share on revenues of $77.6 million for 2004 and ($81.8) million or ($6.66) per diluted share on revenues of $95.0 million for 2003.

Non-GAAP Financial Measures. We use income from operations before charges as one measure of financial performance. Income from operations before charges is a non-GAAP financial measure and consists of operating income before unusual and infrequent events such as: goodwill impairments, asset impairments, investment impairments and the loss of the RDM. Income from operations before charges also does not include interest expense or income taxes, each of which is evaluated on a consolidated basis. Because we do not allocate interest expense and income taxes by unit, we believe that income from operations is a useful measure of our units operating performance for investors. Income from operations before charges should not be considered an alternative to, or more meaningful than, net income or cash flows from operations as determined in accordance with GAAP. The *Other* column in the presentation below is our corporate selling, general and administrative expenses that are incurred for our overall operations that are not allocable to any specific business unit.

The following tables provide summary financial data regarding our consolidated and segmented results of operations for our 2005, 2004, and 2003 fiscal years, respectively (in millions):

Fiscal Year Ended June 30, 2005

	SFS Business Unit	ASO Business Unit	SGS Business Unit	SMI Business Unit	Other	Total
Income (loss) from operations before charges	$ 7.6	$ 2.1	$ 0.9	$ (0.1)	$ (7.7)	$ 2.8
Non recurring item, net recovery related to Research Double Module	7.7					7.7
Operating income (loss)	15.3	2.1	0.9	(0.1)	(7.7)	10.5
Other income		0.1			0.2	0.3
Interest expense					(5.7)	(5.7)
Pre-tax income (loss)	15.3	2.2	0.9	(0.1)	(13.2)	5.1
Income tax benefit					0.1	0.1
Net income (loss)	$ 15.3	$ 2.2	$ 0.9	$ (0.1)	$ (13.1)	$ 5.2

Fiscal Year Ended June 30, 2004

	SFS Business Unit	ASO Business Unit	SGS Business Unit	SMI Business Unit	Other	Total
Income (loss) from operations before charges	$ 8.9	$ 20.0	$ 0.3	$ (0.1)	$ (8.4)	$ 20.7
Goodwill impairment		(2.5)	(5.7)			(8.2)
Investment impairment charge					(1.8)	(1.8)
Operating income (loss)	8.9	17.5	(5.4)	(0.1)	(10.2)	10.7
Other income/expense					0.1	0.1
Interest expense					(8.2)	(8.2)
Pre-tax income (loss)	8.9	17.5	(5.4)	(0.1)	(18.3)	2.6
Income tax expense					(0.5)	(0.5)
Net income (loss)	$ 8.9	$ 17.5	$ (5.4)	$ (0.1)	$ (18.8)	$ 2.1

Fiscal Year Ended June 30, 2003

	SFS Business Unit	ASO Business Unit	SGS Business Unit	SMI Business Unit	Other	Total
Income (loss) from operations before charges	$ 6.8	$ 4.5	$ 1.9	$ (0.3)	$ (10.0)	$ 2.9
Non recurring item, net loss related to Research Double Module	(50.3)					(50.3)
Goodwill impairment			(11.9)			(11.9)
Asset impairment charge	(7.9)				(8.2)	(16.1)
Operating income (loss)	(51.4)	4.5	(10.0)	(0.3)	(18.2)	(75.4)
Interest expense					(7.2)	(7.2)
Pre-tax income (loss)	(51.4)	4.5	(10.0)	(0.3)	(25.4)	(82.6)
Income tax benefit					0.9	0.9

Net income (loss)	$ (51.4)	$ 4.5	$ (10.0)	$ (0.3)	$ (24.5)	$ (81.7)

Operating Income (Loss). Operating income (loss) was $10.5 million in fiscal year 2005, compared to $10.7 million and ($75.4) million for fiscal years 2004 and 2003, respectively. The following summarizes the activity in each of our operating segments:

SPACEHAB Flight Services

Operating income (loss) for our flights services business unit was $15.3 million for fiscal year 2005, compared to $8.9 million and ($51.4) million for fiscal years 2004 and 2003, respectively. Operating income for fiscal year 2005 includes $8.2 million payment from NASA for the loss of our RDM in the Space Shuttle *Columbia* accident. It also includes $0.5 million expense for our settlement with Lloyd s (see Item 3 Legal Proceedings for more details). Operating income for 2005 included general and administrative expense of $0.5 million and depreciation and amortization expense of $2.8 million as compared to general and administrative expenses of $0.7 million and $0.1 million and depreciation and amortization expense of $2.8 million and $5.0 million for fiscal years 2004 and 2003, respectively. Please see Results of Operations for the Years Ended June 30, 2005, 2004 and 2003 Other for a consolidated discussion of selling, general and administrative expense and depreciation and amortization expense.

SFS Business Unit Results of Operations for the Fiscal Year Ended June 30, 2005 as Compared to the Fiscal Year Ended June 30, 2004

The SFS business unit s operating income before charges decreased by $1.3 million from fiscal year 2004 to fiscal year 2005. The following summarizes significant changes for our fiscal year ended June 30, 2005 as compared to our fiscal year ended June 30, 2004:

Revenue increase of $3.8 million, consisting of the following:

- A decrease in the Research and Logistics Mission Support contract of $23.3 million in fiscal year 2005 compared to fiscal year 2004 due to the termination of the contract in January 2004
- An increase in Lockheed Martin contract revenue of $23.5 million in fiscal year 2005 as compared to fiscal year 2004 due to the startup of the contract in February 2004
- An increase in the External Stowage Platform 2 contract revenue of $3.8 million in fiscal year 2005 as compared to fiscal year 2004 due to the increased activities on the contract due to the launch of STS-114 in July 2005
- An increase in revenue attributable to our Concept Exploration and Refinement contract with NASA of $1.6 million that was started in the first quarter of fiscal year 2005
- An increase in the Japanese Experiment Thermal Incubator Service contract revenue of $0.3 million in fiscal year 2005 as compared to fiscal year 2004 due to increased project work being performed
- Other contract revenue decrease of $2.1 million, mainly due to the cancellation of the RDM s planned second mission under the Research and Logistics Mission Support contract during fiscal year 2004

Cost of Revenue increase of $5.1 million, consisting of the following:

- A decrease in the Research and Logistics Mission Support contract of $13.8 million in fiscal year 2005 compared to fiscal year 2004 due to the termination of the contract in January 2004
- An increase in Lockheed Martin contract cost of revenue of $14.6 million fiscal year 2005 as compared to fiscal year 2004 due to the startup of the contract in February 2004

An increase in the External Stowage Platform 2 contract cost of revenue of $3.7 million in fiscal year 2005 as compared to fiscal year 2004 due to the increased activities on the contract due to the launch of STS-114 in July 2005

An increase in cost of revenue attributable to our Concept Exploration and Refinement contract with NASA of $1.1 million that was started in the first quarter of fiscal year 2005

An increase in the Japanese Experiment Thermal Incubator Service contract cost of revenue of $0.1 million in fiscal year 2005 as compared to fiscal year 2004 due to increased project work being performed;

Other contract cost of revenue decrease of $0.6 million, mainly due to the cancellation of the RDM s planned second mission under the Research and Logistics Mission Support contract during fiscal year 2004

All space shuttle missions had been suspended since the February 1, 2003 Space Shuttle *Columbia* accident and did not resume until July 2005, affecting revenues and operating income of our SFS business unit for fiscal year 2005 and 2004. Pending the return to flight of the space shuttle program, we have operated under equitable adjustments and subsequently in preparation for the return to flight under the contractual arrangements in place prior to the accident. The equitable adjustment provides compensation for space flight assets committed for future contracted missions and for personnel and services in place to maintain those assets and support the return-to-flight activities.

Our SFS business unit is currently supporting NASA s preparations for shuttle missions STS-121, 116, and 118 (in order of their anticipated flight sequence). The SFS business unit processed an integrated cargo carrier for shuttle mission STS-114, the External Stowage Platform 2 that was deployed and permanently mounted to the ISS in July 2005.

We contracted directly with NASA s prime space station contractor, Boeing, for the space shuttle STS-114 mission. For the space shuttle STS-121 mission, we provided our non-deployable ICC to NASA for transport of several critical International Space Station orbital replacement unit spares. For both shuttle missions STS-116 and 118, missions previously placed under the Research and Logistics Mission Support contract, we are scheduled to provide our pressurized Logistics Single Module and our unpressurized non-deployable ICC for transport of critical cargo and orbital replacement units to and from the ISS. As previously described, the Research and Logistics Mission Support contract expired January 31, 2004 and support for shuttle missions STS-121, 116 and 118 is continuing under a subcontract agreement to Lockheed Martin, effective February 1, 2004. Additionally, after April 15, 2004 our SFS business unit is no longer subcontracting its module mission integration, operations, and sustaining engineering technical support to Boeing. Most module mission tasks previously performed by Boeing personnel are now performed by our SFS business unit personnel and selected NASA cargo integration tasks on our module missions are now performed by Lockheed Martin as a part of the Cargo Mission Contract with NASA. This action enables our SFS business unit to continue providing services to NASA and is consistent with the direction of the ISS program office.

In January 2004 we initiated activity under the Japanese Experiment Thermal Incubator Service contract with Mitsubishi Corporation, representing JAXA that was entered into in 2000 and originally scheduled to fly aboard our RDM. Subsequent to the suspension of the space shuttle flights and destruction of our module, we contracted for construction of certain space research equipment, for research space onboard the ISS and up to three Russian *Progress* cargo missions with V.J.F. Russian Consulting, representing RSC Energia, a major Russian aerospace manufacturer and mission operator. In August 2004 we supported the launch of the *Progress* and subsequent three months on-orbit operations. Additionally, in January 2005 we supported the second three months worth of on-orbit operations.

SFS Business Unit Results of Operations for the Fiscal Year Ended June 30, 2004 as Compared to the Fiscal Year Ended June 30, 2003

The SFS business unit s operating income before charges increased by $2.1 million from fiscal year 2003 to fiscal year 2004. The following summarizes significant changes for our fiscal year ended June 30, 2004 as compared to our fiscal year ended June 30, 2003:

Revenue decreases of $8.4 million, consisting of the following:

- Research and Logistics Mission Support contract revenue decreased by $14.4 million as it was terminated in January 2004
- New revenue from the Lockheed Martin contract of $7.8 million that replaced the Research and Logistics Mission Support contract
- The External Stowage Platform 2 contract revenue decreased by $4.5 million
- The various other contract revenue decreased $0.1 million
- Recognized revenue from the Japanese Experiment Thermal Incubator Service of $2.8 million

Cost of Revenue decrease of $10.5 million, consisting of the following:

- Termination of Boeing s subcontract decreased cost of revenue by $7.0 million
- Reduced EADS subcontract costs in 2004 of $3.6 million due to no missions in 2004
- Decrease in asset depreciation in 2004 of $1.8 million due to the loss of the RDM in fiscal year 2003
- Decrease in other cost of revenue of $0.3 million

Increase in internal labor costs of $1.6 million due to bringing the integrations and operations of our modules in-house

Increase in selling, general and administrative expenses of $0.6 million

All space shuttle missions had been suspended since the February 1, 2003 space shuttle *Columbia* accident, affecting revenues and operating income of our SFS business unit for fiscal year 2004. Pending the return to flight of the space shuttle program, we have operated under equitable adjustments and subsequently in preparation for the return to flight under the contractual arrangements in place prior to the accident. The equitable adjustment provides compensation for space flight assets committed for future contracted missions and for personnel and services in place to maintain those assets and support the return-to-flight activities.

In January 2004 we initiated activity under the Japanese Experiment Thermal Incubator Service contract with Mitsubishi Corporation, representing the JAXA, that was entered into in 2000 and originally scheduled to fly aboard our RDM. Subsequent to the suspension of the space shuttle flights and destruction of our module, we contracted for

construction of certain space research equipment, for research space aboard the ISS and up to three Russian *Progress* cargo missions with V.J.F. Russian Consulting, representing RSC Energia, a major Russian aerospace manufacturer and mission operator.

Astrotech Space Operations

Operating income for our Astrotech business unit was $2.1 million for fiscal year 2005, compared to $17.5 million and $4.5 million for fiscal years 2004 and 2003, respectively. Operating income for 2005 included selling, general and administrative expense of $0.3 million and depreciation and amortization expense of $2.1 million as compared to selling, general and administrative expense of $0.4 million and $0.5 million and depreciation and amortization expense of $2.0 million and $1.9 million for fiscal years 2004 and 2003, respectively. Please see Results of Operations for the Years Ended June 30, 2005, 2004 and 2003 Other for a consolidated discussion of selling, general and administrative expense and depreciation and amortization expense.

Astrotech Business Unit Operating Results for Fiscal Year ended June 30, 2005 as Compared to the Fiscal Year Ended June 30, 2004

Our Astrotech business unit s operating income before charges decreased by $17.9 million from fiscal year 2004 to fiscal year 2005. The following summarizes significant changes for our fiscal year ended June 30, 2005 as compared to our fiscal year ended June 30, 2004:

Revenue decreased by $17.9 million as a result of a $17.5 million early payment from Boeing s termination of their financial guarantees and scheduled downtime in fiscal year 2005 in the amount of $0.4 million.

Cost of revenue remained relatively consistent from fiscal year 2004 to fiscal year 2005.

Astrotech Business Unit Operating Results for Fiscal Year ended June 30, 2004 as Compared to the Fiscal Year Ended June 30, 2003

Our Astrotech business unit s operating income before charges increased by $15.5 million from fiscal year 2003 to fiscal year 2004. The following summarizes significant changes for our fiscal year ended June 30, 2004 as compared to our fiscal year ended June 30, 2003:

Revenue increased by $15.8 million as a result of a $17.5 million early payment from Boeing s termination of their financial guarantees partially offset by decreased Boeing missions in fiscal year 2004.

Cost of revenue increase of $0.3 million, consisting of:

- Astrotech business unit s support for 12 missions in 2004 versus 9 missions in 2003 which resulted in higher labor and benefit costs of $0.2 million
- Additional depreciation expense of $0.2 million in 2004
- Decrease in selling, general and administrative expense of $0.1 million

Fiscal year 2004 operating income for our Astrotech business unit included a contract early termination payment of $17.5 million by Boeing with regards to its financial guarantees under the contract agreement with Boeing for payload processing support services for the Delta launch vehicle program. Boeing indicated that the decision to terminate its guarantees for future services was based on the downturn of the commercial expendable launch market rather than performance-related considerations. We believe we were in compliance with the contract terms at the time of the termination. We recognized the early termination payment as revenue in the quarter ended December 31, 2003. The termination of the Boeing contract guarantees had a significant impact on the Astrotech business unit s future guaranteed revenue stream. As a result of this event, we performed a goodwill impairment test in accordance with Statement of Financial Accounting Standards No. 142, Goodwill and Intangible Assets. The impairment test indicated an impairment of the Astrotech business unit s remaining goodwill of approximately $2.5 million. This impairment was recorded in the period ended December 31, 2003. We utilized market valuation techniques to calculate the fair value of the Astrotech business unit.

SPACEHAB Government Services

Operating income (loss) for our SGS business unit was $0.9 million for fiscal year 2005, compared to ($5.4) million and ($10.0) million for fiscal years 2004 and 2003, respectively. Operating income for 2005 included selling, general and administrative expense of $0.4 million and depreciation and amortization expense of $0.1 million as compared to selling, general and administrative expense of $1.3 and $1.9 and depreciation and amortization expense of $0.1 million and $0.7 million for fiscal years 2004 and 2003, respectively. Please see Results of Operations for

the Years Ended June 30, 2005, 2004 and 2003 Other for a consolidated discussion of selling, general and administrative expense and depreciation and amortization expense.

SGS Business Unit Results of Operations for Fiscal year ended June 30, 2005 as Compared to the Fiscal Year Ended June 30, 2004

Our SGS business unit s operating income before charges increased by $0.6 million from fiscal year 2004 to fiscal year 2005. The following summarizes significant changes for our fiscal year ended June 30, 2005 as compared to our fiscal year ended June 30, 2004:

Revenue decreased by $4.1 million for our fiscal year ended June 30, 2005 as compared to our fiscal year ended June 30, 2004 primarily as a result of:

- A decrease in revenue under the Stowage, Engineering And Decal contract of $4.1 million in fiscal year 2005 as compared to fiscal year 2004 due to the completion of the contract
- A decrease in revenue under the Configuration Management contract revenue of $2.7 million from fiscal year 2004 to fiscal year 2005 due to completion of the contract
- An increase in revenue under the PI&C contract of $2.6 million which was awarded in January 2004
- An increase in other contract revenue of $0.1 million

Cost of revenue decreased by $4.7 million for our fiscal year ended June 30, 2005 as compared to our fiscal year ended June 30, 2004, primarily due to:

- A decrease in cost of revenue under the Stowage, Engineering And Decal contract of $3.2 million in fiscal year 2005 as compared to fiscal year 2004 due to the completion of the contract
- A decrease in cost of revenue under the Configuration Management contract revenue of $4.5 million from fiscal year 2004 to fiscal year 2005 due to completion of the contract
- An increase in cost of revenue under the PI&C contract of $2.1 million which was awarded in January 2004
- A decrease in selling, general and administrative expense of $0.8 million from fiscal year 2004 to fiscal year 2005
- A increase in other contract of revenue of $1.7 million primarily due to the extravehicular activity handrails contract with NASA

SGS Business Unit Results of Operations for Fiscal year ended June 30, 2004 as Compared to the Fiscal Year Ended June 30, 2003

Our SGS business unit s operating income before charges decreased by $1.6 million from fiscal year 2003 to fiscal year 2004. The following summarizes significant changes for our fiscal year ended June 30, 2004 as compared to our fiscal year ended June 30, 2003:

Revenue decreased by $24.5 million for our fiscal year ended June 30, 2004 as compared to our fiscal year ended June 30, 2003 primarily as a result of:

The completion of the Flight Crew Systems Development contract on April 30, 2003, which resulted in no revenue in fiscal year 2004 versus $25.8 million in fiscal year 2003

Revenue recorded under the Stowage, Engineering And Decal contract increased by $1.3 million in fiscal year 2004 as compared to fiscal year 2003 due to increased project work in fiscal year 2004

The Configuration Management contract revenue decreased by $2.4 million from fiscal year 2003 to fiscal year 2004 due to completion of the contract

The PI&C contract which was awarded in January 2004 recognized revenue of $2.8 million in fiscal year 2004

A decrease in other contract revenue of $0.4 million

Cost of revenue decreased by $22.9 million for our fiscal year ended June 30, 2004 as compared to our fiscal year ended June 30, 2003, primarily due to:

The completion of the Flight Crew Systems Development contract on April 30, 2003, which resulted in a reduction in our cost of revenue of $23.9 million in fiscal year 2004 as compared to fiscal year 2003

Cost of revenue increasing under the Stowage, Engineering And Decal contract by $1.5 million in fiscal year 2004 as compared to fiscal year 2003 due to increased project work in fiscal year 2004

The Configuration Management contract cost of revenue decreased by $1.9 million from fiscal year 2003 to fiscal year 2004 due to the completion of the contract

The award in January 2004 of the PI&C contract which increased our cost of revenue for fiscal year 2004 by $2.8 million

Decreases in the Shanghai Scienceland project cost of revenue of $0.3 million

Decreases in the cost of revenue for the Destiny module of $0.7 million in fiscal year 2004 as compared to fiscal year 2003 due to the completion of the project in fiscal year 2003

Decreases in other cost of revenue of $0.4 million

On November 5, 2003 NASA notified us that we were not awarded the International Space Station Mission Integration Contract. Additionally, the Boeing team s bid for the Cargo Mission Contract with NASA, of which our SGS business unit was a proposed subcontractor, was not selected for contract award. As a result of these events, we performed a goodwill impairment test at our SGS business unit in accordance with SFAS No. 142, Goodwill and Intangible Assets. The test indicated an impairment of the SGS business unit s remaining goodwill of approximately $5.7 million which was recorded in the period ended December 31, 2003. We utilized market valuation techniques to calculate the fair value of the SGS business unit.

Space Media

Operating loss before charges for our SMI business unit was ($0.1) million for fiscal year 2005, compared to ($0.1) million and ($0.3) million for fiscal years 2004 and 2003, respectively. Operating loss for 2005 included selling, general and administrative expense of $0.4 million and minimal depreciation and amortization expense as compared to selling, general and administrative expense of $0.3 million and $0.8 million and depreciation and amortization expense of minimal and $0.3 million for fiscal years 2004 and 2003, respectively. Please see Results of Operations for the Years Ended June 30, 2005, 2004 and 2003 Other below for a consolidated discussion of selling, general and administrative expense and depreciation and amortization expense.

Other

Other operating loss was ($7.7) for fiscal year 2005, compared to ($10.2) million and ($18.2) million for fiscal years 2004 and 2003, respectively. The operating loss for fiscal year 2005 relates primarily to selling, general and administrative expenses and depreciation and amortization expenses which were incurred at the corporate level. The $10.2 million loss for fiscal year 2004 relates primarily to selling, general and administrative expenses and depreciation and amortization expenses which were incurred at the corporate level and an impairment charge of $1.8 million attributable to our write-down of our investment in Guignè. The $18.2 million loss for fiscal year 2003 includes a $8.2 million charge for asset impairments.

Consolidated selling, general and administrative expenses and research and development were $9.5 million in fiscal year 2005, compared to $11.1 million and $13.2 million in 2004 and 2003, respectively. The $1.6 million decrease from fiscal year 2005 to 2004 is principally the result of our ongoing cost reduction efforts and staffing reductions which resulted in a decrease in labor and related costs of $1.6 million in fiscal year 2005 as compared to fiscal year 2004. Research and development expenses were immaterial for fiscal year 2005 and 2004, although we expect these costs to increase in future periods. For fiscal year 2005 our expenses for bid and proposal costs were less than $0.1 million. In fiscal year 2004 we incurred bid and proposal costs of $0.2 million primarily relating to the Mission Integration Contract proposal. During fiscal year 2005 we recognized legal expense of approximately $1.0 million relating to our claims against NASA for loss of our RDM and response to Lloyd s complaint regarding its payment of insurance proceeds on the accident.

The $2.1 million decrease in selling, general and administrative for fiscal year 2004 as compared to 2003 is principally the result of ongoing cost reduction efforts and staffing reductions. In addition, for the year ended June 30, 2004, we recorded a charge of approximately $0.3 million related to the closing of our Washington, D.C. office.

Consolidated depreciation and amortization expenses were $5.2 million in fiscal year 2005 compared to $5.4 million and $8.9 million in 2004 and 2003, respectively. The $0.2 million decrease in fiscal year 2005 as compared to 2004 is due to a portion of fixed assets reaching the end of their useful lives. The $3.5 million decrease in fiscal year 2004 compared to 2003 is primarily due to the write-off of the RDM lost in the Space Shuttle *Columbia* accident, offset by the increased depreciation on the completion of the new SPF at our Astrotech business unit s Titusville, Florida facility.

Interest Expense. Interest expense totaled $5.7 million for fiscal year 2005, compared with $8.2 million and $7.2 million for 2004 and 2003, respectively. The $2.5 million decrease for fiscal year 2005 as compared to 2004 resulted from the refinancing of our Astrotech SPF in fiscal year 2004. The $1.0 million increase for 2004 as compared to 2003 resulted primarily from the termination of the interest rate swap upon

restructuring our mortgage financing for

our Astrotech SPF, partially offset by the lower interest payments on the lower mortgage amount after the restructuring.

Income Tax Provision (Benefit). For fiscal year 2005 we recorded an income tax benefit of ($0.1) million, applying our net operating loss carry forwards to the extent allowable. We recorded an income tax provision for fiscal year 2004 of $0.5 million, while we recorded an income tax benefit for fiscal year 2003 of ($0.9) million. As of June 30, 2005 we had approximately $19.4 million of available net operating loss carry forwards expiring between 2008 and 2023 to offset future regular taxable income.

Inflation. The effects of inflation and changing prices had no material effect on our revenue or income from continuing operations during the years ended June 30, 2005 and 2004.

FINANCIAL CONDITION, CAPITAL RESOURCES AND LIQUIDITY

Balance Sheet. Our total assets at June 30, 2005 were $102.0 million compared to total assets of $99.9 million at the end of fiscal year 2004. The following table sets forth the significant components of the balance sheet as of June 30, 2005, compared with 2004 (in thousands):

	2005	2004	Chg.
Assets:			
Current assets	$ 25,896	$ 15,950	$ 9,946
Property and equipment (net)	73,647	79,600	(5,953)
Other assets (net)	2,408	4,375	(1,967)
Total	$ 101,951	$ 99,925	
Liabilities and stockholders equity:			
Current liabilities	$ 20,461	$ 22,301	$ (1,840)
Long-term debt-less current portion	64,885	66,942	(2,057)
Other long-term liabilities	1,808	1,272	536
Stockholders equity	14,797	9,410	5,387
Total	$ 101,951	$ 99,925	

Fiscal Year 2005 Compared to 2004. Current assets as of June 30, 2005 increased by $9.9 million as compared to June 30, 2004, primarily due to an increase in cash and accounts receivable. The increase in cash is primarily attributable to the $8.2 million cash received from NASA during fiscal year 2005 due to the loss of our RDM. Additionally, cash increased by $6.8 million due to the sale lease-backs of our SPACEHAB payload processing facility (SPPF) in Cape Canaveral, Florida and Headquarters facility in Webster, Texas. The increase in accounts receivable was primarily attributable to the increased volume of sales in SFS due to the return to flight activities associated with STS-114, STS-116, STS-118 and STS-121.

The decrease in net property and equipment of $6.0 million from June 30, 2004 to June 30, 2005 resulted primarily from the sale and subsequent lease-back of our SPPF in Florida and depreciation expense offset by fixed asset purchases. Fiscal year 2004 included $1.2 million for assets removed from the books upon closing of certain offices.

The decrease in other assets of $2.0 million from June 30, 2004 to June 30, 2005 resulted primarily from the removal of the land lease associated with the SPPF of $1.6 million and the reduction in other assets of $1.4 million, primarily due to the deferred mission costs for our project with JAXA. These reductions were offset by an increase in long-term receivable from the SPPF landlord of $0.7 million and an increase in deferred financing costs of approximately $0.3 million associated with the refinancing of our convertible subordinated notes.

Our current liabilities declined by $1.8 million from June 30, 2004 to June 30, 2005. The following summarizes significant items:

- We had an outstanding balance of $1.4 million on our revolving credit facility at the end of fiscal year 2004 and no balance outstanding at June 30, 2005
- Our accounts payable and accrued expenses increased from $12.6 million to $16.4 million due to the increased mission activities for the return to flight of the space shuttle fleet and the recording of $0.5 million for the Lloyd s settlement
- Our current portion of deferred revenue declined by $4.5 million due to the timing of the space shuttle related revenue recognized and the startup of the Japanese Experiment Thermal Incubator Service contract
- Other liabilities increased by $0.3 million primarily due to recording a short-term gain on the sale of the SPPF and our Headquarters facilities that will be recognized over the term of the leases

Our long-term debt as of June 30, 2005 decreased by $2.0 million from the end of the prior fiscal year due primarily by the scheduled mortgage principal payments on our Astrotech facility.

Other long-term liabilities increased by $1.0 million at year end 2005 compared to 2004 primarily due to the recording of a long-term gain of $1.6 million due to the sale of our SPPF and Headquarters facilities that will be recognized over the term of the leases. This increase was off set by a decrease in long-term deferred revenue of $0.9 million, primarily from a contract with JAXA that was previously scheduled for a space shuttle mission, but due to the suspension of shuttle operations, we restructured the contract and placed the payload on a Russian *Progress* mission that flew in our fiscal year 2005 with on-going flight operations support to 2006.

Liquidity and Capital Resources

As of June 30, 2005 we had cash on hand of $8.3 million, including $1.0 million in restricted cash. Our $5.0 million revolving credit facility had no outstanding borrowings as of June 30, 2005. Our primary sources of liquidity in 2006 are our available resources and anticipated cash flow from operations. The principal uses of cash flow that affect our liquidity position include both operational expenditures and debt service payments. We are focused on increasing cash flow and on managing cash effectively through limiting cash investments in long-term assets. Our ability to maintain sufficient liquidity in the future will depend on a number of factors, including our ability to acquire future business, control our costs and manage capital expenditures, the return to flight of the space shuttle, and the continued activity in the commercial and governmental satellite launch industry.

We expect that our cash on hand and operating cash flows through fiscal year 2006 will be sufficient to satisfy our capital expenditures, debt maturities, interest expenses, and operating commitments. In February 2005 we entered into a new $5.0 million revolving credit facility, replacing our previous revolving credit facility that has a term of one year. This new revolving credit facility is secured by our accounts receivable and funds available under the facility are limited to 80% of eligible accounts receivable. The interest rate for the term loan is prime plus one percent. Under the credit facility, we are subject to various financial and other covenants, including a minimum tangible net worth covenant, a cash flow covenant, and a secured debt coverage covenant. As of June 30, 2005 there was $5.0 million available for borrowings under this credit facility and restricted cash of $0.4 million. We were required to maintain a restricted cash balance of $0.4 million as of June 30, 2005 because we did not satisfy the minimum tangible net worth covenant in our credit facility as of June 30, 2005.

Over the longer term we believe that the space shuttle return to flight and the President s Vision for Space Exploration will lead to increased activity and related cash flows from operations for our SFS business unit. We expect additions to our contract with Lockheed Martin for ISS configuration hardware and contract additions in our spacecraft processing business, reflecting increased activity in the space exploration and commercial satellite industries. However, there can be no assurance that we will be able to win future contracts with NASA, other national space agencies, or commercial space enterprises, or to successfully exploit other business opportunities.

***Cash Flows From Operating Activities*.** Cash provided by (used in) operations for the years ended June 30, 2005, 2004 and 2003 was ($7.2) million, $5.3 million and $2.1 million, respectively. The significant items affecting the differences in cash flows from operating activities in fiscal year 2005 as compared to fiscal year 2004, and fiscal year 2004 compared to fiscal year 2003 are discussed below:

Fiscal Year 2005 Compared to 2004. For the fiscal year 2005 compared to fiscal year 2004, the significant items affecting cash provided by operating activities were:

Net income for fiscal year 2005 was $5.2 million as compared to net income for fiscal year 2004 of $2.1 million. Included in net income for fiscal year 2005 is $7.7 million recognized as a net recovery of a previously reported non-recurring loss for the loss of our RDM.

For fiscal year 2004 we received $17.5 million due to the Boeing contract termination. In addition, we recorded a non-cash charge of $8.3 million for impairment of goodwill at our Astrotech and SGS business units. We recorded a non-cash valuation allowance charge of $1.8 million for our investment in Guigne. We also recorded a non-cash charge of approximately $0.6 million due to the loan repayment.

Depreciation and amortization for fiscal year 2005 was $0.4 million less compared to fiscal year 2004, primarily due to a portion of assets reaching the end of their useful lives offset by decreased depreciation expense due to the sale of our SPPF facility at Cape Canaveral, Florida.

Changes in assets for fiscal year 2005 used cash from operations of $7.9 million. This change is primarily due to an increase in accounts receivable of $9.0 million and an increase in prepaid expenses of $0.2 million, which were partially offset by a decrease in other assets of $1.3 million. The increase in accounts receivable is primarily due to increased billings on the Cargo Mission Contract due to contract billable milestones being delivered and increased project work on space shuttle related contract work. The decrease in other assets is primarily due to a decrease in deferred mission costs for the Japanese Experiment Thermal Incubator Service contract due to the launch of the first mission in July 2004 and the subsequent on-orbit operations. For fiscal year 2004 change in assets used cash from operations of $1.5 million primarily from an increase in accounts receivable of $1.1 million.

Changes in liabilities for fiscal year 2005 used cash from operations of $1.8 million. This change is due primarily to the decreases in accounts payable and accrued expenses of $1.5 million and the decrease in deferred revenue of $5.4 million. The decrease in deferred revenue is primarily due to the first launch for the Japanese Experiment Thermal Incubator Service contract during fiscal year 2005 and subsequent on-orbit

operations. The decreases in accounts payable, accrued expenses, and deferred revenue was offset by an increase in accrued subcontract costs and other of $5.1 million which is due to increased shuttle related activities and the recording of the $0.5 million liability related to the Lloyd s settlement. For fiscal year 2004 changes in liabilities used cash in operations of $11.8 million, primarily due to a decrease in accounts payable and accrued expenses of $4.6 million and a decrease in deferred revenue of approximately $8.9 million primarily due to revenue recognition for STS-116 and NASA s planned dedicated research mission that was previously scheduled to follow STS-107. These decreases were partially offset by an increase in accrued subcontracting costs of $1.7 million.

Fiscal Year 2004 Compared to 2003. For the fiscal year 2004 compared to fiscal year 2003, the significant items affecting cash provided by operating activities were:

Net income for fiscal year 2004 was $2.1 million as compared to a net loss of recorded in the prior fiscal year of $81.8 million.

For fiscal year 2004 we received $17.5 million due to the Boeing contract termination. In addition, we recorded a non-cash charge of $8.3 million for impairment of goodwill at our Astrotech and SGS business units. We recorded a non-cash valuation allowance charge of $1.8 million for our investment in Guigne. We also recorded a non-cash charge of approximately $0.7 million due to the loan repayment.

Charges for depreciation and amortization in fiscal year 2004 was $3.5 million less than depreciation and amortization in fiscal year 2003 primarily resulting from the loss of our RDM in fiscal year 2003.

Changes in assets and liabilities for fiscal year 2004 consumed cash from operations of $13.3 million, primarily due to increases in accounts receivable and reductions in accounts payable as compared to use of $3.7 million in fiscal year 2003 where a decrease in accounts receivable of $7.0 million partially offset the reductions in accounts payable and accrued subcontracting costs. Deferred flight revenue decreased approximately $8.9 million in each fiscal year resulting from the closeout of the Research and Logistics Mission Support contract and the startup of the Japanese Experiment Thermal Incubator Service contract.

Cash Flows From Investing Activities. For the years ended June 30, 2005, 2004 and 2003, cash flows provided by investing activities were $17.7 million, $5.0 million and $3.0 million, respectively. The significant items affecting the differences in cash flows from investing activities in fiscal year 2005 compared to fiscal year 2004 and fiscal year 2004 compared to fiscal year 2003 are discussed below:

Fiscal Year 2005 Compared to 2004. For the fiscal year 2005 compared to fiscal year 2004, the significant items affecting cash provided by investing activities were:

There were property and equipment purchases of $3.4 million for fiscal 2005 as compared to $2.1 million for fiscal year 2004. For fiscal year 2005 cash flows from investing activities included the purchase of the Headquarters facility that was subsequently sold and leased back from the new landlord.

For fiscal year 2005 cash flows from investing activities were generated from the sale of short-term investments of $6.6 million as compared to sales of such short-term investments of $7.4 million for the fiscal year 2004.

For fiscal year 2005 cash flows from investing activities included $8.2 million received from NASA under the Research and Logistics Mission Support contract indemnification clause for the loss of our RDM.

For fiscal year 2005 cash flows from investing activities included $6.8 million from the sale of our SPPF and Headquarters facilities.

Fiscal Year 2004 Compared to 2003. For the fiscal year 2004 compared to fiscal year 2003, the significant items affecting cash flows in investing activities for 2004 were the sale of $7.4 million of short term investments offset by the use of $2.1 million cash flow for purchases of property and equipment, payments for building under construction and payments for flight assets under construction. The significant items affecting cash flows used in investing activities for 2003 were purchase of short term investments of $14.0 million and $2.1 million cash flow

for purchases and payments, offsets with insurance proceeds of $17.7 million resulting from the loss of our RDM on the Space Shuttle *Columbia*.

Cash Flows From Financing Activities. For the years ended June 30, 2005, 2004 and 2003, cash flows used in financing activities were $3.7 million, $11.1 million and $6.5 million, respectively. The significant items affecting the differences in cash flows from financing activities in fiscal year 2005 compared to fiscal year 2004 and fiscal year 2004 compared to fiscal year 2003 are discussed below:

Fiscal Year 2005 Compared to 2004. For the fiscal year 2005 compared to fiscal year 2004, the significant items affecting cash used in financing activities were:

- For fiscal year 2005 we had net repayments of $1.4 million in principal under the revolving credit facility as compared to net borrowings of $1.4 million for fiscal year 2004
- For fiscal year 2005 we paid $1.9 million under various credit agreements as compared to $11.5 million for fiscal year 2004. This reduction is primarily due to the payment of $9.5 million on our mortgage loan due to the Boeing contract termination and the final module payment to Alenia of $2.0 million during fiscal year 2004
- For fiscal year 2005 we had proceeds from the issuance of common stock upon the exercise of employee stock options of $0.1 million as compared to $0.3 million for fiscal year 2004
- For fiscal year 2005 we had an increase of $0.5 million from the refinancing of our subordinate convertible notes

Fiscal Year 2004 Compared to 2003. For the fiscal year 2004 compared to fiscal year 2003, the significant items affecting cash used in financing activities were:

- For fiscal year 2004 we had net borrowings of $1.4 million in principal under the revolving credit facility as compared to net repayments of $2.2 million for fiscal year 2003
- For fiscal year 2004 we paid $11.5 million under various credit agreements as compared to $4.4 million for fiscal year 2003. This increase is primarily due to the payment of $9.5 million on our mortgage loan due to the Boeing contract termination and the final module payment to Alenia of $2.0 million during fiscal year 2004 as compared to $1.9 million in fiscal year 2003
- For fiscal year 2004 we had proceeds from the issuance of common stock upon the exercise of employee stock options of $0.3 million as compared to $0.2 million for fiscal year 2003

Liquidity. Beginning in the third quarter of fiscal year 2001, we began a plan to improve our financial position and liquidity. This plan included restructuring and repayment of certain debt obligations. Development and construction of new assets is currently limited to those assets required to fulfill existing commitments under contract. We have no further on-going commitments to fund development or construction of any asset. We completed the planned restructuring of certain debt obligations and continue to focus on reducing our outstanding debt.

We continue to focus our efforts on improving our overall liquidity through identifying new business opportunities within the areas of our core competencies, reducing operating expenses, and limiting cash commitments for future capital investments and new asset development. On November 5, 2003 NASA notified us that we were not awarded the ISS Mission Integration Contract. Additionally, the Boeing team s bid for the Cargo Mission Contract with NASA, of which our SGS business unit was a proposed subcontractor, was not selected for contract award. As a result of the loss of these contract awards, we made significant adjustments to our staffing and cost base structure during 2004. We reduced staffing by 67 employees in the quarter ended March 31, 2004 as a result of NASA s award decisions. On October 1, 2003 we announced that we would close our corporate office in Washington, D.C. by March 31, 2004 and consolidate those operations into our headquarters in Houston, Texas. We took these actions as part of our continuing efforts to further reduce operating expenses and improve profitability. To offset a portion of our remaining lease commitment, we subleased our Washington, D.C. facility for the remaining lease period which is under lease through May 31, 2006. We have continued to restrict new capital investment and new asset development, limiting projects to those required to support current contracts and facility maintenance. Additionally, we continue to evaluate operating expenses in an effort to reduce or eliminate costs not required for us to operate effectively.

On April 28, 2005 we consummated the sale and simultaneous lease back of our Cape Canaveral, Florida payload processing facility. The sale resulted in net cash to us of approximately $3.8 million. We leased back the facility for an initial period of five years, with an option period of an additional five years. The annual rental for the first five years of this lease is approximately $0.45 million. On May 26, 2005 we consummated the sale and lease back of our corporate offices in Webster (Houston), Texas. The sale resulted in net cash to us of approximately $0.9 million.

We leased back 100% of the facility for an initial period of ten years, with two five-year options. We also retained the adjacent 3.0 acres parcel for future development or sale. The annual rental for the first year of this lease is approximately $0.3 million and gradually increases through the tenth year of the lease to approximately $0.4 million.

Our cash on hand was approximately $8.3 million, including $1.0 million in restricted cash, as of June 30, 2005. We believe that we have sufficient liquidity, including cash and short-term investments, advances available under our revolving credit facility, and cash anticipated or expected to be generated from operations to fund ongoing operations beyond the remainder of this fiscal year. We also expect to utilize existing cash and cash anticipated from future operations to support strategies for new business initiatives and to reduce long-term debt.

Our contractual obligations as of June 30, 2005 are as follows (in thousands):

Contractual Obligations	At June 30, 2005	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010	Thereafter
Long-term Debt	$ 63,250	$	$	$ 63,250	$	$	$
Mortgage Loan Payable	3,692	2,057	1,635				
V.J.F. Russian Consultant Agreement	180	180					
V.J.F. Russian Subcontract	1,003	603	400				
Operating leases[1]	26,713	5,359	5,259	5,157	5,046	928	4,964
Lloyd s Settlement[3]	500	500					
Total Contractual Cash Obligations[2]	$ 95,338	$ 8,699	$ 7,294	$ 68,407	$ 5,046	$ 928	$ 4,964

(1) For fiscal years 2006, 2007, 2008, and 2009 we expect to receive net payments of approximately $0.8 million, $0.6 million, $0.4 million and $0.1 million, respectively, for subleases. Additionally, we exercised a four year option on our leases with EADS.

(2) Does not include commitment to Dayna Justiz for compensation that can be earned as a result of the agreement dated June 19, 2000. The agreement states that Dayna Justiz can earn up to $375,000 as additional compensation if she meets certain financial goals in the management of The Space Store. The yearly amount is equal to five percent of The Space Store s net after-tax operating income during each fiscal year until such time an aggregate amount of $375,000 has been earned. At this time, we have recorded no liability for this obligation due to the uncertainty of the obligation being met.

(3) Included in current liabilities though will not be paid until NASA settlement is reached.

On March 25, 2003 the Board of Directors authorized us to repurchase up to $1.0 million of our outstanding common stock at market prices. Any purchases under our stock repurchase program may be made from time to time, in the open market, through block trades or otherwise in accordance with applicable regulations of the SEC. As of June 30, 2005 we had repurchased 116,100 shares at a cost of $117,320 under the program. We will continue to evaluate the stock repurchase program and the funds authorized for the program.

Off Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of June 30, 2005.

Item 8. Financial Statements and Supplementary Data.
Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

SPACEHAB, Incorporated and Subsidiaries:

We have audited the accompanying consolidated balance sheets of SPACEHAB, Incorporated and subsidiaries (the Company) as of June 30, 2005 and 2004, and the related consolidated statements of operations, stockholders equity and comprehensive income (loss) and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of June 30, 2005 and 2004, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Grant Thornton LLP
Houston, Texas
September 8, 2005

Report of Independent Registered Public Accounting Firm

The Stockholders and Board of Directors

SPACEHAB, Incorporated and Subsidiaries:

We have audited the accompanying consolidated statements of operations, stockholders equity and comprehensive income (loss), and cash flows of SPACEHAB, Incorporated and subsidiaries (the Company) for the year ended June 30, 2003. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated results of operations and cash flows of SPACEHAB, Incorporated and subsidiaries for the year ended June 30, 2003, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

McLean, Virginia
August 20, 2003

SPACEHAB, INCORPORATED AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands, except share data)

	June 30, 2005	2004
Assets		
Current assets		
Cash and cash equivalents	$ 7,327	$ 506
Restricted cash	970	430
Short-term investments		5,037
Restricted short-term investments		1,604
Accounts receivable, net	16,906	7,878
Prepaid expenses and other current assets	693	495
Total current assets	25,896	15,950
Property and equipment		
Flight assets	64,476	64,476
Module improvements in progress	1,527	913
Payload processing facilities	42,571	45,895
Furniture, fixtures, equipment and leasehold improvements	17,297	18,071
	125,871	129,355
Less accumulated depreciation and amortization	(52,224)	(49,755)
Property and equipment, net	73,647	79,600
Deferred financing costs, net	1,278	1,163
Other assets, net	1,130	3,212
Total assets	$ 101,951	99,925
Liabilities and Stockholders Equity		
Current liabilities		
Revolving loan payable	$	$ 1,445
Mortgage loan payable, current portion	2,057	1,946
Accounts payable	2,219	2,424
Accounts payable- EADS	1,796	3,262
Accrued interest	1,088	1,108
Accrued expenses	3,717	3,600
Accrued subcontracting services	7,552	2,176
Deferred gains on sale of buildings	221	
Deferred revenue, current portion	1,811	6,340
Total current liabilities	20,461	22,301
Accrued contract costs and other	221	372
Deferred gains on sale of buildings	1,587	
Deferred revenue, net of current portion		900
Mortgage loan payable, net of current portion	1,635	3,692
Convertible subordinated notes payable	63,250	63,250
Total liabilities	87,154	90,515

Commitments and contingencies		
Stockholders equity		
Preferred stock, no par value, convertible, authorized 2,500,000 shares, issued and outstanding 1,333,334 shares, (liquidation preference of $12,000)	11,892	11,892
Common stock, no par value, 30,000,000 shares authorized 12,781,279 and 12,688,062 shares issued, respectively	83,889	83,751
Treasury stock, 116,100 shares at cost	(117)	(117)
Additional paid-in capital	16	16
Accumulated deficit	(80,883)	(86,132)
Total stockholders equity	14,797	9,410
Total liabilities and stockholders equity	$ 101,951	$ 99,925

See accompanying notes to consolidated financial statements.

SPACEHAB, INCORPORATED AND SUBSIDIARIES

Unaudited Condensed Consolidated Statements of Operations

(In thousands, except share data)

	Twelve Months Ended June 30,		
	2005	**2004**	**2003**
Revenue	$ 59,401	$ 77,606	$ 94,963
Costs of revenue	47,158	45,678	78,791
Gross profit	12,243	31,928	16,172
Operating expenses			
Selling, general and administrative	9,383	10,908	13,098
Research and development	77	223	118
Goodwill impairment		8,274	11,925
Asset impairment charge		1,800	16,143
Nonrecurring items, net loss (recovery) related to RDM	(7,744)		50,268
Total operating expenses	1,716	21,205	91,552
Income (loss) from operations	10,527	10,723	(75,380)
Interest expense	(5,716)	(8,237)	(7,243)
Interest and other income (expense), net	292	95	(9)
Income (loss) before income taxes	5,103	2,581	(82,632)
Income tax (expense) benefit	146	(506)	857
Net income (loss)	$ 5,249	$ 2,075	$ (81,775)
Income (loss) per share			
Net income (loss) per share basic	$ 0.42	$ 0.17	$ (6.66)
Shares used in computing net income (loss) per share basic	12,613,491	12,450,320	12,285,467
Net income (loss) per share diluted	$ 0.37	$ 0.15	$ (6.66)
Shares used in computing net income (loss) per share diluted	14,190,281	14,141,949	12,285,467

See accompanying notes to consolidated financial statements.

SPACEHAB, INCORPORATED AND SUBSIDIARIES

Consolidated Statements of

Stockholders Equity and Comprehensive Income (Loss)

(In thousands, except share data)

	Convertible Preferred Stock		Common Stock		Treasury Stock	Add l. Paid-In- Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders Equity
	Shares	Amount	Shares	Amount	Amount				
Balance at June 30, 2002	1,333,334	$ 11,892	12,154,465	$ 83,204	$	$ 16	$ (1,010)	$ (6,432)	$ 87,670
Common stock issued under employee stock purchase plan			230,314	152					152
Common stock issued under settlement			100,000	90					90
Treasury stock purchased, 109,800 shares					(111)				(111)
Accumulated other comprehensive loss							(936)		(936)
Net loss								(81,775)	(81,775)
Total comprehensive loss									(82,711)
Balance at June 30, 2003	1,333,334	$ 11,892	12,484,779	$ 83,446	$ (111)	$ 16	$ (1,946)	$ (88,207)	$ 5,090
Common stock options exercised			133,246	225					225
Common stock issued under employee stock purchase plan			70,037	80					80
Treasury stock purchased, 6,300 shares					(6)				(6)
Accumulated other comprehensive income							1,946		1,946
Net income								2,075	2,075
Total comprehensive income									4,021
Balance at June 30, 2004	1,333,334	$ 11,892	12,688,062	$ 83,751	$ (117)	$ 16	$	$ (86,132)	$ 9,410
Common stock options exercised			27,250	24					24
Common stock issued under employee stock purchase plan			65,967	114					114
Net income								5,249	5,249
Total comprehensive income									5,249
Balance at June 30, 2005	1,333,334	$ 11,892	12,781,279	$ 83,889	$ (117)	$ 16		$ (80,883)	$ 14,797

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Cash Flows

(In thousands)

	Twelve Months Ended June 30,		
	2005	2004	2003
Cash flows from operating activities			
Net income (loss)	$ 5,249	$ 2,075	$ (81,775)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:			
Nonrecurring item, net loss (recovery) related to RDM	(8,244)		50,268
Goodwill impairment		8,274	11,925
Impairment of investment in Guigne		1,800	16,143
Loss on interest rate swap		(613)	
Depreciation and amortization, including deferred debt issuance	5,526	5,883	9,385
Write-off of debt placement fees	9	567	
Loss on asset sales and write-offs	3	615	
Recognition of deferred gain	(33)		
Other			(146)
Changes in assets and liabilities:			
(Increase in) decrease in accounts receivable	(9,028)	(1,098)	7,022
(Increase in) decrease in prepaid expenses and other current assets	(198)	(152)	120
(Increase) decrease in other assets	1,341	(272)	(21)
Decrease in deferred revenue	(5,429)	(8,864)	(8,861)
(Decrease) increase in accounts payable and accrued expenses and accounts payable-EADS	(1,504)	(4,596)	575
(Decrease) increase in accrued subcontracting services and other	4,876	1,654	(2,521)
Increase in long-term contracts costs and other liabilities	279		
Net cash (used in) provided by operating activities	(7,153)	5,273	2,114
Cash flows from investing activities			
Payments for flight assets under construction		(609)	(161)
Purchases of property, equipment and leasehold improvements	(3,429)	(1,481)	(1,297)
Proceeds received from sale of property and equipment	6,767	133	125
Proceeds from sales (purchases) of investments	6,641	7,406	(14,047)
Increase in restricted cash	(540)	(430)	
Proceeds from insurance			17,667
Proceeds from contract indemnification	8,244		
Proceeds from state grant			750
Net cash provided by investing activities	17,683	5,019	3,037
Cash flows from financing activities			
Proceeds from issuance of common stock	138	305	151
Increase in deferred financing	(456)		
Purchase of treasury stock		(6)	(111)
Net borrowings (repayments) under revolving loan payable	(1,445)	1,445	(2,150)
Repayment of mortgage loan	(1,946)	(9,494)	(2,039)
Repayment of interest rate swap		(1,333)	
Payment of convertible notes payable to shareholder		(2,004)	(1,862)
Payment of note payable			(218)
Payment of minority interest			(315)
Net cash used in financing activities	(3,709)	(11,087)	(6,544)
Net change in cash and cash equivalents	6,821	(795)	(1,393)
Cash and cash equivalents at beginning of period	506	1,301	2,694

Cash and cash equivalents at end of period	$ 7,327	$ 506	$ 1,301

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Description of the Company and Operating Environment

SPACEHAB is a developer and operator of space flight hardware assets, a provider of manned and unmanned payload processing services, and an entrepreneurial force in space commerce applications.

A substantial portion of our revenue has been generated under contracts with NASA and our contracts are subject to periodic funding allocations by the agency. NASA s funding is dependent on receiving annual appropriations from the U.S. Government. During the years ended June 30, 2005, 2004, and 2003 approximately 81%, 54%, and 77% of our revenues were generated under U.S. Government contracts, respectively.

The SFS business unit is continuing operations for U.S. space shuttle program, supporting three of the next five planned space shuttle missions through the use of our pressurized laboratory and logistics supply modules and cargo carriers, which significantly enhance the capabilities of the space shuttle fleet. We are in negotiations with Lockheed Martin to finalize contract provisions for these missions and for equitable adjustments for asset maintenance and contracted preparation activities during the periods effected by NASA s launch schedule.

Our Astrotech subsidiary provides commercial spacecraft launch processing services and payload processing facilities in the U.S. These services are offered at the Astrotech facilities in Titusville, Florida and VAFB in California, and are provided on a fixed-price basis. Additionally, Astrotech supplies payload processing and facilities maintenance support services to Sea Launch Company, LLC for its Sea Launch program at the Home Port facilities in Long Beach, California.

Our SGS subsidiary manages projects in need of comprehensive engineering solutions and provides unique capabilities such as specialty engineering, hardware design and development, and configuration and data management. SGS also designs and fabricates space flight hardware. We continuously review and seek new business opportunities with NASA, either through current contract expansion or teaming with other aerospace companies on new contract bid initiatives.

A wholly-owned subsidiary of SPACEHAB, SMI is a provider for the space enthusiast. Formed in April 2000, this business unit has access to myriad engineers, marketing and industry professionals, and aerospace subcontractors, all prepared to apply their knowledge and expertise to support various space-related needs. The retail business of SMI continues to maintain steady sales and is exploring new market opportunities.

We believe that NASA, as well as future space shuttle and ISS programs will continue to be funded and supported by the U.S. Government. While delays have occurred, we believe that it is highly unlikely that any decision to discontinue these programs would be made during the next twelve months. However, the Company is subject to risks and uncertainties. We continue to focus efforts on improving the overall liquidity of the Company through identifying new business opportunities within the areas of our core competencies, reducing operating expenses and limiting cash commitments for future capital investments and new asset development.

Our cash and short-term investments are approximately $8.3 million as of June 30, 2005, which include $1.0 million of restricted cash. We believe we have sufficient liquidity to fund ongoing operations for at least the next fiscal year and expect to utilize existing cash and proceeds from operations to support strategies for new business initiatives and reduce debt service requirements.

(2) Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of SPACEHAB, Incorporated and its wholly-owned and majority-owned subsidiaries: Astrotech Space Operations, SPACEHAB Government Services, and Space Media. All significant intercompany transactions have been eliminated in consolidation.

Cash and Cash Equivalents

The Company considers short-term investments with original maturities of three months or less to be cash equivalents. Cash equivalents are primarily made up of money market investments and overnight repurchase agreements recorded at cost, which approximate market value.

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Restricted Cash

Restricted cash represents cash that is not readily available for general purpose cash needs. Restricted cash of $0.9 million at June 30, 2005 reflected amounts restricted due to loan covenant of $0.4 million and cash restricted for payment of mortgage loan payable of $0.5 million.

Investments

We account for investments in accordance with Statements of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities. The Company designated all of its investments as of June 30, 2004 to be available for sale and classified these as current based on their intent to use these securities in operations during fiscal year 2005.

Available-for-sale securities are recorded at fair value on the balance sheet, with the change in fair value during the period excluded from earnings and recorded as a component of other comprehensive income. As of June 30, 2004 the fair market value of these securities approximated cost. Maturities of the debt securities held by the Company ranged from April 13, 2005 to September 29, 2006. In February 2005 we sold all of our available for-sale securities.

For the years ended June 30, 2005, 2004, and 2003, interest income was immaterial. Interest income is recorded as a component of other income (expense).

Property and Equipment

Property and equipment are stated at cost. All furniture, fixtures, and equipment are depreciated using the straight-line method over the estimated useful lives of the respective assets, which is generally five years. Our payload processing facilities are depreciated using the straight-line method over their estimated useful lives ranging from sixteen to forty-three years.

We have estimated the useful lives of our space flight assets, which is a component of property and equipment, through June 30, 2016, based on current available space-related programs and activities which management expects will extend through at least 2016.

Leasehold improvements are amortized over the shorter of the useful life of the building or the term of the lease. Repairs and maintenance are expensed when incurred.

Investments in Affiliates

We use the equity method of accounting for our investments in, and earnings of, investees in which we exert significant influence. In accordance with the equity method of accounting, the carrying amount of such an investment is initially recorded at cost and is increased to reflect our share of the investor s income and is reduced to reflect the Company s share of the investor s losses. Investments in which the Company has less than 20% ownership and no significant influence are accounted for under the cost method and are carried at cost (see note 17).

Impairment of Long- Lived Assets

We account for long-lived assets in accordance with the provisions SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. This Statement requires long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets (see note 20). Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Stock-Based Compensation

We account for stock-based employee compensation arrangements using the intrinsic value method as prescribed in Accounting Principles Board Opinion No. 25 (APB Opinion 25), Accounting for Stock Issued to Employees, and related interpretations. Accordingly, compensation cost for options to purchase SPACEHAB Common Stock (Common Stock) granted to employees is measured as the excess, if any, of the fair value of Common Stock at the date of the grant over the exercise price an employee must pay to

acquire the Common Stock. We have adopted the disclosure requirements of SFAS No. 148, Accounting for Stock-based Compensation - Transition and Disclosure an Amendment of SFAS No. 123.

The Company applies APB Opinion 25 and related interpretations in accounting for its plans. Accordingly, as all options have been granted at exercise prices equal to the fair market value as of the date of grant, no compensation cost has been recognized under these plans in the accompanying consolidated financial statements. Had compensation cost been determined consistent with SFAS No. 123, our net income (loss) and net income (loss) per common share would have been changed to the pro forma amounts indicated below (in thousands, except per share data).

	Year Ended June 30,		
	2005	2004	2003
Net income (loss), as reported	$ 5,249	$ 2,075	$ (81,775)
Deduct: Total stock-based compensation expense determined under fair value based method (SFAS No. 123) for all awards, net of related tax effects	(227)	(296)	(573)
Pro forma net income (loss)	$ 5,022	$ 1,779	$ (82,348)
Earnings (loss) per share:			
Basic - as reported	$ 0.42	$ 0.17	$ (6.66)
Diluted - as reported	$ 0.37	$ 0.15	$ (6.66)
Basic - pro forma	$ 0.40	$ 0.14	$ (6.70)
Diluted - pro forma	$ 0.35	$ 0.13	$ (6.70)

The fair value of each option granted and each employee stock purchase right is estimated using the Black-Scholes option-pricing model. The following weighted average assumptions were used for grants:

	2005	2004	2003
Expected Dividend Yield	0%	0%	0%
Expected Volatility	1.00	1.00	.50
Risk-Free Interest Rates	3.7%	3.84%	5.63%
Expected Option Life (in years)	7	7	7

The effects of compensation cost as determined under SFAS No. 123 on pro forma net income (loss) in years ended June 30, 2005, 2004, and 2003 may not be representative of the effects on net income (loss) in future periods.

Revenue Recognition

SPACEHAB recognizes revenue employing several generally accepted revenue recognition methodologies across its business segments. The methodology used is based on contract type and the manner in which products and services are provided. Revenue generated under existing SFS contracts and for all other contract awards for which the capability to successfully complete the contract can be reasonably assured and costs at completion can be reliably estimated at contract inception, is recognized under the percentage-of-completion method based on costs incurred over the period of the contract. Revenue provided by SGS is primarily derived from cost-plus award fee contracts, whereby revenue is recognized to the extent of reimbursable costs incurred plus award fee. Award fees which provide earnings based on our contract performance, as determined by NASA evaluations, are recorded when the amounts are probable and can be reasonably estimated. Changes in estimated costs to complete and provisions for contract losses and estimated amounts recognized as award fees are recognized in the period they become known. Revenue generated by Astrotech s payload processing services is recognized ratably over the occupancy period of the satellite while in the

Astrotech facilities. For the multi-year contract with Lockheed Martin, revenue is billed and recognized on a quarterly basis for costs incurred. SMI recognizes revenue as merchandise is sold to customers.

Deferred Revenue

Deferred revenue represents amounts collected from customers for projects, products, or services to be provided at a future date. Deferred revenue is shown on the balance sheet as either a short-term or long-term liability, depending on when the service or product is to be provided.

Research and Development

Research and development costs are expensed as incurred.

Income Taxes

We recognize income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forward. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is established when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Net Income (Loss) Per Share

Basic net income (loss) per share is calculated by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share includes all common stock options and other common stock equivalents that potentially may be issued as a result of conversion privileges, including the convertible subordinated notes payable and convertible preferred stock. See note 10.

Accounting Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from these estimates.

Derivatives

The Company accounts for derivatives pursuant to SFAS No.133, Accounting for Derivative Instruments and Hedging Activities, as amended. This standard requires that all derivative instruments be recognized in the financial statements and measured at fair value regardless of the purpose or intent for holding them. We use cash flow hedges whereas changes in the fair value of derivative instruments are recognized periodically in shareholders equity (as a component of accumulated other comprehensive income (loss). As of June 30, 2005 and 2004 we have no derivative instruments.

New Accounting Pronouncement

On December 16, 2004 the FASB issued Statement No. 123(R), Share-Based Payment, which requires companies to record compensation expense for stock options issued to employees at an amount determined by the fair value of the options. SFAS No. 123(R) was initially effective for us in our second quarter of fiscal 2005. However, due to an SEC extension of the compliance date in April 2005, SFAS No. 123(R) will now be effective for us beginning July 1, 2005. As such, effective with our first fiscal quarter of fiscal 2006, SFAS No. 123(R) will eliminate our ability to account for stock options using the method permitted under APB 25 and instead requires us to recognize compensation expense should we issue stock options to our employees or non-employee directors. We have evaluated the impact of adopting SFAS No. 123(R) on the consolidated financial statements and expect to record expense of approximately $0.2 million during the first quarter of fiscal year 2006.

(3) Statements of Cash Flows Supplemental Information

Cash paid for interest costs was approximately $5.4 million, $7.2 million, and $6.7 million for the years ended June 30, 2005, 2004, and 2003, respectively. In fiscal year 2004 we paid approximately $1.3 million to

terminate our swap arrangement that related to our bank financing of our spacecraft processing facility expansion project in Titusville, Florida.

The Company paid income taxes of $0.4 million for year ended June 30, 2004 and no income taxes were paid for the years ended June 30, 2005 and 2003.

Depreciation and amortization in the statements of cash flows includes approximately $0.4 million, $0.5 million, and $0.5 million related to the amortization of deferred debt issuance costs in 2005, 2004, and 2003, respectively.

(4) Accounts Receivable

At June 30, 2005 and 2004, accounts receivable consisted of the following (in thousands):

	2005	2004
U.S. government contracts:		
Billed	$ 9,552	$ 5,450
Unbilled:		
Indirect costs incurred and charged to cost-plus-fee contracts in excess of provisional billing rates		666
Revenues in excess of milestone and time-based billings	5,554	818
Total U.S. government contracts	15,106	6,934
Commercial contracts:		
Billed	1,113	628
Unbilled	1,346	975
Allowances	(659)	(659)
Total commercial contracts	1,800	944
Total accounts receivable	$ 16,906	$ 7,878

The Company anticipates collecting all receivables within one year.

The accuracy and appropriateness of our direct and indirect costs and expenses under government contracts, and therefore our accounts receivable recorded pursuant to such contracts, are subject to extensive regulation and audit by the U.S. Defense Contract Audit Agency or by other appropriate agencies of the U.S. Government. Such agencies have the right to challenge our cost estimates or allocations with respect to any government contract. Additionally, a substantial portion of the payments to the Company under government contracts are provisional payments that are subject to potential adjustment upon audit by such agencies. In the opinion of management, any adjustments likely to result from inquiries or audits of its contracts would not have a material adverse impact on our financial condition or results of operations.

(5) Long-term Debt

Revolving Loan Payable

On August 29, 2002 we entered into a $5.0 million line of credit with a financial institution. The term of this credit facility was through August 28, 2005. Covenants included a liquidity ratio and a limited pledge of $5.6 million of the Company s investment account. The restriction on the investment balance was equal to 111% of the borrowings on the line of credit. In June 2004 the credit agreement was amended again to remove the financial covenant on capital expenditures. Borrowing on this credit facility for the twelve months ended June 30, 2005 was at a weighted average interest rate of 4.8%. For fiscal year ended June 30, 2004 the weighted average interest rate was 5.94%. This credit facility was replaced with a new revolving credit facility from another financial institution on February 11, 2005.

On February 11, 2005 we entered into a revolving one-year credit facility with a bank providing for loans up to $5.0 million secured by the Company s accounts receivable. The interest rate for the term loan is prime plus one percent (7.25% as of June 30, 2005). Funds available under the revolving credit facility are limited to 80% of eligible accounts receivable and we are subject to various financial and other covenants

including a minimum tangible net worth covenant, a cash flow coverage covenant, and a secured debt coverage covenant. As of June 30, 2005 there have been no borrowings under this revolving credit facility, and we posted a

restricted cash balance of $0.4 million in accordance with the financial covenants. Should the Company continue to incur reductions in tangible net worth, it would be required to post additional cash as collateral. As of June 30, 2005 there was $5.0 million available under this credit facility.

Mortgage Loan Payable

On August 30, 2001 our Astrotech subsidiary completed a $20.0 million financing of its SPF expansion project in Titusville, Florida with a financial institution. The proceeds of this financing were used to complete the construction of the facility and supporting infrastructure. The loan was collateralized primarily by the multi-year payload processing contracts with Boeing and Lockheed Martin and by the building. The net book value of the building as of June 30, 2005 was $22.4 million. Interest accrued on the outstanding principal balance is at a LIBOR-based rate, adjustable quarterly. The loan was scheduled to mature on January 15, 2011. The loan was converted from a construction loan to a term loan on December 31, 2001. Amortization of loan principal began on January 15, 2002 on a quarterly basis through the loan maturity date.

On October 1, 2003 Astrotech was notified by Boeing that it was exercising its termination rights with regards to its financial guarantees under the contract agreement with Astrotech for payload processing support services for the Delta launch vehicle program. Boeing indicated that the decision to terminate its guarantees for future Astrotech services was based on the downturn of the commercial expendable launch market rather than performance related considerations. Astrotech was in full compliance with the contract terms at the time of the termination. Under the contract provision related to termination of its financial guarantees, Boeing paid us $17.5 million representing consideration of future contract payments previously used to collateralize the obligation. On December 31, 2003 we repaid $9.5 million of principal on the debt.

In conjunction with the original financing, a swap agreement was required to be entered into to provide for a fixed rate of interest under the loan commitment beginning January 15, 2002. The fixed rate of interest on the outstanding principal balance was 5.62% plus 225 basis points. The objective of the swap was to eliminate the variability of cash flows in the interest payments for the total amount of the variable rate debt, the sole source of which are changes in the USD-LIBOR-BBA interest rate. Due to the repayment of the Boeing portion of this debt and the subsequent amendment of the loan agreement, the swap was no longer effective as a hedge. The unrealized loss in other comprehensive loss for the portion of the debt that was repaid in December 2003 was recorded as interest expense in the period ended December 31, 2003 in the amount of $0.8 million. We recognized interest expense of $0.4 million for the unamortized debt placement costs related to the debt repayment in the period ended December 31, 2003. We recognized as additional interest expense, the unamortized debt placement costs of $0.2 million and the balance of the deferred loss on the swap in other comprehensive loss of $0.5 million in the third quarter of the fiscal year 2004 in connection with the amendment of the loan agreement.

The loan agreement was amended on January 29, 2004, whereby the maturity date was shortened to January 2007, the interest rate was fixed at 5.5%, and the hedge requirement was eliminated. For the fiscal year ended June 30, 2005, approximately $1.9 million of principal was repaid and the outstanding balance is $3.7 million as of June 30, 2005.

Convertible Subordinated Notes Payable

In October 1997 we completed a private placement offering for $63.3 million of aggregate principal of unsecured 8.0% Convertible Subordinated Notes due October 2007. Interest is payable semi-annually. The notes are convertible into the Common Stock of the Company at a rate of $13.625 per share. This offering provided us with net proceeds of approximately $59.9 million that were used for capital expenditures associated with the development and construction of space related assets and for other general corporate purposes.

The Company s debt repayments are due as follows (in thousands):

	Balance			
	6/30/2005	FY06	FY07	FY08
Mortgage Loan Payable	$ 3,692	$ 2,057	$ 1,635	$
Convertible Subordinated Notes Payable	63,250			63,250
	$ 66,942	$ 2,057	$ 1,635	$ 63,250

(6) Fair Value of Financial Instruments

The following table presents the carrying amounts and estimated fair values of certain of the Company s financial instruments as of June 30, 2005 and 2004 in accordance with SFAS No. 107, Disclosures about Fair Value of Financial Instruments (in thousands):

	June 30, 2005		June 30, 2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Loan payable under credit facility	$	$	$ 1,445	$ 1,445
Mortgage loan payable	3,692	3,692	5,638	5,638
Convertible subordinated notes payable	63,250	53,763	63,250	53,763

The fair value of our long-term debt is based on quoted market prices or is estimated based on the current rates offered to us for debt of similar remaining maturities and other terms. The carrying amounts of cash and cash equivalents, investments, accounts receivable, accounts payable and accrued expenses approximate their fair market value because of the relatively short duration of these instruments.

(7) NASA Contracts

Research and Logistics Mission Support Contract

On December 21, 1997 we entered into the Research and Logistics Mission Support contract to provide to NASA its flight modules and related integration services. This contract provided NASA the use of the flight modules for both science and logistics missions. This contract was subsequently amended whereby the contract value was increased to $241.5 million and the number of missions was increased to nine. The final value of the Research and Logistics Mission Support contract is $214.3 million.

During the years ended June 30, 2004 and 2003, we recognized $24.9 million and $37.0 million of revenue, respectively, under this contract.

Cargo Mission Contract

In February 2004 and under NASA s new consolidated ISS contracts structure, we began providing services to NASA (similar to the services provided under the Research and Logistics Mission Support contract) under subcontract to NASA s Cargo Mission Contract contractor, Lockheed Martin. SFS is currently under contract with Lockheed Martin for unpressurized pallet and pressurized module services supporting STS-121 (ICC), and STS-116 and STS-118 (module and ICC). We have recently agreed to the formal contract with Lockheed Martin to provide the above services, subject to the agreed to terms and conditions. NASA has provided its consent to the contract.

External Stowage Platform Contract (ESP2)

SFS s contract with the prime ISS contractor, Boeing, for the STS-114 mission carrying the deployable ICC, was not affected by the ISS contract consolidation restructure. STS-114 was the first mission flown by NASA following the *Columbia* tragedy and launched in July 2005.

Cargo Shipment Coordination Contract

Additionally, during the space shuttle stand-down period, SFS is providing cargo shipment coordination services to NASA for all U.S. cargo shipped to the ISS via the Russian *Progress* space vehicle. These services are provided under contract to Lockheed Martin, the Cargo Mission Contract contractor to NASA.

Flight Crew Systems Development Contract

In prior fiscal years, SGS primarily operated under the Flight Crew System Development contract which was a $399.1 million multi-task cost-plus award and incentive fee contract. The contract commenced in May 1993 and concluded in April 2003. Portions of the contract were under two different recompetitions and those portions were awarded to another bidder and transitioned to that successful bidder in April 2003 and November 2003. One of the original seven contract tasks remained under a new contract with SGS. That contract was the ISS Configuration Management contract that was completed on December 31, 2003. The configuration management task was consolidated within the PI&C contract of which ARES Corporation was

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the successful bidder. SGS is a major subcontractor to ARES providing configuration management and data integration services.

Astrotech s NASA Contracts

During fiscal year 2004, Astrotech started direct spacecraft processing support for NASA. Astrotech has one mission under contract and is working with NASA on an Indefinite Delivery Indefinite Quantity format for future missions.

(8) Stockholder Rights Plan

On March 26, 1999 the Board of Directors adopted a Stockholder Rights Plan designed to deter coercive takeover tactics and to prevent a potential acquirer from gaining control of the Company without offering a fair price to all of the Company s stockholders. The stockholder rights plan was amended and restated in February 2004. A dividend of one preferred share purchase right (a Right) was declared on every share of Common Stock outstanding on April 9, 1999. Each Right under the plan entitles the holder to buy one one-thousandth of a share of a new series of junior participating preferred stock for $35. If any person or group becomes the beneficial owner of 20% or more of Common Stock (with certain limited exceptions), then each Right (not owned by the 20% stockholder) will then entitle its holder to purchase, at the Right s then current exercise price, common shares having a market value of twice the exercise price. In addition, if after any person has become a 20% stockholder, and is involved in a merger or other business combination transaction with another person, each Right will entitle its holder (other than the 20% stockholder) to purchase, at the Right s then current exercise price, common shares of the acquiring company having a value of twice the Right s then current exercise price. The Rights were granted to each shareholder of record on April 9, 1999. At any time before a person or group acquires a 20% position, the Company generally will be entitled to redeem the Rights at a redemption price of $0.01 per Right. The Rights will expire on April 9, 2009.

On July 13, 2005 SPACEHAB entered into an amendment to the Amended and Restated Rights Agreement, dated as of February 23, 2004 between the Company and American Stock Transfer & Trust Company, as rights agent, accelerating the expiration date of the Rights Agreement from April 9, 2009 to July 13, 2005. Pursuant to the Rights Agreement, rights to purchase shares of the Company s Series A Junior Participating Preferred Stock, par value $.01 per share, were issued to all holders of the Company s common stock, no par value per share. The amendment has the effect of terminating the Rights Agreement effective July 13, 2005.

(9) Convertible Preferred Stock

On August 2, 1999 EADS (formerly Astrium GmbH), a related party and shareholder, purchased an additional $12.0 million equity interest in SPACEHAB representing 1,333,334 shares of Series B Senior Convertible Preferred Stock. Under the agreement, EADS purchased all of SPACEHAB s 975,000 authorized and unissued shares of preferred stock. At the annual stockholders meeting held on October 14, 1999, the shareholders approved the proposal to increase the number of authorized shares of preferred stock to 2,500,000, in order to complete the transaction with EADS allowing them to purchase the additional 358,334 preferred shares. The preferred stock purchase increased EADS s voting interest in SPACEHAB to approximately 11.5%. The Series B Senior Convertible Preferred Stock is: convertible at the holders option on the basis of one share of preferred stock for one share of Common Stock, entitled to vote on an as converted basis the equivalent number of shares of Common Stock, and has preference in liquidation, dissolution, or winding up of $9.00 per preferred share. No dividends are payable on the convertible preferred shares.

(10) Common Stock Options and Stock Purchase Plans

As of June 30, 2005 2,464,469 shares of Common Stock were reserved for grants of stock options under the Company s three stock option plans.

Non-qualified Options

Non-qualified options are granted at the sole discretion of the Board of Directors. Prior to the adoption of the 1994 Stock Incentive Plan (the 1994 Plan), stock options granted to the Company s officers and employees were part of their employment contract or offer. The number and price of the options granted were defined in the employment agreements and such options vest incrementally over a period of four years and generally expire within ten years of the date of grant.

The 1994 Plan

Under the terms of the 1994 Plan, the number and price of the options granted to employees is determined by the Board of Directors and such options vest, in most cases, incrementally over a period of four years and expire no more than ten years after the date of grant.

The Directors Stock Option Plan

Each new non-employee director receives a one-time grant of an option to purchase 10,000 shares of common stock at an exercise price equal to the fair market value on the date of grant. In addition, effective as of the date of each annual meeting of the Company s stockholders, each non-employee director who is elected or continues as a member of the Board of Directors of the Company shall be awarded an option to purchase 5,000 shares of common stock. Options under the Director s Plan vest after one year and expire seven years from the date of grant.

1997 Employee Stock Purchase Plan

We adopted an employee stock purchase plan that permits eligible employees to purchase shares of Common Stock of the Company at prices no less than 85% of the current market price. Eligible employees may elect to participate in the plan by authorizing payroll deductions from 1% to 10% of gross compensation for each payroll period. On the last day of each quarter, each participant s contribution account is used to purchase the maximum number of whole and fractional shares of Common Stock determined by dividing the contribution account s balance by the lesser of 85% of the price of a share of Common Stock on the first day of the quarter or the last day of a quarter. The number of shares of Common Stock that may be purchased under the plan is 1,500,000. Through June 30, 2005 employees have purchased 1,137,626 shares under the plan.

Space Media, Inc. Stock Option Plan

During the year ended June 30, 2000, Space Media, Inc., a majority owned subsidiary of the Company, adopted an option plan (SMI Plan) for employees, officers, directors and consultants of SMI. Under the terms of the SMI Plan, 1,500,000 shares have been reserved for future grants for which the number and price of the options granted is determined by the Board of Directors and such options vest, in most cases, incrementally over a period of four years and expire no more than ten years after the date of grant. At June 30, 2005 and June 30, 2004, there were 388,750 options issued and outstanding under the SMI Plan at a weighted average exercise price of $1.00. The options vest equally over a four-year period and have a life of 10 years. There were 274,063 options exercisable as of June 30, 2005 and June 30, 2004 with a weighted-average exercise price of $1.00 and a weighted-average remaining contractual life of five to six years, respectively.

Stock Option Activity Summary

The following table summarizes the Company s stock option plans, excluding the SMI plan:

	Non-qualified Options		1994 Plan		Directors Plan	
	Shares Outstanding	Weighted Average Exercise Price	Shares Outstanding	Weighted Average Exercise Price	Shares Outstanding	Weighted Average Exercise Price
Outstanding at June 30, 2002	14,166	$ 10.68	1,899,232	$ 6.34	380,000	$ 6.96
Granted			436,000	0.76	30,000	0.93
Exercised						
Forfeited	(10,000)	10.13	(607,107)	6.54	(10,000)	2.58
Outstanding at June 30, 2003	4,166	$ 12.00	1,728,125	$ 4.86	400,000	$ 6.62
Granted			312,000	1.07	30,000	0.99
Exercised			(88,246)	2.42	(45,000)	1.26
Forfeited			(219,548)	5.39	(55,000)	5.81
Outstanding at June 30, 2004	4,166	$ 12.00	1,732,331	$ 4.27	330,000	$ 6.68
Granted			249,000	2.41	70,000	1.85
Exercised			(27,250)	0.91		
Forfeited	(4,166)	12.00	(403,841)	4.77	(135,000)	10.06
Outstanding at June 30, 2005		$	1,550,240	$ 3.89	265,000	$ 3.20
Options exercisable at:						
June 30, 2003	4,166	$ 12.00	1,026,840	$ 6.47	370,000	$ 7.08
June 30, 2004	4,166	12.00	1,112,582	5.84	300,000	7.25
June 30, 2005			1,031,740	5.04	210,000	3.50
Weighted-average fair value (pursuant to FAS 123) at date of grant during the fiscal year ended						
June 30, 2003		$	436,000	$ 0.36	30,000	$ 0.44
June 30, 2004			312,000	0.57	30,000	0.44
June 30, 2005			249,000	2.00	70,000	1.49

The following table summarizes information about the Company s stock options outstanding at June 30, 2005:

	Options outstanding			Options exercisable	
Range of exercise prices	Number Outstanding	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$ 0.700 1.060	458,754	7.35	$ 0.902	192,254	$ 0.900
1.150 3.438	545,000	7.26	2.586	238,000	2.930
4.000 5.125	565,912	3.89	4.921	565,912	4.921
6.625 11.750	245,574	0.54	9.280	245,574	9.280

	1,815,240	5.32	$	3.794	1,241,740	$ 4.779

(11) Income Taxes

The Company accounts for taxes under SFAS No. 109, Accounting for Income Taxes. Under SFAS 109, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted rates expected to be in effect during the year in which the differences reverse.

The components of income tax expense (benefit) from continuing operations are as follows (in thousands):

	Year Ended June 30,		
	2005	2004	2003
Current:			
Federal	$ (176)	$ 455	$ (857)
State and local	30	51	
	(146)	506	(857)
Deferred:			
Federal			
State and local			
Income tax expense (benefit)	$ (146)	$ 506	$ (857)

A reconciliation of the reported income tax expense to the amount that would result by applying the U.S. federal statutory rate to the income (loss) before income taxes to the actual amount of income tax expense (benefit) recognized follows (in thousands):

	Year Ended June 30,		
	2005	2004	2003
Expected expense (benefit)	$ 1,785	$ 878	$ (28,095)
Change in valuation allowance	(4,838)	(3,278)	26,823
State income taxes	30	51	(2,832)
Other, primarily goodwill amortization	2,877	2,855	3,247
Total	$ (146)	$ 506	$ (857)

The Company s deferred tax asset as of June 30, 2005 and 2004 consists of the following (in thousands):

	2005	2004
Deferred tax assets:		
Net operating loss carry forwards	$ 6,594	$ 8,340
Research and experimentation credit carry forwards	1,356	2,020
Alternative minimum tax credit carry forwards	681	748
Accrued expenses	534	717
Capitalized start-up and organization costs	345	1,008
Deferred gain	615	
Other	15	221
Total gross deferred tax assets	10,140	13,054
Less - valuation allowance	(5,430)	(10,268)
Net deferred tax assets	4,710	2,786
Deferred tax liabilities:		
Property and equipment, principally due to differences in depreciation	4,650	2,773
Other	60	13
Total gross deferred tax liabilities	4,710	2,786

Net deferred tax assets (liabilities)	$	$

At June 30, 2005 we had accumulated net operating loss carry forwards of approximately $19.4 million for Federal income tax purposes, which are available to offset future regular taxable income. These net operating loss carry forwards expire between the years 2008 and 2023. Utilization of these net operating losses may be subject to limitations in the event of significant changes in stock ownership of the Company.

Additionally, we have approximately $1.4 million of research and experimentation tax credit carry forwards and $0.7 million of alternative minimum tax credit carry forwards, respectively, available to offset future regular tax liabilities. The research and experimentation credits expire between the years 2006 and 2008.

In assessing the need for a valuation allowance, management considers whether it is more likely than not that some portion or all of the net deferred tax assets will be utilized. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this

assessment. As of June 30, 2005 the Company provided a valuation allowance of approximately $5.4 million against its net deferred tax assets.

(12) Net Income (Loss) Per Share

The following are reconciliations of the denominators of the basic and diluted net income (loss) per share computations for the years ended June 30, 2005, 2004, and 2003. There were no adjustments for the numerators.

	June 30,		
	2005	2004	2003
Weighted average outstanding	12,613,491	12,450,320	12,285,467
common shares - basic Common stock equivalents	1,576,790	1,691,629	
Weighted average outstanding common shares - diluted	14,190,281	14,141,949	12,285,467

For fiscal years 2005 and 2004, 1,306,486 and 1,382,743, respectively, of options and warrants to purchase shares of common stock were excluded for the computations of diluted net income because the impact of such options and warrants is anti dilutive. All options and warrants for fiscal year 2003 were excluded.

(13) Employee Benefit Plan

We have a defined contribution retirement plan, which covers substantially all employees and officers. For the years ended June 30, 2005, 2004, and 2003, we have contributed the required match of $0.5 million, $0.6 million, and $1.0 million, respectively, to the plan. We have the right, but not an obligation, to make additional contributions to the plan in future years at the discretion of the Company s Board of Directors. We have not made any such contributions for the years ended June 30, 2005, 2004, and 2003.

(14) Commitments

Integration and Operations Contracts

On August 13, 1997 we initiated a letter agreement with Boeing, a major subcontractor for standard integration and operation services to the Company, for future missions that were not already provided for under our contract for missions to the *Mir* Space Station. In August 1998 this letter agreement became a cost plus incentive fee contract whereby Boeing provided integration and operations services required to successfully complete four research missions (one single module mission and three double module missions) and seven logistics double module missions. Additionally, there were several tasks that were separately priced to yield a contract value of up to $128.9 million. The contract was terminated in April 2004. As of June 30, 2005 $127.2 million has been incurred under this commitment. Minimal trailing termination costs and prior year rate adjustments are the only outstanding costs on this contract.

Consulting Agreements

On June 1, 2004 we entered into a consulting agreement with V.J.F. Russian Consulting LTD for:

- Marketing and promotion of SPACEHAB capabilities and services to RSC Energia, The Russian Federation Space Agency, and other Russian entities involved in the exploration and development of space
- Supporting and assisting us in the negotiation of service contracts and agreements between Russian entities
- Providing technical expertise and services in support of SPACEHAB activities, under contracts with Russian entities

Total commitments under the consulting agreement over the next two years are $0.4 million. In fiscal year 2005 $0.2 million was paid under this agreement.

On June 27, 2005 we entered into an agreement with Daniel A. Bland, whereas Mr. Bland will provide consulting services to the Company. The initial term of the agreement began July 2, 2005 and ends July 1, 2006 with additional optional periods of six months each until terminated by either party by notifying the other party of such termination at least thirty days prior to the end of the initial term or any subsequent term. The Company shall pay Mr. Bland a retainer fee at the rate of $6,000 per month. In addition, in any month

that Mr. Bland works over fifty hours in a month, he shall be paid at a rate of $125 per hour worked. Mr. Bland retired as Senior Vice President of our SPACEHAB Flight Services business unit as of June 30, 2005.

On August 11, 2005 we entered into an agreement with John B. Satrom pursuant to which Mr. Satrom will provide consulting services to the Company. The initial term of the agreement begins August 15, 2005 and ends December 31, 2005, with additional optional periods of six months each until terminated by either party by notifying the other party of such termination at least thirty days prior to the end of the initial term or any subsequent term. The Company shall pay Mr. Satrom a retainer fee at the rate of $5,000 per month. For any additional time spent over forty hours in a month, Mr. Satrom will be paid $125 per hour. Mr. Satrom resigned as Senior Vice President and General Manager of our Astrotech Space Operations business unit effective August 12, 2005.

Compensation Agreement

The Company has a commitment to Dayna Justiz for additional compensation that can be earned as a result of the agreement dated June 19, 2000. The agreement states that Dayna Justiz can earn up to $375,000 as additional compensation if she meets certain financial goals in the management of The Space Store. The yearly amount is equal to five percent of the Space Store s net after-tax operating income during each fiscal year until such time an aggregate amount of $375,000 has been earned. At this time, we have not recorded a liability for this obligation due to the uncertainty of the obligation being met.

Leases

The Company is obligated under noncancelable operating leases for equipment, office space, storage space, the land for a payload processing facility, and certain flight assets. Future minimum payments under these noncancelable operating leases are as follows (in thousands):

Year ending June 30,	Operating Leases
2006	$ 5,359
2007	5,259
2008	5,157
2009	5,046
2010	928
Thereafter	4,964
Subtotal	26,713
Less: payments due for sublease	(1,882)
Total	$ 24,831

Rent expense for the years ended June 30, 2005, 2004, and 2003 was approximately $4.8 million, $5.7 million, and $6.4 million, respectively, including lease expense for the ICC and VCC asset leases of $3.8 million in fiscal year 2005 and 2004, and $3.9 million in fiscal year 2003. For fiscal years 2006, 2007, 2008 and 2009, we expect to receive net payments of approximately $0.8 million, $0.6 million, $0.4 million, and $0.1 million respectively, for subleases.

(15) Segment Information

Based on our organization, we operate in four business segments: SFS, Astrotech, SGS, and SMI. SFS was founded to commercially develop space habitat modules to operate in the cargo bay of the space shuttles. SFS provides access to the modules and integration and operations support services for both NASA and commercial customers. Astrotech provides payload processing facilities and services to serve the satellite manufacturing and launch services industry. SGS is primarily engaged in providing engineering services and products to the Federal government including NASA. SMI was established in April 2000, to develop space-themed commercial business activities.

On April 3, 2003 we changed the name of our Johnson Engineering Corporation subsidiary to SPACEHAB Government Services, Incorporated, to more appropriately reflect the subsidiary s strategic direction of operating in the government business section. As part of the realignment of our operating units, the Strategic Programs operating unit, which was included in the Other segment, was moved into SGS in the fourth quarter

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of our fiscal year ending June 30, 2003. The Other segment represents corporate selling, general and administrative expenses. Segment amounts have been restated based on the revised reporting structure.

The Company s chief operating decision maker utilizes both revenue and income (loss) before income taxes, in assessing performance and making overall operating decisions and resource allocations. The Other segment represents corporate selling, general and administrative expenses and interest expense for the Company.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies (note 2). Information about the Company s segments is as follows (in thousands):

Year ended June 30, 2005:	Revenue	Income (loss) before income taxes	Net Fixed Assets	Depreciation And Amortization
SFS	$ 42,144	$ 15,876	$ 27,329	$ 2,768
SGS	6,093	896	50	24
Astrotech	10,367	2,079	45,710	2,087
SMI	797	(75)		
Other		(13,673)	558	334
	$ 59,401	$ 5,103	$ 73,647	$ 5,213

Year Ended June 30, 2004:	Revenue	Income (loss) before income taxes	Net Fixed Assets	Depreciation And Amortization
SFS	$ 38,384	$ 8,872	$ 32,188	$ 2,750
SGS	10,229	(5,387)	104	65
Astrotech	28,258	17,486	46,976	2,045
SMI	735	(74)		
Other		(18,316)	332	571
	$ 77,606	$ 2,581	$ 79,600	$ 5,431

Year Ended June 30, 2003:	Revenue	Income (loss) before income taxes	Net Fixed Assets	Depreciation And Amortization
SFS	$ 46,757	($ 51,414)	$ 34,160	$ 5,501
SGS	34,742	(9,996)	262	745
Astrotech	12,410	4,533	48,372	1,892
SMI	1,054	(313)		332
Other		(25,442)	895	454
	$ 94,963	($ 82,632)	$ 83,689	$ 8,924

Foreign revenue for the years ended June 30, 2005, 2004, and 2003 was approximately $0.0 million, $2.8 million, and $9.5 million, respectively. The foreign revenue was mainly generated in China and Japan. Domestic revenue for the years ended June 30, 2005, 2004, and 2003 was approximately $59.4 million, $74.8 million, and $85.4 million, respectively.

(16) Investment in Guignè

During June 1998 we entered into a joint venture agreement with Guignè Technologies Limited (GTL), a Canadian Company, for the purpose of developing, fabricating, marketing and selling of Space-DRUMS services, a containerless processing facility intended to be deployed on the ISS. In accordance with the joint venture agreement, the Company contributed, in exchange for a 50% interest in the joint venture, an aggregate of $2.0 million of working capital through December 1999. Our contributions were made in the form of an unsecured non-interest bearing note.

The joint venture agreement contained an option whereby we could exchange our interest in the joint venture and the $2.0 million note for a common equity interest in Guignè Inc. (GI), the ultimate parent of GTL. In December 1999 we notified GI of our intention to exercise the option, which resulted in us obtaining a 15%

common equity interest in GI. We account for this investment in GI under the cost method. During the quarter ended December 31, 1999, at the time of our exercise of the option, we recognized a $0.2 million impairment against our investment in GI based on our estimate of the fair value of GI. During the quarter ended December 31, 2003, we recognized a $1.8 million impairment against our investment in GI due to Guignè experiencing an adverse financial event that, in the opinion of management, impairs the value of SPACEHAB s investment.

(17) Minority Investment in Consolidated Subsidiary

Pursuant to agreements entered into as of September 27, 2001, eScottVentures II, LLC (ESV), of Melbourne, Florida, purchased 5,914,826 newly issued shares of SMI s Series A redeemable, convertible preferred stock for $750,000. On June 21, 2002 ESV filed Case Number 1:02CV01236 in the U.S. District Court for the District of Columbia against Space Media, Inc., SPACEHAB, Inc., Shelley A. Harrison, and Julia A. Pulzone (collectively, Defendants). This suit, relating to ESV s investment in SMI, sought rescission of the stock purchase agreement and return of its $750,000 investment, plus unspecified expenses, consequential damages exemplary and punitive damages, prejudgment interest, and costs and disbursements, including attorney and expert fees. The Defendants and ESV settled the suit through mediation. A stipulation and order of dismissal was filed with the Court by the parties on January 22, 2003, following the payment of cash and issuance of restricted shares of SPACEHAB s Common Stock to ESV. ESV is no longer a shareholder of SMI.

(18) Goodwill Impairment

On November 5, 2003 NASA notified the Company that it was not awarded the ISS Mission Integration Contract for which a proposal was submitted. Additionally, the Boeing team s bid for the Cargo Mission Contract with NASA, of which SGS was a proposed subcontractor, was not selected for contract award. As the result of these events, we performed a goodwill impairment test at SGS in accordance with SFAS No. 142, Goodwill and Intangible Assets. The impairment test indicated an impairment of SGS s remaining goodwill of approximately $5.7 million, which was recorded in the period ended December 31, 2003. We utilized market valuation techniques to calculate the fair value of SGS.

On October 1, 2003 Astrotech was notified by Boeing that it was exercising its termination rights with regards to its financial guarantees under the contract agreement with Astrotech for payload processing support services for the Delta launch vehicle program. Boeing indicated that the decision to terminate its guarantees for future Astrotech services was based on the downturn of the commercial expendable launch market rather than due to performance related considerations. Astrotech was in full compliance with the contract terms at the time of the termination. The termination of these financial guarantees had a significant impact on Astrotech s future guaranteed revenue stream. As the result of this event, we performed a goodwill impairment test at Astrotech in accordance with SFAS No. 142, Goodwill and Intangible Assets. The impairment test indicated an impairment of Astrotech s remaining goodwill of approximately $2.5 million which was recorded in the period ended December 31, 2003. We utilized market valuation techniques to calculate the fair value of Astrotech.

As a result of the loss of the recompete of the Flight Crew Systems Development contract, we performed a goodwill impairment test of the goodwill at SGS in accordance with SFAS No. 142, Goodwill and Other Intangible Assets. The impairment test indicated an impairment of SGS s goodwill of approximately $11.9 million, which was recorded in the three months ended March 31, 2003. We utilized discounted cash flows and market valuation techniques to calculate the fair value of SGS.

(19) Loss of Research Double Module

The Company was under contract with NASA to support the STS-107 mission on its *Columbia* Orbiter. The mission utilized our RDM flight asset. On February 1, 2003, the RDM was lost in the tragic STS-107 accident. The RDM was partially covered by commercial insurance. The commercial insurance on the module was $17.7 million and the net book value was $67.9 million. We recorded a nonrecurring charge of approximately $50.3 million in the three months ended March 31, 2003 in the SFS business unit, and subsequently collected the $17.7 million during that same quarter.

In January 2004 we filed a formal proceeding with NASA seeking indemnification under the Company s Research and Logistics Mission Support contract in the amount of $87.7 million for the value of the Company s RDM and related equipment which was destroyed during the STS-107 Space Shuttle *Columbia* tragedy.

In October 2004 we received payment from NASA in the amount of $8.2 million which included $0.2 million of interest. NASA s claims were that their liability was limited to $8.0 million under the Research and Logistics Mission Support contract (NAS9-97199), as specifically identified in clause H.11 titled Contingent Property Liability .

This $8.2 million indemnification payment and interest payment was accordingly recorded as a Recovery of nonrecurring charge in the September 30, 2004 financials, resulting in a change in cash flows from operating activities.

The Company has subsequently filed a second claim on November 8, 2004 seeking to further mitigate their losses in the amount of $79.7 million representing the initial claim of $87.7 million less the $8.0 million received in October 2004. As of today s date, no further payments have been received nor have any claims been resolved.

In May 2005 we recorded a $0.5 million charge as a nonrecurring item, net loss (recovery) related to the loss of the Research Double Module in the Profit and Loss Statement and a Current Liability in the June 30, 2005 financial statements, as this amount represents our minimum liability to Lloyd s in our efforts to settle the recovery of proceeds through our claims with NASA. On May 12, 2005 we and Lloyd s agreed to jointly pursue recovery against NASA, with us in full control of the appeals process. Lloyd s will participate in any recovery, both pursuant to our administrative claim and our tort claim against NASA, net of legal costs, in accordance with a pre-agreed schedule under which our liability to Lloyd s ranges from a minimum of $0.5 million if we do not recover any additional amounts to approximately $17.7 million if we recover over $70.0 million from NASA. Also, in accordance with the agreement, Lloyd s dismissed its complaint against us with prejudice. We recorded a charge in our fourth quarter financial statements of $0.5 million pending a final resolution of our actions against NASA. At this time there has been no outflow of cash to be reflected in the Statement of Cash Flows, however, when payment is made it will be classified as a change in cash flows from investing activities.

(20) Asset Impairments

The Company conducted an impairment test of certain assets within its SFS business segment in accordance with SFAS No. 144. We recorded a non-cash impairment charge of $0.4 million to write down these assets in the fourth quarter of fiscal year 2004. The impairment was due to our closing the Huntsville, Alabama location where our subcontractor, Boeing, was housed.

We conducted an impairment test of work-in-process flight assets in accordance with SFAS No. 144 during fiscal year 2003. We recorded a non-cash impairment charge of $16.1 million to write down certain assets under development, primarily *Enterprise* and the SPACEHAB Universal Communications System, in the SFS segment, that are no longer being funded due to uncertainties in human space flight programs during the three months ended June 30, 2003. We utilized projected undiscounted cash flows to conclude the assets were impaired and calculated the fair value based on the net present value of projected cash flows.

(21) Closing of the Washington, D.C. Office

On October 1, 2003 the Company announced that it would be closing its corporate office in Washington, D.C. by December 31, 2003 and would consolidate those operations into its headquarters in Webster, Texas. We took these actions as part of our continuing efforts to further reduce operating expenses and improve profitability. We have entered into a sublease of the Washington, D.C. facility, which is under lease through May 31, 2006, for the remainder of the lease term. The Company has recorded a charge in the amount of $0.3 million for severance and facilities costs as required under SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities, as of December 31, 2003. All amounts were subsequently paid by June 30, 2004 and there were no significant adjustments to the original accrual.

(22) Related Party Transactions

The Company engaged in certain transactions with directors, executive officers, shareholders, and certain former officers during fiscal years 2005, 2004, and 2003. Following is a description of these transactions:

Orbital Sciences Corporation

The Company provides spacecraft processing services and other space-related services to Orbital Science Corporation (Orbital), an entity providing commercial satellite launch and related aerospace services. Mr. James R. Thompson, a director of the Company, is President and Chief Operating Officer of Orbital. During

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the years ended June 30, 2005, 2004 and 2003 respectively, Orbital provided revenues to the Company of approximately $0.0 million, $0.7 million, and $0.1 million, respectively.

EADS Space Transportation

The Company issued subordinated notes for a portion of the amount due to Alenia, a subsidiary of EADS Space Transportation, a shareholder, under a previously completed construction contract for our flight modules. Dr. Graul is the Executive Vice President for EADS Space Transportation. Under the subordinated notes, Alenia had the right to elect to convert, in whole or part, the remaining principal amount into equity, on terms and conditions to be agreed with the Company.

On November 15, 2001 we entered into an agreement with Alenia to restructure the terms of our $11.9 million debt. The terms of the restructuring provided for a $3.0 million payment of principal and interest on December 31, 2001 and quarterly amortization of the remaining principal beginning March 2002 through December 2003. In addition, the interest rate was reduced to 8.0% effective January 1, 2002. The obligation was collateralized by one of the Company s flight assets. We paid interest of approximately $0.1 million and $0.2 million during the years ended June 30, 2004 and 2003 respectively. We paid the shareholder subordinated notes in full and received a release of the lien as of December 31, 2003.

EADS provides unpressurized payload and integration efforts to SPACEHAB on a fixed price basis in addition to providing engineering services as required. For the years ended June 30, 2005, 2004 and 2003, EADS s payload and integration services included in cost of revenue was approximately $15.3 million, $6.8 million, and $8.5 million, respectively.

V.J.F. Russian Consulting

On January 30, 2004 we entered into a subcontract agreement with V.J.F. Russian Consulting. The president of V.J.F. Russian Consulting, Vladimir Fishel, is a former Vice President of SPACEHAB was receiving severance payments from the Company and working on a part-time employment arrangement for other consulting activities. The services being provided under the subcontract agreement (valued at $2.6 million) is in support of a contract that SPACEHAB has with the Mitsubishi Corporation in support of the JAXA. The amount paid for fiscal year 2005 was $1.0 million.

On June 1, 2004 the Company entered into a consulting agreement with V.J.F. Russian Consulting for:

- Marketing and promotion of SPACEHAB capabilities and services to RSC Energia, The Russian Federation Space Agency, and other Russian entities involved in the exploration and development of space
- Supporting and assisting us in the negotiation of service contracts and agreements between Russian entities
- Providing technical expertise and services in support of SPACEHAB activities, under contracts with Russian entities

Total commitments under the consulting agreement are $0.4 million. Total payments for fiscal year 2005 were $0.2 million.

(23) Summary of Selected Quarterly Financial Data (Unaudited)

The following is a summary of selected quarterly financial data (in thousands, except per share data):

	Three months ended			
	September 30	**December 31**	**March 31**	**June 30**
Year ended June 30, 2005				
Revenue	$ 13,033	$ 13,138	$ 14,272	$ 18,958
Income from operations	8,518	140	845	1,024
Net income (loss)	6,959	(1,249)	(541)	80

Net income (loss) per share	basic	0.55	(0.10)	(0.04)	0.01
Net income (loss) per share	diluted	(0.49)	(0.10)	(0.04)	0.01

Year ended June 30, 2004				
Revenue	$ 18,850	$ 32,816	$ 14,800	$ 11,140
Income (loss) from operations	2,391	6,507	2,433	(608)
Net income (loss)	666	3,468	267	(2,326)
Net income (loss) per share basic	0.05	0.28	0.02	(0.19)
Net income (loss) per share diluted	0.05	0.25	0.02	(0.19)

(24) Sale Lease-back Transactions

On May 26, 2005 SPACEHAB purchased and entered into a sale lease-back of the Company s 90,000 square-foot administrative facility in Webster, Texas. We purchased the building and the adjacent three acres of land from American National Insurance Corporation for the value of $2.0 million. We then sold the building excluding the three acres of adjacent undeveloped land to R&H Investments and Irving Levine Investments for $3.25 million. The sale resulted in net cash to us of approximately $0.9 million. We will lease back 100% of the facility for an initial period of ten years, with two five-year options. The annual rent for the first year of this lease is $0.3 million and gradually increases through the tenth year of the lease to approximately $0.4 million. We will retain the adjacent 3.0 acres parcel for future development or sale.

On May 2, 2005 SPACEHAB entered into a sale lease-back of the Company s 58,000 square-foot processing facility in Cape Canaveral, Florida in a transaction with Tamir Silvers LLC valued at $4.8 million. The sale resulted in net cash to us of approximately $3.8 million. We will lease back 100% of the facility for an initial period of five years, with an option period of an additional five years. The annual rent for the first five years of this lease is approximately $0.45 million.

These two sale lease-backs were recorded according to SFAS No. 13, Accounting for Leases. This statement requires gains recognized on sale lease-backs to be recorded over the term of the leases. Therefore, the gain of $0.5 million on the sale lease-back of the SPPF will be recognized over the five year lease term. The gain of $1.4 million on the sale lease-back of the Headquarters building in Webster, Texas will be recognized over the ten year lease term.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) The following documents are filed as part of the report:

1. Financial Statements.

The following consolidated financial statements of SPACEHAB, Incorporated and its wholly-owned and majority-owned subsidiaries and related notes, are set forth herein as indicated below.

	Page
Report of Grant Thornton LLP, Independent Registered Public Accounting Firm	18
Report of Ernst & Young LLP, Independent Registered Public Accounting Firm	19
Consolidated Balance Sheets	20
Consolidated Statements of Operations	21
Consolidated Statements of Stockholders Equity and Comprehensive Income (Loss)	22
Consolidated Statements of Cash Flows	23
Notes to Consolidated Financial Statements	24

2. Financial Statement Schedules.

Consolidated financial statements Schedule II Valuation and Qualifying Accounts filed herewith as Exhibit 99.1.

3. Exhibits.

Exhibit No.	Description of Exhibit
(2)	**Articles of Incorporation and Bylaws**
2.1	Amended and Restated Articles of Incorporation of the Registrant, as amended (incorporated by reference to Exhibit 4.1 of the Registrant s Registration Statement (Reg. No. 333-126772), and all amendments thereto, filed with the Securities and Exchange Commission on July 21, 2005)**
2.2	Bylaws of the Registrant (incorporated by reference to the Registrant s registration statement on Form S-1, File No. 33-97812, and all amendments thereto, filed with the Securities and Exchange Commission on October 5, 1995)**
(4)	**Instruments Defining the Rights of Security Holders, including Indentures**
4.1	Designation of Rights, Terms and Preferences of Series B Senior Convertible Preferred Stock of the Registrant (incorporated by reference to Exhibit 4.3 of the Registrant s Registration Statement (Reg. No. 333-126772), and all amendments thereto, filed with the Securities and Exchange Commission on July 21, 2005)**
4.2	Preferred Stock Purchase Agreement between the Registrant and DaimlerChrysler Aerospace AG dated as of August 2, 1999 (incorporated by reference to Exhibit 4.2 of the Registrant s Report on Form 8-K filed with the Securities and Exchange Commission on August 19, 1999)**
4.3	Registration Rights Agreement between the Registrant and DaimlerChrysler Aerospace AG dated as of August 5, 1999 (incorporated by reference to Exhibit 4.3 of the Registrant s Report on Form 8-K filed with the Securities and Exchange Commission on August 19, 1999)**
4.4	Indenture dated as of October 15, 1997 between the Registrant and First Union National Bank, as Trustee, relating to the Registrant s 8% Convertible Subordinated Notes due 2007 (incorporated by reference to Exhibit 4.1 of the

Registrant s Registration Statement on Form S-3 (Reg. No. 333-43221) filed with the Securities and Exchange Commission on December 24, 1997)**

(10) Material Contracts

10.1 Amended and Restated Representation Agreement, dated August 15, 1995, by and between the Registrant and Mitsubishi Corporation (incorporated by reference to Exhibit 10.1 of the Registrant s Registration Statement (Reg. No. 333-126772), and all amendments thereto, filed with the Securities and Exchange Commission on July 21, 2005)**

10.2 Amended and Restated Representation Agreement Revision I, dated January 13, 2004, by and between the Registrant and Mitsubishi Corporation (incorporated by reference to Exhibit 10.2 of the Registrant s Registration Statement (Reg. No. 333-126772), and all amendments thereto, filed with the Securities and Exchange Commission on July 21, 2005)**

10.3 Letter Agreement dated August 15, 1995, by and between the Registrant and Mitsubishi Corporation (incorporated by reference to Exhibit 10.7 of the Registrant s Registration Statement on Form S-1 (Reg. No. 33-97812) filed with the Securities and Exchange Commission on October 5, 1995)**

10.4 SPACEHAB, Incorporated 1995 Directors Stock Option Plan as amended and restated effective October 21, 1997 (incorporated by reference to Exhibit B of the Registrant s Definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on September 12, 1997)**

10.5 Office Building Lease Agreement, dated October 6, 1993, between Astrotech and the Secretary of the Air Force (Lease number SPCVAN 2-94-001) (incorporated by reference to Exhibit 10.52 of the Registrant s Annual Report on Form 10-K for the fiscal year ended June 30, 1997 filed with the Securities and Exchange Commission on September 12, 1997)**

10.6 SPACEHAB, Incorporated 1994 Stock Incentive Plan as amended and restated effective October 14, 1999 (incorporated by reference to Exhibit 10.90 of the Registrant s Annual Report on Form 10-K for the fiscal year ended June 30, 1999 filed with the Securities and Exchange Commission on September 17, 1999)**

10.7 Agreement, dated September 30, 2004, between the Registrant and Dr. Shelley A. Harrison (incorporated by reference to Exhibit 10.7 of the Registrant s Registration Statement (Reg. No. 333-126772), and all amendments thereto, filed with the Securities and Exchange Commission on July 21, 2005)**

10.8 Lease for property at 300 D Street, SW, Suite #814, Washington, DC, dated as of December 16, 1998, by and between the Registrant and The Washington Design Center, LLC (incorporated by reference to Exhibit 10.8 of the Registrant s Registration Statement (Reg. No. 333-126772), and all amendments thereto, filed with the Securities and Exchange Commission on July 21, 2005)**

10.9 Sublease Agreement, dated as of July, 2002, between the Registrant and The Boeing Company (incorporated by reference to Exhibit 10.9 of the Registrant s Registration Statement (Reg. No. 333-126772), and all amendments thereto, filed with the Securities and Exchange Commission on July 21, 2005)**

10.10 SPACEHAB, Incorporated 1997 Employee Stock Purchase Plan (incorporated by reference to Exhibit C of the Registrant s Definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on September 12, 1997)**

10.11 Agreement between Astrotech Space Operations, Inc. and McDonnell Douglas Corporation, dated January 7, 2000 (incorporated by reference to Exhibit 10.103 of the Registrant s Quarterly Report on Form 10-Q for the quarter ended March 31, 2000 filed with the Securities and Exchange Commission on May 12, 2000)**

10.12 Agreement between Astrotech Space Operations, Inc. and Lockheed Martin Commercial Launch Services, Inc., dated January 24, 2000 (incorporated by reference to Exhibit 10.104 of the Registrant s Quarterly Report on Form 10-Q for the quarter ended March 31, 2000 filed with the Securities and Exchange Commission on May 12, 2000)**

10.13 Credit agreement dated as of August 30, 2001 by and between Astrotech Florida Holdings, Inc. and SouthTrust Bank (incorporated by reference to Exhibit 10.114 of the Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2001 filed with the Securities and Exchange Commission on November 8, 2001)**

10.14 Employment and Non-Interference Agreement, dated as of April 1, 2003, between the Registrant and Michael E. Kearney (incorporated by reference to Exhibit 10.119 of the Registrant s Quarterly Report on Form 10-Q for the quarter ended March 31, 2003 filed with the Securities and Exchange Commission on May 14, 2003)**

10.15 First amendment to the Credit Agreement dated as of August 30, 2001 by and between Astrotech Florida Holdings, Inc. and SouthTrust Bank (incorporated by reference to Exhibit 10.122 of the Registrant s Quarterly Report on Form 10-Q for the quarter ended December 31, 2003 filed with the Securities and Exchange Commission on February 13, 2004)**

10.16 Employment and Non-Interference Agreement, dated as of January 9, 2004, between the Registrant and Brian K. Harrington (incorporated by reference to Exhibit 10.123 of the Registrant s Quarterly Report on Form 10-Q for the quarter ended March 31, 2004 filed with the Securities and Exchange Commission on May 12, 2004)**

10.17 50 Year Lease, dated as of February 1, 1991, between the Registrant and Canaveral Port Authority (incorporated by reference to Exhibit 10.17 of the Registrant s Registration Statement (Reg. No. 333-126772), and all amendments thereto, filed with the Securities and Exchange Commission on July 21, 2005)**

10.18 Commercial Contract, dated as of March 3, 2005, between the Registrant and Tamir Silvers, LLC (incorporated by reference to Exhibit 10.18 of the Registrant s Registration Statement (Reg. No. 333-126772), and all amendments thereto, filed with the Securities and Exchange Commission on July 21, 2005)**

10.19 Lease Agreement, dated as of February 18, 2005, between the Registrant and R & H Investments, a California partnership (incorporated by reference to Exhibit 10.19 of the Registrant s Registration Statement (Reg. No. 333-126772), and all amendments thereto, filed with the Securities and Exchange Commission on July 21, 2005)**

10.20 Fixed Price Subcontract 889208 for Wideband Gapfiller Satellite Program Launch Site Payload Processing Facilities and Services, dated as of January 18, 2005, between Boeing Satellite Systems, Inc. and Astrotech Space Operations, Inc. (incorporated by reference to Exhibit 10.20 of the Registrant s Registration Statement (Reg. No. 333-126772), and all amendments thereto, filed with the Securities and Exchange Commission on July 21, 2005)**

10.21 Purchase Order 3H03105, dated as of July 14, 2003, between the Registrant and The Boeing Company (incorporated by reference to Exhibit 10.21 of the Registrant s Registration Statement (Reg. No. 333-126772), and all amendments thereto, filed with the Securities and Exchange Commission on July 21, 2005)**

10.22 Loan Agreement, dated as of February 11, 2005, between the Registrant and First American Bank, SSB (incorporated by reference to Exhibit 10.125 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended December 31, 2004 filed with the Securities and Exchange Commission on February 14, 2005)**

10.23 Letter Contract No. GF80726B11, dated as of February 18, 2004, between the Registrant and Lockheed Martin Corporation (incorporated by reference to Exhibit 10.23 of the Registrant s Registration Statement (Reg. No. 333-126772), and all amendments thereto, filed with the Securities and Exchange Commission on July 21, 2005)**

10.24 ISS Program Integration and Control Contract, between SPACEHAB Government Services, Inc. and ARES Corporation (incorporated by reference to Exhibit 10.24 of the Registrant s Registration Statement (Reg. No. 333-126772), and all amendments thereto, filed with the Securities and Exchange Commission on July 21, 2005)**

10.25 Contract No. SHI-SFS-03001 for Thermal Conditioning Service for Granada Crystallzation Facilities, dated as of December 18, 2003, between the Registrant and V.J.F. Russian Consulting, Ltd. (incorporated by reference to Exhibit 10.25 of the Registrant s Registration Statement (Reg. No. 333-126772), and all amendments thereto, filed with the Securities and Exchange Commission on July 21, 2005)**

10.26 Consulting Agreement No. 2004-006- SHI-SFS, dated as of June 1, 2004, between the Registrant and V.J.F. Russian Consulting, Ltd. (incorporated by reference to Exhibit 10.26 of the Registrant s Registration Statement (Reg. No. 333-126772), and all amendments thereto, filed with the Securities and Exchange Commission on July 21, 2005)**

10.27 Asset Purchase Agreement, dated as of December 19, 2000, between the Registrant and Astrium GmbH. (incorporated by reference to Exhibit 10.27 of the Registrant s Registration Statement (Reg. No. 333-126772), and all amendments thereto, filed with the Securities and Exchange Commission on July 21, 2005)**

10.28 Amendment No. 1 to Asset Purchase Agreement, dated as of December 19, 2000, between the Registrant and Astrium GmbH, dated July 3, 2001 (incorporated by reference to Exhibit 10.28 of the Registrant s Registration Statement (Reg. No. 333-126772), and all amendments thereto, filed with the Securities and Exchange Commission on July 21, 2005)**

10.29 Lease Agreement, dated as of February 28, 2001, between the Registrant and Astrium GmbH (incorporated by reference to Exhibit 10.29 of the Registrant s Registration Statement (Reg. No. 333-126772), and all amendments thereto, filed with the Securities and Exchange Commission on July 21, 2005)**

10.30 Binding Term Sheet, dated as of December 19, 2001, between the Registrant and Astrium GmbH, amending the Lease Agreement, dated as of February 28, 2001, between the Registrant and Astrium GmbH (incorporated by reference to Exhibit 10.30 of the Registrant s Registration Statement (Reg. No. 333-126772), and all amendments thereto, filed with the Securities and Exchange Commission on July 21, 2005)**

10.31 Lease Agreement, dated as of July 3, 2001, between the Registrant and Astrium GmbH (incorporated by reference to Exhibit 10.31 of the Registrant s Registration Statement (Reg. No. 333-126772), and all amendments thereto, filed with the Securities and Exchange Commission on July 21, 2005)**

10.32 Agreement No. 48801 for Provision of Payload Processing Facilities and Support in Conjunction with Commercial Atlas Launches, between Astrotech Space Operations, Inc. and Lockheed Martin Commercial Launch Services, Inc. (incorporated by reference to Exhibit 10.32 of the Registrant s Registration Statement (Reg. No. 333-126772), and all amendments thereto, filed with the Securities and Exchange Commission on July 21, 2005)**

10.33 Contract No. NNK04LA75C, dated as of July 2, 2004, between Astrotech Space Operations, Inc. and John F. Kennedy Space Center, NASA (incorporated by reference to Exhibit 10.33 of the Registrant s Registration Statement (Reg. No. 333-126772), and all amendments thereto, filed with the Securities and Exchange Commission on July 21, 2005)**

10.34 Agreement and Statement of Work, dated as of April 25, 1996 and as amended by Amendment No. 3 as of December 6, 2002, between Astrotech Space Operations, Inc. and Sea Launch Company, L.L.C. (incorporated by reference to Exhibit 10.34 of the Registrant s Registration Statement (Reg. No. 333-126772), and all amendments thereto, filed with the Securities and Exchange Commission on July 21, 2005)**

10.35 Employment and Non-Interference Agreement, dated as of May 12, 2005, between the Registrant and Michael E. Bain (incorporated by reference to Exhibit 10.35 of the Registrant s Registration Statement (Reg. No. 333-126772), and all amendments thereto, filed with the Securities and Exchange Commission on July 21, 2005)**

10.36 Employment and Non-Interference Agreement, dated as of May 12, 2005, between the Registrant and E. Michael Chewning (incorporated by reference to Exhibit 10.36 of the Registrant s Registration Statement (Reg. No. 333-126772), and all amendments thereto, filed with the Securities and Exchange Commission on July 21, 2005)**

10.37 Settlement Agreement and Mutual Release of All Claims, dated as of May 25, 2005, among the Registrant and Lloyd s of London, Goshawk Syndicate No. 102, Euclidian Syndicate No. 1243, Ascot Underwriting Ltd. Syndicate No. 1414, and R.J. Kiln Syndicate No. 510 (incorporated by reference to Exhibit 10.37 of the Registrant s Registration Statement (Reg. No. 333-126772), and all amendments thereto, filed with the Securities and Exchange Commission on July 21, 2005)**

10.38 Sublease Agreement, dated as of May 14, 2004, between the Registrant and Paragon Personnel, Inc. (incorporated by reference to Exhibit 10.38 of the Registrant s Registration Statement (Reg. No. 333-126772), and all amendments thereto, filed with the Securities and Exchange Commission on July 21, 2005)**

10.39 Lease No. SPCVAN-2-94-0001, between the Secretary of the Airforce and Astrotech Space Operations, L.P. (incorporated by reference to Exhibit 10.39 of the Registrant s Registration Statement (Reg. No. 333-126772), and all amendments thereto, filed with the Securities and Exchange Commission on July 21, 2005)**

10.40 Strategic Collaboration Agreement, dated as of August 5, 1999, between the Registrant and DaimlerChrysler Aerospace AG (incorporated by reference to Exhibit 10.40 of the Registrant s Registration Statement (Reg. No. 333-126772), and all amendments thereto, filed with the Securities and Exchange Commission on July 21, 2005)**

10.41 Guaranty Agreement, dated as of August 30, 2001, between the Registrant and Southtrust Bank (incorporated by reference to Exhibit 10.41 of the Registrant s Registration Statement (Reg. No. 333-126772), and all amendments thereto, filed with the Securities and Exchange Commission on July 21, 2005)**

10.42 Guaranty Agreement, dated as of August 30, 2001, between Astrotech Space Operations, Inc. and Southtrust Bank (incorporated by reference to Exhibit 10.42 of the Registrant s Registration Statement (Reg. No. 333-126772), and all amendments thereto, filed with the Securities and Exchange Commission on July 21, 2005)**

10.43 Stock Pledge and Security Agreement, dated as of August 30, 2001, between the Registrant and Southtrust Bank (incorporated by reference to Exhibit 10.43 of the Registrant s Registration Statement (Reg. No. 333-126772), and all amendments thereto, filed with the Securities and Exchange Commission on July 21, 2005)**

10.44 Stock Pledge and Security Agreement, dated as of August 30, 2001, between Astrotech Space Operations, Inc. and Southtrust Bank (incorporated by reference to Exhibit 10.44 of the Registrant s Registration Statement (Reg. No. 333-126772), and all amendments thereto, filed with the Securities and Exchange Commission on July 21, 2005)**

10.45 Assignment of CLIN 1 Rights, dated as of August 30, 2001, between Astrotech Space Operations, Inc. and Southtrust Bank (incorporated by reference to Exhibit 10.45 of the Registrant s Registration Statement (Reg. No. 333-126772), and all amendments thereto, filed with the Securities and Exchange Commission on July 21, 2005)**

10.46 Termination Agreement, dated as of June 1, 2004, between the Registrant and Vladimir J. Fishel (incorporated by reference to Exhibit 10.46 of the Registrant s Registration Statement (Reg. No. 333-126772), and all amendments thereto, filed with the Securities and Exchange Commission on July 21, 2005)**

10.47 Memorandum of Understanding, dated as of June 8, 2005, between the Registrant and SMH Capital Advisors, Inc. (incorporated by reference to Exhibit 10.47 of the Registrant s Registration Statement (Reg. No. 333-126772), and all amendments thereto, filed with the Securities and Exchange Commission on July 21, 2005)**

	10.48	Space Media, Inc. Stock Option Plan (incorporated by reference to Exhibit 10.48 of the Registrant s Registration Statement (Reg. No. 333-126772), and all amendments thereto, filed with the Securities and Exchange Commission on July 21, 2005)**
(16)		**Letter Regarding Change in Certifying Accountant**
	16.1	Letter from Ernst & Young LLP regarding change in certifying accountant, dated May 18, 2004 (incorporated by reference to Exhibit 16 of the Registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on May 18, 2004)**
(21)		**SPACEHAB, Incorporated and Subsidiaries Subsidiaries of the Registrant**
(23)		**Consents of Experts and Counsel**
	23.1	Consent of Grant Thornton LLP
	23.2	Consent of Ernst & Young LLP
(31)		**Rule 13a-14(a) Certifications**
	31.1	Certification of Michael E. Kearney, the Company s President and Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, file herewith
	31.2	Certification of Brian K. Harrington, the Company s Senior Vice-President and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, file herewith
(32)		**Section 1350 Certifications**
	32.1	Certification of Michael E. Kearny, the Company s President and Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, file herewith
	32.2	Certification of Brian K. Harrington, the Company s Senior Vice-President and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, file herewith
	99.1	Schedule II Valuation and Qualifying Accounts, filed herewith**

** Previously Filed

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SPACEHAB, Incorporated

By: /s/ Michael E. Kearney
Michael E. Kearney
President and Chief Executive Officer and Director

Date: June 9, 2006

By: /s/ Brian K. Harrington
Brian K. Harrington
Senior Vice President and Chief Financial Officer

Date: June 9, 2006