

SPACEHAB INC \WA\
Form 10-K/A
February 28, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 2)

(Mark One)

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

For the fiscal year ended **June 30, 2007**

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
(State or other jurisdiction
of incorporation or organization)

91-1273737
(I.R.S. Employer
Identification No.)

12130 Highway 3, Building 1

Webster, Texas 77598-1504
(Address of principal executive offices) (Zip code)

(713) 558-5000

(Registrant's telephone number, including area code)

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

| Title of each class | Name of each exchange on which registered |
|----------------------------|--|
| Common Stock | NASDAQ Capital Market |
| (no par value) | |

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

YES NO

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405 of this chapter) 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, a non-accelerated filer, or a small reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company

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(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

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 Capital Market on such date of \$0.65 was approximately \$8,429,242 as of December 29, 2006.

As of September 19, 2007, 13,027,196 shares of the registrant's Common Stock, no par value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Information called for in Part III of this Form 10-K is incorporated by reference to the registrant's definitive Proxy Statement to be filed within 120 days after the end of the registrant's fiscal year in connection with the registrant's annual meeting of shareholders.

EXPLANATORY NOTE

SPACEHAB, Incorporated is amending their Fiscal Year 2007 Form 10-K as a result of a reclassification of \$6.3 million of restricted cash as a non current asset and the reclassification of \$5.7 million of advances on a construction contract as a non current liability in accordance with ARB 43, Chapter 3, Section A, Paragraph 6 and 8. The reclassification of the \$6.3 million of restricted cash included classifying the net change in restricted cash as a cash flow from operating activities in accordance with FAS 95. Amendment to this document in accordance with these standards is outlined in the subsequent pages below.

Note: There are no other changes to the original Form 10-K filing other than those outlined in this document. 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 6. Selected Financial Data.

The following table sets forth our selected consolidated financial data as of and for the years ended June 30, 2003, 2004, 2005, 2006, and 2007 restated. Such data has been derived from our consolidated financial statements audited by Ernst & Young LLP for the fiscal year ended June 30, 2003, by Grant Thornton LLP for the fiscal years ended June 30, 2004, 2005, and 2006, and by PMB Helin Donovan, LLP for fiscal year ended June 30, 2007. The data set forth below should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations, Risk Factors and our Consolidated Financial Statements and Notes thereto included in this annual report. All amounts, except per share amounts, are in thousands.

| | 2003 | 2004 | Years Ended June 30, | | 2006 | 2007 |
|--|------------|--------------|----------------------|-------------|--------------|----------|
| | | | 2005 | | | Restated |
| Statement of Operations Data: | | | | | | |
| Revenue from operations | \$ 94,963 | \$ 77,606(3) | \$ 59,401 | \$ 50,746 | \$ 52,762 | |
| Costs of revenue | 78,791 | 45,678 | 47,158 | 46,855(7) | 51,029(9) | |
| Gross profit | 16,172 | 31,928 | 12,243 | 3,891 | 1,733 | |
| Selling, general and administrative expenses | 91,434(1) | 20,982(4) | 1,639(5) | 10,672 | 13,762(9) | |
| Research and development expenses | 118 | 223 | 77 | 410 | 801 | |
| Income (loss) from operations | (75,380) | 10,723 | 10,527 | (7,191) | (12,830) | |
| Interest expense, net of capitalized amounts and interest and other income | 7,252 | 8,142 | 5,424 | 5,174(8) | 3,531 | |
| Net income (loss) | (81,775) | 2,075 | 5,249 | (12,397) | (16,292) | |
| Net income (loss) per common share basic | \$ (6.66) | \$ 0.17 | \$ 0.42 | \$ (0.97) | \$ (1.26) | |
| Net income (loss) per common share diluted | \$ (6.66) | \$ 0.15 | \$ 0.37 | \$ (0.97) | \$ (1.26) | |
| Shares used in computing net income (loss) per common share basic | 12,285 | 12,450 | 12,613 | 12,744 | 12,920 | |
| Shares used in computing net income (loss) per common share diluted | 12,285 | 14,142 | 14,190 | 12,744 | 12,920 | |
| Cash dividends declared per common share | | | | | | |
| Other Data: | | | | | | |
| Cash provided by (used in) operations | \$ 2,114 | \$ 5,273 | \$ (7,153) | \$ 3,984(8) | \$ 6,028(10) | |
| Cash provided by (used in) investing activities | 3,037(2) | 5,019 | 17,683(6) | (1,141) | (1,077) | |
| Balance Sheet Data (at period end): | | | | | | |
| Working capital (deficit) surplus | \$ (4,750) | \$ (6,351) | \$ 5,435 | \$ 2,753 | \$ (6,105) | |
| Total assets | 121,356 | 99,925 | 101,951 | 85,450 | 72,475 | |
| Long-term debt, excluding current portion | 80,056 | 66,942 | 64,885 | 63,250 | 52,944 | |
| Stockholders' equity (deficit) | 5,090 | 9,410 | 14,797 | 2,809 | (13,131) | |

(1) Includes approximately \$78.3 million of non-cash write downs related to the loss of our research double module, goodwill impairment at our Government Services business unit, and asset impairment.

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- (2) Includes approximately \$17.7 million of insurance proceeds related to the loss of our research double module.
- (3) Includes approximately \$17.5 million due to Boeing's termination of its spacecraft processing contract with us.
- (4) Includes approximately \$0.3 million of non-cash expenses related to subleasing of excess facilities, \$8.3 million of goodwill impairment at our Government Services and Astrotech Space Operations business units, and a \$1.8 million non-cash write-down of an investment in Guignè.
- (5) Includes \$7.7 million of net recovery from non-recurring transactions related to the loss of our research double module.
- (6) Includes approximately \$8.2 million from ReALMS contract indemnification clause related to the loss of our research double module.
- (7) Includes approximately \$6.3 million of non-cash write downs related to our flight unit 3 and the shuttle based flight assets.
- (8) Includes approximately \$0.6 million of non-cash charges related to the acceleration of debt placement fees related to the convertible subordinated notes.
- (9) Includes approximately \$12.5 million of non-cash write downs related to our flight unit 2 and the shuttle based flight assets and a \$0.1 million non-cash write down of an investment in Applied Astronautical Corporation.
- (10) Includes \$3.1 million advance from customer for in-flight insurance for STS-118 that was paid in July 2007 to the insurance carrier.

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

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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.

Historically, we have operated 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 and commercial space operations. 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

We provide a range of products and services that focus on the needs of industry, governments and academia requiring access to, and utilization of the unique environment of space. We employ a staff of engineers and technicians who have supported approximately 250 manned and unmanned missions to space from multiple locations worldwide, including 23 space shuttle missions. We offer products and services in the following areas:

- Expertise in qualifying hardware for spaceflight and the habitability and occupational challenges of space;
- Facilities and support services necessary for the preparation of satellites and payloads for launch;
- Engineering, analysis, and payload operations services;
- Program integration and control; and
- Product design, development, and fabrication.

Our Business Units

Our company is currently comprised of three primary business segments which provide the following products and services to the government and commercial markets. Our business units include:

SPACEHAB Flight Services. The primary goal of our Flight Services business unit is to enable government and commercial enterprises to overcome the accessibility, habitability and occupational challenges of space. To meet our clients specific mission requirements, we offer a range of engineering, research, logistics, integration, operations, and ground support services. Through this business unit, we have and will continue to offer a full range of ground-based pre- and post-flight experiment, cargo, and payload processing services as well as on-orbit operations support. Additionally, we are supporting contracts for ongoing flight hardware manufacturing projects in support of NASA and international customers. Our Flight Services Business Unit generates revenue by providing turnkey services generally on a fixed price basis. We recognize revenue for mission contracts that extend over multiple financial reporting periods using the

percentage of completion method which relies upon estimates of costs and time to complete, as well as other estimates. During fiscal year 2007, our Flight Services business unit accounted for 65% of our consolidated revenues.

The primary factors impacting our Flight Services business unit earnings and cash flows are the number of space shuttle missions flown, the requirements for use of our space shuttle hardware and the configuration of the cargo handling and research logistics required for each mission. Other factors that have impacted, and are expected to continue to impact earnings and cash flows for this business unit include:

- NASA's use of our space shuttle modules and related space assets that utilize our competencies in configuration and cargo handling.
- Commercial demand for access to space launch capability and need for research cargo logistics
- Space shuttle mission requirements for the manufacture of specialized cargo handling equipment.

Astrotech Space Operations. Our Astrotech business unit provides modern facilities and support for the preparation of multi-million dollar satellites and payloads for launch on expendable launch vehicles. Since 1985, our Astrotech business unit has been providing government and commercial customers with a commercial alternative to using government-owned facilities to prepare their satellites for launch in the United States. Astrotech currently has long-term contracts in place with NASA, United Launch Alliance, National Reconnaissance Office and Sea Launch, LLC. During fiscal year 2007, Astrotech accounted for 23% of our consolidated revenues.

Revenue for our Astrotech business unit is generated from various fixed-priced contracts with launch service providers in both the commercial and government markets. The services and facilities we provide to our customers support the final assembly, checkout, and countdown functions associated with preparing a spacecraft for launch. The earnings and cash flows generated from our Astrotech operations are related to the number of commercial spacecraft launches, which reflects the growth in the satellite-based communications 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
- Our ability to complete customer specified facility modifications within budgeted costs and time commitments

SPACEHAB Government Services. For nearly 30 years, our Government Services business unit has provided large scale program technical support and specialized engineering analysis, products, and services to NASA and other customers. Our Government Services business unit derives most of its revenue under ARES contract to provide configuration and data management services within NASA's Program Integration & Control (PI&C) contract for the International Space Station. The base contract period extends through September 2008 and can be extended for two additional one year terms at the election of our NASA customer. Under this contract, we facilitate the assurance that the tens of thousands of pieces of hardware and software parts and components meet approved design and configuration requirements for the International Space Station. During the first nine months of fiscal year 2007, our Government Services business unit accounted for 11% of our consolidated revenues.

Earnings from our Government Services business unit 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 International Space Station program and exercise of the contract options through 2010
- Our ability to maintain small business qualification for our Government Services business unit under NASA contracting rules
- Our ability to control costs within our budget commitments

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

- Interest expense which has decreased due to the repayment of our mortgage debt during fiscal year 2006 and which will be further reduced if our Exchange Transaction (see Note 28) is successful
- Income taxes, with respect to which we currently only pay alternative minimum tax and minimal state income taxes; income taxes will be impacted by limitations on our net operating loss carry forward upon consummation of our Exchange Transaction, if successful (see Note 28)

New Business Vision

In anticipation of the planned 2010 space shuttle retirement, we began developing new products and services. We are now focusing our business on using our core capabilities for the commercial exploitation of space. These new business initiatives include the following:

- Processing products and services in microgravity;
- Commercializing products manufactured in microgravity;
- Commercializing products developed for use in the space industry;
- Acquiring other U.S. space contractors; and
- Providing end-to-end services for commercial and government satellite operations.

Although we are developing products and services in support of the new business visions, we currently do not have contracts or other arrangements to provide these products and services. We cannot assure you that we will be able to successfully develop these new products and services in the future. We anticipate that we will require substantial

additional capital to develop these new products and services, and that this additional financing will likely substantially dilute current holders of our common stock.

New Business Initiatives

Many of our identified new business initiatives are focused on space-based life sciences and end-to-end space mission assurance services, which are natural extensions of our 23 years of space industry experience and our core capabilities in these fields. These new business initiatives will require large investments of capital and technical expertise.

Microgravity. In the early days of the space program, it was determined that the effects of microgravity provide a unique environment that could potentially benefit humans. Since the inception of the Space Shuttle Program and extending through the International Space Station Program, NASA has spent billions of dollars on microgravity infrastructure and research. We have been logistically responsible for several hundred of these experiments on the space shuttle, the Russian Progress vehicle and the International Space Station.

Previous spaceflight research suggests that growing protein crystals in the microgravity environment of space offers the possibility of significantly increasing the x-ray diffraction quality of protein crystals. We believe that because of the high quality of these protein crystal structures, they may be used to better define the protein structures of diseases such as diabetes, cystic fibrosis, sickle cell anemia, Alzheimer's, Parkinson's disease, Lou Gehrig's disease and certain forms of cancer, which in turn may lead to the development of drugs capable of combating these diseases. If we are successful in developing protein crystals in microgravity, we expect to pre-sell these crystals to pharmaceutical companies.

On August 14, 2007, NASA announced that it was seeking private industry proposals for research and manufacturing concepts and opportunities onboard the International Space Station. This announcement indicates NASA's desire to open the International Space Station to commercial projects. Because of our experience with microgravity, we are responding to the solicitation and believe that we are well positioned to transition protein crystal growth, and other identified candidates, from a space research project to a fully commercialized microgravity processing operation.

Advanced Research and Conventional Technology Utilization Spacecraft (ARCTUS). We are assembling a team of industry partners with a common goal of developing a commercial transportation system providing lower cost, lower risk space transportation services than conventional, government-developed transportation systems. ARCTUS is designed to provide cargo transportation services to the International Space Station under the unfunded Space Act Agreement signed with NASA in June 2007.

End-to-End Space Mission Assurance. We believe that Astrotech is a recognized leader in providing commercial spacecraft processing services. Astrotech intends to expand its market by offering end-to-end assurance services to both commercial and government customers. These new end-to-end space mission assurance services would extend

Astrotech's current relationships with customers spacecraft from a condensed few weeks of ground processing at an Astrotech facility to multiple years of space mission assurance services throughout the satellite's lifecycle.

SPACETECH. In 2007, we formed a technology incubator called SPACETECH. The purpose of SPACETECH is to cultivate technology developed for and from space into commercial applications. The following are two examples of new initiatives already underway within SPACETECH:

- Under an unfunded Space Act Agreement with NASA, we began development of a mini-mass spectrometer which we hope to turn into a small, portable, low power unit capable of detecting chemical compounds such as explosives, weapons of mass destruction, and toxic gases. We are negotiating an agreement for the licensing, sale and distribution of the mini mass spectrometer.
- The Federal Aviation Administration and Department of Transportation have enacted new regulations for air transportation of oxygen containers to enhance safety in the event of a fire. Applying decades of experience in the development of specialized containers, we have been working with an industry partner to develop and certify a container to meet these new requirements. If successful, this project will provide us an opportunity to enter a new market.

Our Business Strategy

Our strategic vision is to be a recognized market leader in providing services to support space operations and utilization with consistent growth while increasing shareholder value. Our business strategies to achieve this are:

- Deliver excellence on current work, including providing technical support on space programs and remaining space shuttle missions;
- Leverage decades of experience facilitating bioscience space payloads and developing and operating successful space hardware for expansion into microgravity processing;
- Bring mature space technology and space-based processing to the commercial markets;
- Provide access to space on alternative launch systems for proprietary space processing and for commercial customers;
- Design solutions that encourage private commercial investment in space; and
- Continue to develop space-related hardware.

FINANCIAL CONDITION, CAPITAL RESOURCES, AND LIQUIDITY

Balance Sheet. Our total assets at June 30, 2007 were \$72.5 million compared to total assets of \$85.5 million at the end of fiscal year 2006. The following table sets forth the significant components of the balance sheet as of June 30, 2007, compared with 2006 (in thousands):

| | 2007 Restated | 2006 | Chg. |
|--|------------------|------------------|------------|
| Assets: | | | |
| Current assets | \$ 19,644 | \$ 20,675 | \$ (1,031) |
| Property and equipment (net) | 43,884 | 61,637 | (17,753) |
| Other assets (net) | 8,947 | 3,138 | (5,809) |
| Total | \$ 72,475 | \$ 85,450 | |
| Liabilities and stockholders' equity: | | | |
| Current liabilities | \$ 25,749 | \$ 17,922 | \$ 7,827 |
| Long-term debt-less current portion | 52,944 | 63,250 | (10,306) |
| Other long-term liabilities | 6,913 | 1,469 | 5,444 |
| Stockholders' equity | (13,131) | 2,809 | (15,940) |
| Total | \$ 72,475 | \$ 85,450 | |

Fiscal Year 2007 Restated Compared to Fiscal Year 2006. Current assets as of June 30, 2007 increased by \$5.3 million as compared to June 30, 2006. This increase is primarily due to:

- Decrease in current assets of \$1.0 million. These differences are attributed to:
- Increase in cash of \$3.4 million partially due to us receiving \$3.1 million from our customer before year-end for the in-flight insurance on STS-118. The payment to the insurance carrier was made subsequent to year-end.

- Decrease in accounts receivable of \$3.1 million is primarily attributable to the decreased volume of sales in Flight Services due to our contracted missions for our shuttle assets ending their contracted period of performance.
- Decrease in other assets of \$1.5 million is primarily a result of us valuing our inventory to market prices. This resulted in a non-cash write-down of the inventory by \$1.7 million and the recording of a \$1.0 million note receivable.
- Increase in prepaid expenses of \$0.3 million.

The decrease in net property and equipment of \$17.8 million from June 30, 2007 to June 30, 2006 resulted primarily from the write-down of our flight unit 2 module due to our analysis of the remaining shuttle flights and the potential need for our flight unit 2 module on these flights and depreciation.

The increase in other assets of \$5.8 million from June 30, 2007 restated to June 30, 2006 resulted primarily from an increase in restricted cash attributable to a new contract to expand our payload processing facility in our Astrotech subsidiary which generated \$6.3 million in restricted cash during fiscal year 2007, and a decrease in net deferred financing costs of approximately \$0.5 million as a result of amortization of the deferred financing costs. Additionally, we had a non-cash valuation allowance of \$0.1 million for our investment in Applied Astronautical Corporation offset by an increase in other assets of \$0.1 million.

Our current liabilities increased by \$7.8 million from June 30, 2006 to June 30, 2007. The following summarizes significant items:

- Our accounts payable and accrued expenses decreased from \$14.7 million to \$11.0 million due a reduction in mission activities in our Flight Services business unit and the timing of payments.
- Our short-term debt decreased by \$1.6 million from June 30, 2006 to June 30, 2007 as we paid the remaining payments on our mortgage loan at our Astrotech facility. Additionally, our short-term debt increased from June 30, 2006 to June 30, 2007 by \$10.3 million due to our 8% convertible subordinated notes maturing in October 2007.
- Our short-term deposit account increased by \$3.1 million during the current fiscal year. This is a result of us receiving \$3.1 million from our customer prior to year end for the in-flight insurance on our flight assets for STS-118 that flew in August 2007. The payment to the insurance carrier was made subsequent to year end.
- Our current portion of deferred revenue decreased by \$0.2 million for June 30, 2006 to June 30, 2007 due to timing of receiving payments and recognizing revenue for shuttle related and satellite related programs.

Our long-term debt as of June 30, 2007 decreased by \$10.3 million due to the maturity of \$10.3 million of our 8% convertible subordinated notes in October 2007.

Other long-term liabilities increased by \$5.4 million at year end 2007 restated compared to year end 2006 primarily due to recognition of the long-term gain of the \$1.6 million that was recorded in the fourth quarter of fiscal year 2005 due to the sale of our Cape Canaveral and Houston Headquarters facilities that will be recognized over the term of the leases offsetting advances on construction contract increased by \$5.7 million from June 30, 2006 to June 30, 2007. The increase in advances on the construction contract was primarily due to receiving the initial milestone payments on our contract with a governmental agency to design and build a new processing facility and corresponding payments to subcontractors for work performed during the period.

Liquidity and Capital Resources

As of June 30, 2007 we had cash and restricted cash on hand of \$16.0 million and our working capital was approximately (\$5.5) million. Restricted cash, which consists of advance payments on a government contract to modify certain spacecraft processing facilities, totaled \$6.3 million at June 30, 2007. For fiscal year 2007 restated we generated \$6.0 million from operating activities. Our \$5.0 million revolving credit facility expired as of February 11, 2007 and we elected not to renew the facility.

Our \$10.3 million of outstanding 8.0% convertible notes are due on October 15, 2007 and our \$52.9 million of 5.5% senior convertible notes are due in October 2010. A covenant in our 5.5% note indenture restricts us from using the proceeds from the sale or mortgage of our Astrotech Florida assets for purposes other than reducing outstanding balances on our credit facility, repaying our now extinguished mortgage loan, or redeeming outstanding 5.5% senior convertible notes. We do not have sufficient liquidity to repay the principal and interest on our 8.0% convertible notes and the interest on our 5.5% senior convertible notes when due on October 15, 2007 unless our Exchange Offer (see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources) is successfully consummated.

Cash Flows From Operating Activities. Cash provided by (used in) operations for the years ended June 30, 2007 restated, 2006, and 2005 was \$12.3 million, \$4.0 million, and (\$7.2) million, respectively. The significant items affecting the differences in cash flows from operating activities in fiscal year 2007 as compared to fiscal year 2006, and fiscal year 2006 compared to fiscal year 2005 are discussed below:

Fiscal Year 2007 Restated Compared to Fiscal Year 2006. For the fiscal year 2007 compared to fiscal year 2006, the significant items affecting cash provided by operating activities were:

- Net loss for fiscal year 2007 was \$16.3 million as compared to net loss for fiscal year 2006 of \$12.4 million. Included in the net loss for fiscal year 2007 is a \$12.5 million non-cash charge for the write-down of our flight unit 2 module and other shuttle related assets. Additionally, the net loss for fiscal year 2007 included a non-cash charge of \$0.1 million for the valuation of our investment in Applied Astronautics Corporation. Included in the net loss for fiscal year 2006 is a \$6.3 million non-cash charge for the write-down of our flight unit 3 module.
- Fiscal year 2006 included a non-cash charge of \$0.6 million related to the acceleration of debt placement costs related to the original issuance costs of our \$63.3 million 8% convertible subordinated costs to the exchange of \$52.9 million of the notes for \$52.9 million of 5.5% senior convertible subordinated notes.
- Fiscal year 2007 Restated cash flows from operations included an increase in restricted cash of \$6.3 million due to advances received for the design and construction of a payload processing facility at our Vandenberg Air Force Base location.

- Depreciation and amortization for fiscal year 2007 was \$0.3 million more compared to fiscal year 2006, primarily due to increased depreciation expense for our flight assets resulting from the change of the depreciable lives from 2016 to 2010. This change in depreciable lives is based on the most current information available from NASA on the retirement of the space shuttle fleet at the end of 2010.
- Changes in assets for fiscal year 2007 provided cash from operations of \$4.3 million. This change is primarily due to:
 - Decrease in accounts receivable of \$4.6 million which is primarily due to a decrease in shuttle-related project work and the timing of payments.
 - Increase in prepaid expenses and other assets of \$0.3 million which is mainly due to increased mission activities in our Astrotech business unit for future satellite processing missions.
- Changes in assets for fiscal year 2006 provided cash from operations of \$5.6 million. This change is primarily due to:
 - Decrease in accounts receivable of \$5.5 million which is primarily due to a decrease in shuttle-related project work and the timing of payments.
 - Decrease in prepaid expenses and other assets of \$0.1 million which is primarily due to a decrease in deferred mission costs for the Japanese Experiment Thermal Incubator Service contract due to the completion of the contract in fiscal year 2006.
- Changes in liabilities for fiscal year 2007 provided cash from operations of \$5.3 million. This change is primarily due to:
 - Decreases in accounts payable, accrued expenses, and accrued subcontracting costs of \$3.3 million which is due to decreased mission activity for shuttle related projects.
 - Decrease in deferred revenue of \$0.2 million. The decrease in deferred revenue is primarily due to the timing of mission activities and payments in Astrotech business unit.
 - Increase in advances on construction contract of \$5.7 million. The increase for our advances on the construction contract increased by \$5.7 million due to receiving the initial milestone payments on our contract with a governmental agency to design and build a new processing facility and corresponding payments to subcontractors for work performed during the period.
 - Increase of \$3.1 million in customer deposits. Our short-term deposit account increased by \$3.1 million during the current fiscal year. This is a result of us receiving \$3.1 million from our customer prior to year end for the in-flight insurance on our flight assets for STS-118 that flew in August 2007. The payment to the insurance carrier was made subsequent to year end.

Changes in liabilities for fiscal year 2006 used cash from operations of \$2.2 million. This change was due primarily to the decreases in accounts payable, accrued expenses, and accrued subcontracting costs of \$1.8 million and the decrease in deferred revenue of \$0.4 million. The decreases in accounts payable, accrued expenses, and accrued subcontracting costs is due to decreased mission activity for shuttle related projects. The decrease in deferred revenue is primarily due to the completion of the Japanese Experiment Thermal Incubator Service contract during fiscal

year 2006.

Fiscal Year 2006 Compared to Fiscal Year 2005. For the fiscal year 2006 compared to fiscal year 2005, the significant items affecting cash provided by operating activities were:

- Net loss for fiscal year 2006 was \$12.4 million as compared to net income for fiscal year 2005 of \$5.2 million. Included in the net loss for fiscal year 2006 is a \$6.3 million non-cash charge for the write-down of our flight unit 3 module. Included in net income for fiscal year 2005 is \$7.7 million recognized as a net recovery of a previously reported non-recurring loss of our research double module destroyed during the Space Shuttle *Columbia* mission.
- Fiscal year 2006 non-cash charge of \$0.6 million related to the acceleration of debt placement costs related to the original issuance costs of our \$63.3 million 8% convertible subordinated costs to the exchange of \$52.9 million of the notes for \$52.9 million of 5.5% senior convertible subordinated notes.
- Depreciation and amortization for fiscal year 2006 was \$0.5 million more compared to fiscal year 2005, primarily due to increased depreciation expense for our flight assets resulting from the change of the depreciable lives from 2016 to 2010. This change in depreciable lives is based on the most current information available from NASA on the retirement of the space shuttle fleet at the end of 2010. This increase is partially offset by a portion of assets reaching the end of their useful lives and decreased depreciation expense due to the sale of our facility in Cape Canaveral, Florida during fiscal year 2005.

- Changes in assets for fiscal year 2006 provided cash from operations of \$5.6 million. This change is primarily due to a decrease in accounts receivable of \$5.5 million and a decrease in prepaid expenses and other assets of \$0.1 million. The decrease in accounts receivable is primarily due to a decrease in shuttle-related project work and the timing of payments. 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 completion of the contract in fiscal year 2006. For fiscal year 2005 change in assets used cash from operations of \$7.9 million primarily from an increase in accounts receivable of \$9.0 million and an increase in prepaid expenses of \$0.2 million, which was partially offset by a decrease in other assets of \$1.3 million.
- Changes in liabilities for fiscal year 2006 used cash from operations of \$2.2 million. This change is due primarily to the decreases in accounts payable, accrued expenses, and accrued subcontracting costs of \$1.8 million and the decrease in deferred revenue of \$0.4 million. The decreases in accounts payable, accrued expenses, and accrued subcontracting costs is due to decreased mission activity for shuttle related projects. The decrease in deferred revenue is primarily due to the completion of the Japanese Experiment Thermal Incubator Service contract during fiscal year 2006. For fiscal year 2005 changes in liabilities used cash in operations of \$1.8 million. This change is due primarily to the decreases in accounts payable and accrued expenses of \$1.5 million which includes an increase due to the recording of \$0.5 million related to the Lloyd's settlement and the decrease in deferred revenue of \$5.4 million.

Cash Flows From Investing Activities. For the years ended June 30, 2007 Restated, 2006, and 2005, cash flows provided by (used in) investing activities were (\$1.1) million, (\$1.1) million, and \$17.7 million, respectively. The significant items affecting the differences in cash flows from investing activities in fiscal year 2007 compared to fiscal year 2006 and fiscal year 2006 compared to fiscal year 2005 are as follows:

Fiscal Year 2007 Compared to Fiscal Year 2006. For the fiscal year 2007 compared to fiscal year 2006, the significant items affecting cash provided by (used in) investing activities were:

- Property and equipment purchases of \$0.6 million for fiscal 2007 as compared to \$2.1 million for fiscal year 2006. This reduction is a continuation of our efforts to reduce capital expenditures.
- Fiscal year 2007 cash flows from investing activities included a \$0.5 million payment to Lloyd's of London as a result of our claim dismissal against NASA for the loss of our RDM.
- Fiscal year 2006 cash flows from investing activities included a decrease in cash securing credit facilities of \$0.1 million for fiscal year 2006.

Fiscal Year 2006 Compared to Fiscal Year 2005. For the fiscal year 2006 compared to fiscal year 2005, the significant items affecting cash provided by (used in) investing activities were:

- Property and equipment purchases of \$2.1 million for fiscal 2006 as compared to \$3.4 million for fiscal year 2005. For fiscal year 2005 cash flows from investing activities included the purchase of the Houston Headquarters facility that was subsequently sold and leased back from the new landlord.
- Fiscal year 2005 cash flows from investing activities were generated from the sale of short-term investments of \$6.6 million as compared to no sales of such short-term investments for the fiscal year 2006.
- 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.
- Fiscal year 2005 cash flows from investing activities included \$6.8 million from the sale of our Cape Canaveral and Headquarters facilities.
- Fiscal year 2006 cash flows from investing activities included a decrease of \$1.0 million in cash securing credit facilities as compared to an increase in restricted cash of \$0.5 million for fiscal year 2005.

Cash Flows From Financing Activities. For the years ended June 30, 2007, 2006, and 2005, cash flows used in financing activities were \$1.5 million, \$3.9 million, and \$3.7 million, respectively. The significant items affecting the differences in cash flows from financing activities in fiscal year 2007 compared to fiscal year 2006 and fiscal year 2006 compared to fiscal year 2005 are as follows:

Fiscal Year 2007 Compared to Fiscal Year 2006. For the fiscal year 2007 compared to fiscal year 2006, the significant items affecting cash used in financing activities were:

- Fiscal year 2007 had a payment of \$1.6 million for our mortgage loan as compared to payments of \$2.1 million for fiscal year 2006. This decrease is due to the maturity of the term note in January 2007 and complete payment in December 2006.

- Fiscal year 2006 had an increase of \$1.9 million from the refinancing of our subordinated convertible notes as compared to fiscal year 2007.

Fiscal Year 2006 Compared to Fiscal Year 2005. For the fiscal year 2006 compared to fiscal year 2005, the significant items affecting cash used in financing activities were:

- Fiscal year 2005 had net repayments of \$1.4 million in principal under our revolving credit facility as compared to no borrowings for fiscal year 2006.
- Fiscal year 2006 had a payment of \$2.1 million for our mortgage loan as compared to payments of \$1.9 million for fiscal year 2005. This increase is due to the term of the mortgage loan approaching its maturity date of January 2007.
- Fiscal year 2006 had an increase of \$1.5 million from the refinancing of our subordinated convertible notes as compared to fiscal year 2005.

Liquidity. We continue to focus our efforts on improving 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. 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 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 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 acre 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 and restricted cash on hand was approximately \$16.0 million as of June 30, 2007. Included in the \$16.0 million is \$3.1 million for in-flight insurance on STS-118 that was paid in July 2007. Additionally, \$6.3 million is restricted cash for a construction contract to expand one of our processing facilities. Our capital requirements for continuing operations consist of our general working capital needs, scheduled principal and interest payments on our debt obligations, certain contractual commitments, and capital expenditures. This includes short-term capital to finance continuing operations at the end of 2007, and long-term capital to finance our growth. Our capital resources which are solely comprised of cash reserves and cash generated from operations may not be sufficient to meet these capital requirements. While we believe that the exchange offer would help address our foreseeable refinancing risk related to the Junior Notes that mature in October 2007, there is no assurance that the exchange offer will be sufficient to alleviate our liquidity issues due to a lack of capital resources. In addition, with the conclusion of STS-118 in August 2007, we expect to have a material decrease in our revenue from our Flight Services business, which has accounted for over 65% of our consolidated revenue during fiscal year 2007. Moreover, our revolving credit line expired on February 11, 2007. As a result, in order to continue to fund our current operations, we will need additional capital. No assurance can be given that we will be able to obtain a new source

of capital on terms that are acceptable to us. If we are unable to obtain new capital, we may be forced to subject ourselves to bankruptcy, reorganization, liquidation, dissolution or similar proceeding.

If we are unable to complete the Exchange Offer for any reason, we may restructure through a bankruptcy proceeding. Our ability to restructure in bankruptcy is subject to numerous risks, including the following:

- We may lose customers in bankruptcy because our services are critical to our customers' businesses
- The costs of bankruptcy will significantly exceed the costs of an out-of-court transaction
- We may be unable to arrange debtor-in-possession financing or otherwise finance our operations during bankruptcy

Our capital requirements for continuing operations consist of our general working capital needs, scheduled principal and interest payments on our debt obligations, certain contractual commitments, and capital expenditures. This includes short-term capital to finance continuing operations at the end of 2007, and long-term capital to finance our

growth. Our capital resources which are solely comprised of cash reserves and cash generated from operations, may not be sufficient to meet these capital requirements. While we believe that the exchange offer would help address our foreseeable refinancing risk related to the Junior Notes that mature in October 2007, there is no assurance that the exchange offer will be sufficient to alleviate our liquidity issues due to a lack of capital resources.

Our contractual obligations as of June 30, 2007 are as follows (in thousands):

| Contractual Obligations | At June 30, 2007 | Fiscal Year 2008 | Fiscal Year 2009 | Fiscal Year 2010 | Fiscal Year 2011 | Fiscal Year 2012 | Thereafter |
|---------------------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------|
| Short-term Debt | \$ 10,306 | \$ 10,306 | | | | | \$ |
| Long-term Debt | 52,944 | | | | 52,944 | | |
| ICC/VCC | 1,389 | 1,389 | | | | | |
| Operating leases(1) | 12,579 | 2,662 | 970 | 982 | 769 | 547 | 6,649 |
| Total Contractual Cash Obligations | \$ 77,218 | \$ 14,357 | \$ 970 | \$ 982 | \$ 53,713 | \$ 547 | \$ 6,649 |

(1) For fiscal years 2008 and 2009 we expect to receive net payments of approximately \$0.4 million and \$0.1 million, respectively, for subleases. Additionally, we agreed to terminate out ICC and VCC leases (see Note 28) in FY2008.

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. Risk See Factors Risks Related to Our Business 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 equitable adjustments on our fixed-price contracts due to launch delays. 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 |
|-----------------|--------------------------------------|------------------|--|
| Flight Services | Commercial Space Habitat Modules, | Firm Fixed Price | Percentage-of-completion based on costs incurred |

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| | | | |
|---------------------|--|--|---|
| | Integration & Operations Support Services | | |
| Astrotech | 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 |
| Government Services | Configuration Management, Engineering Services | Cost Reimbursable Award/Fixed Fee | Reimbursable costs incurred plus award/fixed fee |

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, 2007, 2006, and 2005

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, 2007, 2006, and 2005. 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 2007, 2006, and 2005 were 12,919,506, and 12,743,533, and 14,190,281, respectively.

We had net income (loss) of (\$16,292,000) or (\$1.26) per diluted share on revenues of \$52,762,000 for our 2007 fiscal year compared to (\$12,397,000) or (\$0.97) per diluted share on revenues of \$50,746,000 for 2006 and \$5,249,000 or \$0.37 per diluted share on revenues of \$59,401,000 for 2005.

Revenue. Our revenue for the twelve months ended June 30, 2007, 2006, and 2005 was generated primarily from the Lockheed Martin Cargo Mission Contract and contracts with related commercial customers in the Flight Services business unit; the PI&C contract in our Government Services business unit; and our contracts with Lockheed Martin, Boeing, NASA, and other commercial satellite providers in our Astrotech business unit.

During fiscal year 2007, our Flight Services business unit supported NASA's spaceflight activities on both the STS-116 and 118 missions. Our Flight Services business unit prepared a cargo carrier for shuttle mission STS-118, the External Stowage Platform 3 (ESP3) that was deployed and permanently mounted to the International Space Station during the August 2007 mission. For both STS-116 and 118 missions under the Cargo Mission Contract, we provided our pressurized single module and unpressurized integrated cargo carrier for transport of critical cargo and orbital replacement units to and from the International Space Station.

During the three and twelve months ended June 30, 2007, deferred revenue decreased by \$0.2 million and \$0.2 million, respectively, as we recognized revenue on contracts where milestone payments had been received in prior periods. We expect further reduction of deferred revenue due to customer prepayments through the next twelve months which will result in revenue recognition on contracts for which the related cash was received in a prior period.

Costs of Revenue. We have several types of costs of revenue in our business segments. Costs of revenue for our Flight Services business unit include integration and operations expenses associated with the performance of two types of

efforts, sustaining engineering in support of all missions under a contract and mission specific support. Costs associated with the performance of the contracts using the percentage-of-completion method of revenue recognition are expensed as incurred. Costs associated with the cost-reimbursable award and fixed-fee contracts are expensed as incurred by our Government Services business unit. Other costs of revenue include depreciation expense and costs associated with the Astrotech payload processing facilities. Flight-related insurance covering transportation of our modules from our payload processing facility to the space shuttle and third-party liability insurance are also included in costs of revenue and are recorded as incurred. Selling, general and administrative and interest and other expenses are recognized when incurred.

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 research double module. 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 and results of operations for our SMI segment.

The following tables provide summary financial data regarding our consolidated and segmented results of operations for our 2007, 2006, and 2005 fiscal years, respectively (in millions):

Fiscal Year Ended June 30, 2007

| | Flight Services Business Unit | Astrotech Business Unit | Government Services Business Unit | Other | Total |
|--|--|--|--|--------------|--------------|
| Income (loss) from operations before charges | \$ 4.9 | \$ 2.0 | \$ 0.9 | \$ (8.0) | \$ (0.2) |
| Asset impairment charge | (12.5) | | | (0.1) | (12.6) |
| Operating income (loss) | (7.6) | 2.0 | 0.9 | (8.1) | (12.8) |
| Other income/expense, net | | 0.1 | | 0.6 | 0.7 |
| Interest expense | | | | (4.3) | (4.3) |
| Pre-tax income (loss) | (7.6) | 2.1 | 0.9 | (11.8) | (16.4) |
| Income tax benefit | | | | 0.1 | 0.1 |
| Net income (loss) | \$ (7.6) | \$ 2.1 | \$ 0.9 | \$ (11.7) | \$ (16.3) |

Fiscal Year Ended June 30, 2006

| | Flight Services Business Unit | Astrotech Business Unit | Government Services Business Unit | Other | Total |
|--|--|--|--|--------------|--------------|
| Income (loss) from operations before charges | \$ 4.7 | \$ 2.5 | \$ 0.5 | \$ (8.6) | \$ (0.9) |
| Asset impairment charge | (6.3) | | | | (6.3) |
| Operating income (loss) | (1.6) | 2.5 | 0.5 | (8.6) | (7.2) |
| Other income/expense, net | | | | 0.3 | 0.3 |
| Interest expense | | | | (5.5) | (5.5) |
| Pre-tax income (loss) | (1.6) | 2.5 | 0.5 | (13.8) | (12.4) |
| Income tax expense | | | | | |
| Net income (loss) | \$ (1.6) | \$ 2.5 | \$ 0.5 | \$ (13.8) | \$ (12.4) |

Fiscal Year Ended June 30, 2005

| | Flight Services Business Unit | Astrotech Business Unit | Government Services Business Unit | Other | Total |
|--|--|--|--|--------------|--------------|
| Income (loss) from operations before charges | \$ 7.6 | \$ 2.1 | \$ 0.9 | \$ (7.8) | \$ 2.8 |

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| | | | | | |
|---------------------------------|---------|--------|--------|-----------|--------|
| Non recurring item net recovery | 7.7 | | | | 7.7 |
| Operating income (loss) | 15.3 | 2.1 | 0.9 | (7.8) | 10.5 |
| Other Income/expense, net | | 0.1 | | 0.2 | 0.3 |
| Interest expense | | | | (5.7) | (5.7) |
| Pre-tax income (loss) | 15.3 | 2.2 | 0.9 | (13.3) | 5.1 |
| Income tax benefit | | | | 0.1 | 0.1 |
| Net income (loss) | \$ 15.3 | \$ 2.2 | \$ 0.9 | \$ (13.2) | \$ 5.2 |

Operating Income (Loss). Operating income (loss) was (\$12.8) million in fiscal year 2007, compared to (\$7.2) million and \$10.5 million for fiscal years 2006 and 2005, respectively. The following summarizes the activity in each of our operating segments:

SPACEHAB Flight Services

Operating income (loss) for our Flight Services business unit was (\$7.6) million for fiscal year 2007, compared to (\$1.6) million and \$15.3 million for fiscal years 2006 and 2005, respectively. Operating loss for 2007 included an asset impairment charge of \$12.5 million for the write down of our flight unit 2 module and other flight based assets due to our analysis of the remaining space shuttle flights and NASA's potential need for our module. Operating loss for 2006 included an asset impairment charge of \$6.3 million for the write down of our flight unit 3 module due to our analysis of the remaining space shuttle flights and NASA's potential need for our module. Operating income for fiscal year 2005 includes an \$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 2007 included general and administrative expense of \$1.2 million and depreciation and amortization expense of \$3.6 million as compared to general and administrative expenses of \$1.0 million and \$0.5 million and depreciation and amortization expense of \$3.2 million and \$2.8 million for fiscal years 2006 and 2005, respectively. Please see Results of Operations for the Years Ended June 30, 2007, 2006, and 2005 Other for a consolidated discussion of general and administrative expense and depreciation and amortization expense.

Flight Services Business Unit Results of Operations for the Fiscal Year Ended June 30, 2007 as Compared to the Fiscal Year Ended June 30, 2006

The Flight Services business unit's operating income before charges increased by \$0.2 million from fiscal year 2006 to fiscal year 2007. The following summarizes significant changes for our fiscal year ended June 30, 2007 as compared to our fiscal year ended June 30, 2006:

Revenue increases of \$1.1 million, consisting of the following

- Increase in revenue from STS-116 and STS-118 under the CMC with Lockheed Martin of \$9.4 million due to increased mission activities and change orders due to the launch of STS-116 in December 2006 and the launch of STS-118 in August 2007.
- Decrease in revenue from External Stowage Platform 2 (ESP2) of \$1.0 million due to the launch of STS-114 in July 2005.
- Decrease in revenue from STS-121 of \$5.3 million due to the launch of STS-121 in July 2006.
- Decrease in revenue from the JETIS contract of \$1.0 due to the contract being completed during fiscal year 2006.
- Decrease in revenue from the Concept Exploration and Refinement (CE&R) contract of \$0.4 million due to the contract being completed during fiscal year 2006.
- Other contract revenue decrease of \$0.6 million mainly due to our contract with Astrium to provide a new ICC pallet to replace ESP2 that was permanently affixed to the space station during the STS-114 mission in July 2005.

Cost of Revenue decreases of \$0.9 million, consisting of the following:

- Increase in cost of revenue for STS-116 and STS-118 under the CMC with Lockheed Martin, other than depreciation expense, of \$5.5 million due to increased mission activities due to the launch of STS-116 in December 2006 and the scheduled launch of STS-118 in August 2007.
- Decrease in cost of revenue of \$4.4 million for STS-121 due to the launch of STS-121 in July 2006.
- Decrease in cost of revenue of \$0.8 million from External Stowage Platform 2 of \$0.3 million due to the launch of STS-114 in July 2005.
- Decrease in cost of revenue for the JETIS contract of \$0.5 million due to the contract being completed during fiscal year 2006.
- Decrease in cost of revenue from the Concept Exploration and Refinement (CE&R) contract of \$0.2 million due to the contract being completed during fiscal year 2006.
- Other cost of revenue decrease of \$0.5 million mainly due to our contract with Astrium to provide a new ICC pallet to replace ESP2 that was permanently affixed to the space station during the STS-114 mission in July 2005.

Included in the revenue decreases is the reduction in workforce for our Flight Services business unit in January 2007. This reduction resulted in a net decrease in personnel and related costs of \$1.3 million for the last six months of fiscal year 2007.

Our Flight Services business unit is currently supporting deintegration requirements for shuttle mission STS-118. The Flight Services business unit completed cargo services on the STS-121 mission that launched during the first part of fiscal year 2007. 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, we provided our pressurized Logistics Single Module and our unpressurized 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-116 and 118 was continued under a subcontract agreement to Lockheed Martin effective February 1, 2004.

Flight Services Business Unit Results of Operations for the Fiscal Year Ended June 30, 2006 as Compared to the Fiscal Year Ended June 30, 2005

The Flight Services business unit's operating income before charges decreased by \$2.9 million from fiscal year 2005 to fiscal year 2006. The following summarizes significant changes for our fiscal year ended June 30, 2006 as compared to our fiscal year ended June 30, 2005:

Revenue decreases of \$8.8 million, consisting of the following:

- Decrease in revenue from the Lockheed Martin Cargo Mission Contract of \$1.5 million. This decrease is a result of a(n):
 - Decrease in revenue for STS-116 by \$2.4 million due to the slip of the launch date from April 2006 to December 2006. During fiscal year 2005 we were performing the contract with a projected launch date of April 2006. During the first quarter of fiscal year 2006, the launch date was slipped to November 2006 and eventually to December 2006. Therefore, for most of fiscal year 2006, we were working under the equitable adjustment clause of the contract.
 - Decrease in revenue for STS-121 by \$1.3 million due to the slip of the launch date from September 2005 to July 2006. During fiscal year 2005, we were performing the contract with a projected launch date of September 2005. During the first quarter of fiscal year 2006, the launch date was slipped to May 2006 and eventually slipped to July 2006. Therefore, for most of fiscal year 2006 we were working under the equitable adjustment clause of the contract.
 - Increase in revenue for STS-118 by \$2.2 million due to additional project work being performed on the ESP3 portion of the mission during fiscal year 2006 as compared to fiscal year 2005. Due to the successful return to flight missions STS-114 and STS-121, the Space Shuttle Program has an aggressive schedule to complete the assembly of the International Space Station. Therefore, contracted project work increased on STS-118.
 - Decrease in revenue from the Concept Exploration and Refinement (CE&R) contract of \$1.2 million that was started first quarter fiscal year 2005 and was completed first quarter fiscal year 2006.

- Decrease in revenue from the External Stowage Platform 2 (ESP2) contract revenue of \$5.1 million due to the successful launch in July 2005 aboard STS-114.
- Decrease in revenue from the Japanese Experiment Thermal Incubator Service of \$1.6 million due to the completion of the contract in April 2006.
- The various other contract revenue increased \$0.6 million mainly due to our contract with Astrium to provide a new ICC pallet to replace the ESP2 that was permanently affixed to the space station during the STS-114 mission in July 2005.

Cost of Revenue decrease of \$6.2 million, consisting of the following:

- Decrease in cost of revenue from the Lockheed Martin Cargo Mission Contract of \$0.8 million. This decrease is a result of a(n):
- Increase in cost of revenue for STS-116 by \$0.3 million due to the slip of the launch date from April 2006 to December 2006. During fiscal year 2005 we were performing the contract with a projected launch date of April 2006. During the first quarter of fiscal year 2006, the launch date was slipped to November 2006 and eventually to December 2006. Therefore, for most of fiscal year 2006 we were working under the equitable adjustment clause of the contract but we were maintaining the workforce for the entire period that is required to perform the contract as though there were no launch slips. Also, due to the change in the

depreciable lives of our flight assets, direct depreciation increased by \$1.1 million from fiscal year 2005 to fiscal year 2006.

- Decrease in cost of revenue for STS-121 by \$1.5 million due to the slip of the launch date from September 2005 to July 2006. During fiscal year 2005 we were performing the contract with a projected launch date of September 2005. During the first quarter of fiscal year 2006, the launch date was slipped to May 2006 and eventually slipped to July 2006. Therefore, for most of fiscal year 2006 we were working under the equitable adjustment clause of the contract. Before the launch slip during the first quarter of fiscal year 2006, the majority of the deliverables for this flight were completed and delivered.
- Increase in cost of revenue for STS-118 by \$0.4 million due to more project work being performed on the ESP3 portion of the mission during fiscal year 2006 as compared to fiscal year 2005. Due to the successful return to flight missions STS-114 and STS-121, the Space Shuttle Program has an aggressive schedule to complete the assembly of the International Space Station.
- Decrease in cost of revenue of \$4.1 million for ESP2 that launched on STS-114 in July 2005.
- Decrease in CE&R cost of revenue of \$0.9 million that was started in the first quarter of fiscal year 2005 and completed in the first quarter of fiscal year 2006.
- Decrease in cost of revenue from the Japanese Experiment Thermal Incubator Service of \$0.8 million due to the completion of the contract in April 2006.
- Other cost of revenue increase of \$0.4 million mainly due to our contract with Astrium to provide a new ICC pallet to replace ESP2 that was permanently affixed to the space station during the STS-114 mission in July 2005.
- Increase in rent expense of \$0.3 million from fiscal year 2005 to fiscal year 2006 due to the sale-leaseback of our payload processing facility in fourth quarter fiscal year 2005. This increase is offset by lower operating costs for the facility during fiscal year 2006 as compared to fiscal year 2005.

Astrotech Space Operations

Operating income for our Astrotech business unit was \$2.0 million for fiscal year 2007, compared to \$2.5 million and \$2.1 million for fiscal years 2006 and 2005, respectively. Operating income for 2007 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 \$0.3 million and \$0.3 million and depreciation and amortization expense of \$2.1 million and \$2.1 million for fiscal years 2006 and 2005, respectively. Please see Results of Operations for the Years Ended June 30, 2007, 2006 and 2005 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, 2007 as Compared to the Fiscal Year Ended June 30, 2006

Our Astrotech business unit's operating income before charges decreased by \$0.5 million from fiscal year 2006 to fiscal year 2007. The following summarizes significant changes for our fiscal year ended June 30, 2007 as compared to our fiscal year ended June 30, 2006:

Revenue increases of \$1.1 million, consisting of the following:

- Increase in revenue of \$1.3 million from a new contract to design a satellite processing facility.
- Increase in revenue of \$1.6 million due to three different satellites in our Florida facility, one of which was a carry-over from fiscal year 2006, for all of or portions of fiscal year 2007. Whereas, for the same period last fiscal year, there were only two satellites in our Florida facility.
- Increase in other revenue of \$0.5 million mainly due to mission unique services requested by the customer.
- Astrotech supported three satellite launches at its Sea Launch facility during fiscal year 2007 as compared to four for fiscal year 2006 which resulted in a decrease in revenue of \$0.5 million. On January 30, 2007 Sea Launch experienced a launch failure resulting in the loss of a satellite and damage to the floating launch platform. A full inspection, evaluation, and repair operations of the damage incurred and preliminary reports indicate that Sea Launch will return to operations in October 2007. We are paid under our contract with Sea Launch upon launch of each mission; therefore, anticipated revenues have been delayed until the resumption of normal operations.
- Decrease in revenue of \$0.5 million at our Vandenberg facility due to the launch delay of the Calipso/Cloudsat mission during fiscal year 2006 which resulted in increased revenue during fiscal year 2006 as compared to fiscal year 2007.

- Decrease in revenue of \$0.3 million due to the reduction of revenue on our Lockheed Martin guaranteed missions contract for two future missions that will be processed for Boeing on Atlas launch vehicles partially offset by one Atlas mission (STP-1) processed at the Titusville facility that was contracted directly with Boeing.
- Decrease in revenue from our Lockheed Martin guaranteed contract of \$1.0 million due to the guarantee being reduced this calendar year as compared to the same period last fiscal year.

Cost of revenue from our Astrotech business unit increased for the fiscal year 2007 as compared to fiscal year ended 2006 by \$1.6 million. The increase is mainly due to higher professional services of \$0.4 million for the new contract to design a satellite processing facility. Additionally, mission specific expenses increased by \$1.0 million due to increased mission support services in Florida and Vandenberg. Also, although Astrotech's labor force did not change significantly, they had higher labor and related costs of \$0.2 million in fiscal year 2007 as compared to fiscal year 2006 due to cost of living increases.

Astrotech Business Unit Operating Results for Fiscal Year ended June 30, 2006 as Compared to the Fiscal Year Ended June 30, 2005

Our Astrotech business unit's operating income before charges increased by \$0.4 million from fiscal year 2005 to fiscal year 2006. The following summarizes significant changes for our fiscal year ended June 30, 2006 as compared to our fiscal year ended June 30, 2005:

Revenue from our ASO business unit increased from fiscal year 2005 to fiscal year 2006 by \$0.7 million. This increase is primarily attributable to ASO receiving revenue for one additional guaranteed mission for calendar year 2006 under our Lockheed Martin satellite processing contract in the amount of \$0.9 million. This increase is partially offset by a decrease of \$0.2 million of revenue due to satellite launch schedules.

Cost of revenue from our Astrotech business unit increased for the fiscal year 2006 as compared to fiscal year ended 2005 by \$0.2 million. The increase is mainly due to higher utility costs due to the increase in fuel costs during fiscal year 2006 as compared to fiscal year 2005. Also, although Astrotech's labor force did not change significantly, they had higher labor and related costs in fiscal year 2006 due to cost of living increases. Costs did not increase consistent with revenue due to the \$0.9 million guaranteed mission payments for which there was no incremental cost.

SPACEHAB Government Services

Operating income for our Government Services business unit was \$0.9 million for fiscal year 2007, compared to \$0.5 million and \$0.9 million for fiscal years 2006 and 2005, respectively. Operating income for 2007 included selling, general and administrative expense of \$0.3 million and depreciation and amortization expense of zero as compared to selling, general and administrative expense of \$0.4 and \$0.4 and depreciation and amortization expense of zero and \$0.1 million for fiscal years 2006 and 2005, respectively. Please see Results of Operations for the Years Ended June 30, 2007, 2006 and 2005 Other for a consolidated discussion of selling, general and administrative expense and depreciation and amortization expense.

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Government Services Business Unit Results of Operations for Fiscal year ended June 30, 2007 as Compared to the Fiscal Year Ended June 30, 2006

Our Government Services business unit's operating income before charges increased by \$0.4 million from fiscal year 2006 to fiscal year 2007. The following summarizes significant changes for our fiscal year ended June 30, 2007 as compared to our fiscal year ended June 30, 2006:

Revenue increases of \$0.4 million, consisting of the following:

- Increase in revenue from a new contract with USA for support of the Constellation Program of \$0.7 million.
- Increase in revenue from the sale of our Destiny module to the Seattle Space Museum in the amount of \$0.3 million during fiscal year 2007.
- Decrease in revenue from our subcontract with ARES on the PI&C contract of \$0.4 million. This decrease is due to a reduction in our statement of work associated with the contract.
- Decrease in other revenue of \$0.2 million primarily due to the contract closeout of our contract with Shanghai Scienceland in fiscal year 2006.

Cost of revenue increase of \$0.0 million, consisting of the following:

- Increase in cost of revenue of \$0.6 million in our Government Services business unit due to the startup of our contract with USA on the Constellation Program.
- Decrease in cost of revenue of \$0.3 million for the contract closeout of our contract with Shanghai Scienceland.
- Decrease in cost of revenue from our subcontract with ARES on the PI&C contract of \$0.3 million. This decrease is due to a reduction in our statement of work associated with the contract.

Government Services Business Unit Results of Operations for Fiscal year ended June 30, 2006 as Compared to the Fiscal Year Ended June 30, 2005

Our Government Services business unit's operating income before charges decreased by \$0.4 million from fiscal year 2005 to fiscal year 2006. The following summarizes significant changes for our fiscal year ended June 30, 2006 as compared to our fiscal year ended June 30, 2005:

Revenue decreased by \$0.6 million for our fiscal year ended June 30, 2006 as compared to our fiscal year ended June 30, 2005 primarily as a result of:

The decrease in revenue at the Government Services business segment is primarily due to the delivery of the intravehicular activity (IVA) handrails in the third quarter of fiscal year 2005. The following summarizes the significant items:

- Decrease in revenue of \$0.5 million due to the delivery of the IVA handrails in the second quarter of fiscal year 2005.
- Increase in revenue of \$0.2 million for the contract closeout of our contract with Shanghai Scienceland.
- Decrease in other revenue of \$0.3 million.

The decrease in cost of revenue by \$0.2 million is primarily due to the delivery of the IVA handrails in the third quarter of fiscal year 2005, which was partially offset by the costs of revenue associated with the closeout of the Shanghai Scienceland project for the period ending June 30, 2006.

Other

Other operating loss was (\$8.1) million for fiscal year 2007, compared to (\$8.6) million and (\$7.8) million for fiscal years 2006 and 2005, respectively. The \$8.1 million operating loss for fiscal year 2007 relates to primarily selling, general and administrative expenses and depreciation and amortization expenses which were incurred at the corporate level and an impairment charge of \$0.1 million attributable to our non-cash write-down of our investment in Applied Astronautics Corporation. The operating loss for fiscal 2006 and 2005 relates primarily to selling, general, and administrative expenses and depreciation and amortization expenses which were incurred at the corporate level. Also included in other is the revenues and expenses associated with Space Media, Inc. which included the operations of the Space Store, LLC which was sold during fiscal year 2007.

Consolidated selling, general and administrative expenses, other than the asset impairment charges for our shuttle based assets and our investment in Applied Astronautics Corporation, and research and development were \$10.7 million in fiscal year 2007, compared to \$11.1 million and \$9.5 million in 2006 and 2005, respectively. The \$0.4 million decrease for fiscal year 2006 to 2007 is principally due to:

- Increase in our Flight Services business segment labor and related costs of \$0.1 million related to less direct contract support as compared to fiscal year 2006.
- Increase of \$0.4 million in research and development costs primarily related to our efforts on our micro electro mechanical system program.
- Increase of \$0.1 million in travel expenses due to increased efforts in business development activities.
- Increase in audit fees of \$0.2 million due to an increase in audit and tax for fiscal year 2007 as compared to fiscal year 2006.
- Decrease in corporate level labor and related costs of \$0.1 million. The decrease is primarily due our staff reductions in January 2007 at the corporate level.
- Decrease of \$0.5 million in consulting expenses primarily due to expenses related to market studies for space commerce and our on-going cost reduction efforts.
- Decrease of \$0.3 million in legal expenses primarily due to us dropping our claims against NASA related to the loss of our RDM (see Item 3 Legal Proceedings).

- Decrease in selling, general, and administrative expenses of \$0.2 million for the Space Store, LLC due to the selling of the business in November 2006.
- Decrease in our Government Services business segment labor and associated facilities costs of \$0.1 million due to staff reduction during fiscal year 2007.

The \$1.6 million increase for fiscal year 2005 to 2006 is principally due to:

- Increase in our Flight Services business segment labor and related costs of \$0.6 million related to an increase in business development and bid and proposal activities in fiscal year 2006 and less direct contract support as compared to fiscal year 2005. The bid and proposal costs were related to our response to NASA's request for proposal for the Commercial Orbital Transportation Services contract.
- Increase of \$0.3 million in research and development costs related to the efforts of our Apex program.
- Increase in corporate level labor and related costs of \$0.2 million. The increase is primarily due to a rise in health care and insurance costs.
- Increase of \$0.4 million in consulting expenses primarily due to expenses related to market studies for space commerce.
- Increase of \$0.3 million in legal expenses primarily related to our claims against NASA for the loss of our RDM.
- Decrease in corporate depreciation expense of \$0.2 million due to assets reaching the end of their useful lives during fiscal year 2006.

Consolidated depreciation and amortization expenses were \$5.9 million in fiscal year 2007 compared to \$5.6 million and \$5.2 million in 2006 and 2005, respectively. The \$0.3 million increase in fiscal year 2006 compared to 2007 is primarily due to an increase in depreciation expense of \$0.6 million resulting from the change in depreciable lives during the second quarter of fiscal year 2006 of our flight assets based on NASA's direction to retire the space shuttle fleet at the end of 2010. This increase is offset by a decrease in other depreciation expense of \$0.3 million primarily due to a portion of fixed assets reaching the end of their useful lives.

The \$0.4 million increase in fiscal year 2005 compared to 2006 is primarily due to an increase in depreciation expense of \$0.6 million resulting from the change in depreciable lives of our flight assets based on NASA's direction to retire the space shuttle fleet at the end of 2010. This increase is offset by a decrease in other depreciation expense of \$0.4 million primarily due to a portion of fixed assets reaching the end of their useful lives and the sale leaseback of our Florida payload facility and corporate headquarters during the fourth quarter of fiscal year 2005.

Interest Expense. Interest expense totaled \$4.3 million for fiscal year 2007, compared with \$5.5 million and \$5.7 million for 2006 and 2005, respectively. The \$1.2 million decrease for 2007 as compared to 2006 is related to:

- Decrease in interest expense of \$1.1 million due to the exchange of the 8% notes for the 5.5% notes during fiscal year 2006 therefore, for all of fiscal year 2007, we had the reduced interest expense for the \$52.9 million of 5.5% convertible notes.
- Decrease of \$0.1 million resulting from the mortgage loan on our Astrotech facility reaching maturity in January 2007 with the final payment being made in December 2006.

The \$0.2 million decrease for 2006 as compared to 2005 is related to:

- An increase in interest expense due to the write-off of \$0.6 million debt placement costs due to the exchange of \$52.9 million of our 8% notes for \$52.9 million of 5.5% notes.
- Decrease in interest expense of \$0.7 million due to the exchange of the 8% notes for the 5.5% notes during fiscal year 2006.
- Decrease of \$0.1 million resulting from the refinancing of our Astrotech spacecraft processing facility and the reduced remaining term of the mortgage loan.

Income Tax Provision (Benefit). For fiscal year 2007 we recorded a tax benefit of \$0.07 million. We recorded an income tax expense for fiscal year 2006 of \$0.03 million, while we recorded an income tax benefit for fiscal year 2005 of \$0.1 million. As of June 30, 2007, we had approximately \$38.3 million of available net operating loss carryforwards expiring between 2020 and 2025 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, 2007, 2006 and 2005.

Market Risk

Our primary exposure to market risk relates to interest rates. We do not currently use any interest rate swaps or derivative financial instruments to manage our exposure to fluctuations in interest rates. A one percent change in variable interest rates will not have a material impact on our financial condition.

Off Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of June 30, 2007.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

Our primary exposure to market risk relates to interest rates. We do not currently use any interest rate swaps or derivative financial instruments to manage our exposure to fluctuations in interest rates. A one percent change in variable interest rates will not have a material impact on our financial condition.

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 sheet of SPACEHAB, Incorporated and subsidiaries (the Company) as of June 30, 2007, and the related consolidated statements of operations, stockholders' equity (deficit) and comprehensive income (loss) and cash flows for the year 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 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. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit 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 audit provides 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, 2007, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has sustained recurring losses and negative cash flow from operations which raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustment that might result from the outcome of this uncertainty.

/s/PMB HELIN DONOVAN LLP

Houston, Texas

September 5, 2007

except for Note 24 as to which the date is February 13, 2008

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

SPACEHAB, Incorporated and Subsidiaries:

We have audited the accompanying consolidated balance sheet of SPACEHAB, Incorporated and subsidiaries (the Company) as of June 30, 2006, and the related consolidated statements of operations, stockholders' equity, and comprehensive income (loss) and cash flows for each of the two years in the period ended June 30, 2006. 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 audits 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, 2006, and the results of their operations and their cash flows for each of the two years in the period ended June 30, 2006 in conformity with accounting principles generally accepted in the United States of America.

/s/GRANT THORNTON LLP

Houston, Texas

August 31, 2006

SPACEHAB, INCORPORATED AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands, except share data)

| | June 30, | |
|--|------------------|-----------|
| | 2007 Restated | 2006 |
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 9,724 | \$ 6,317 |
| Accounts receivable, net | 8,224 | 11,379 |
| Inventory | 695 | 2,369 |
| Short term note receivable, net | 95 | |
| Prepaid expenses and other current assets | 906 | 610 |
| Total current assets | 19,644 | 20,675 |
| Property and equipment | | |
| Flight assets | 49,210 | 49,799 |
| Capital improvements in progress | 62 | 1,612 |
| Payload processing facilities | 42,588 | 42,571 |
| Furniture, fixtures, equipment and leasehold improvements | 18,869 | 18,275 |
| | 110,729 | 112,257 |
| Less accumulated depreciation and amortization | (66,845) | (50,620) |
| Property and equipment, net | 43,884 | 61,637 |
| Restricted cash | 6,282 | |
| Deferred financing costs, net | 1,596 | 2,124 |
| Long term note receivable, net | 178 | |
| Other assets, net | 891 | 1,014 |
| Total assets | \$ 72,475 | \$ 85,450 |
| Liabilities and Stockholders Equity (Deficit) | | |
| Current liabilities | | |
| Convertible subordinated notes payable 8.0% | \$ 10,306 | \$ |
| Mortgage loan payable, current portion | | 1,636 |
| Accounts payable | 1,494 | 1,598 |
| Accounts payable- Astrium | 2,955 | 3,386 |
| Accrued interest | 789 | 804 |
| Accrued expenses | 2,056 | 2,394 |
| Accrued subcontracting services | 3,669 | 6,562 |
| Deferred gains on sale of buildings | 221 | 221 |
| Customer deposit | 3,106 | |
| Deferred revenue, current portion | 1,153 | 1,321 |
| Total current liabilities | 25,749 | 17,922 |
| Advances on construction contract | 5,722 | |
| Accrued contract costs and other | 39 | 96 |
| Deferred gains on sale of buildings | 1,152 | 1,373 |
| Convertible subordinated notes payable 8.0% | | 10,306 |
| Senior convertible subordinated notes payable 5.5% | 52,944 | 52,944 |
| Total liabilities | 85,606 | 82,641 |
| Commitments and contingencies | | |
| Stockholders equity (deficit) | | |
| 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 |
| | 84,122 | 84,030 |

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Common stock, no par value, 70,000,000 shares authorized 13,143,296 and 12,976,264 shares issued, respectively

| | | |
|--|-----------|-----------|
| Treasury stock, 116,100 shares at cost | (117) | (117) |
| Additional paid-in capital | 544 | 284 |
| Accumulated deficit | (109,572) | (93,280) |
| Total stockholders' equity (deficit) | (13,131) | 2,809 |
| Total liabilities and stockholders' equity | \$ 72,475 | \$ 85,450 |

See accompanying notes to consolidated financial statements.

SPACEHAB, INCORPORATED AND SUBSIDIARIES

Audited Consolidated Statements of Operations

(In thousands, except share data)

| | Twelve Months Ended June 30, | | |
|--|------------------------------|-------------|------------|
| | 2007 | 2006 | 2005 |
| Revenue | \$ 52,762 | \$ 50,746 | \$ 59,401 |
| Costs of revenue | 40,638 | 40,572 | 47,158 |
| Impairment of flight asset | 10,391 | 6,283 | |
| Gross profit | 1,733 | 3,891 | 12,243 |
| Operating expenses | | | |
| Selling, general and administrative | 9,883 | 10,672 | 9,383 |
| Research and development | 801 | 410 | 77 |
| Asset impairment charge | 3,879 | | |
| Nonrecurring items, net recovery related to RDM | | | (7,744) |
| Total operating expenses | 14,563 | 11,082 | 1,716 |
| Income (loss) from operations | (12,830) | (7,191) | 10,527 |
| Interest expense | (4,290) | (5,511) | (5,716) |
| Interest and other income, net | 759 | 337 | 292 |
| Income (loss) before income taxes | (16,361) | (12,365) | 5,103 |
| Income tax (expense) benefit | 69 | (32) | 146 |
| Net income (loss) | \$ (16,292) | \$ (12,397) | \$ 5,249 |
| Income (loss) per share | | | |
| Net income (loss) per share basic | \$ (1.26) | \$ (0.97) | \$ 0.42 |
| Shares used in computing net income (loss) per share basic | 12,919,506 | 12,743,533 | 12,613,491 |
| Net income (loss) per share diluted | \$ (1.26) | \$ (0.97) | \$ 0.37 |
| Shares used in computing net income (loss) per share diluted | 12,919,506 | 12,743,533 | 14,190,281 |

See accompanying notes to consolidated financial statements.

SPACEHAB, INCORPORATED AND SUBSIDIARIES

Consolidated Statements of
Stockholders' Equity (Deficit) and Comprehensive Income (Loss)

(In thousands, except share data)

| | Convertible Preferred Stock Shares | Amount | Common Stock Shares | Amount | Treasury Stock Amount | Add'l. Paid-In- Capital | Accumulated Other Comprehensive Income (Loss) | Accumulated Deficit | Total Stockholders Equity (Deficit) |
|--|---------------------------------------|-----------|------------------------|-----------|-----------------------------|-------------------------------|--|------------------------|--|
| 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 |
| Common Stock options exercised | | | 17,000 | 15 | | | | | 15 |
| Stock-based compensation | | | | | | 268 | | | 268 |
| Common Stock issued under employee stock purchase plan | | | | 177,985 | 126 | | | | 126 |
| Net loss | | | | | | | | (12,397) | (12,397) |
| Total comprehensive income | | | | | | | | | (12,397) |
| Balance at June 30, 2006 | 1,333,334 | \$ 11,892 | 12,976,264 | \$ 84,030 | \$ (117) | \$ 284 | \$ | \$ (93,280) | \$ 2,809 |
| Stock-based compensation | | | | | | 260 | | | 260 |
| Common Stock issued under employee stock purchase plan | | | | 167,032 | 92 | | | | 92 |
| Net loss | | | | | | | | (16,292) | (16,292) |
| Total comprehensive income | | | | | | | | | (16,292) |
| Balance at June 30, 2007 | 1,333,334 | \$ 11,892 | 13,143,296 | \$ 84,122 | \$ (117) | \$ 544 | \$ | \$ (109,572) | \$ (13,131) |

See accompanying notes to consolidated financial statements.

SPACEHAB, INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(In thousands)

| | Twelve Months Ended June 30, | | |
|--|------------------------------|-------------|----------|
| | 2007 Restated | 2006 | 2005 |
| Cash flows from operating activities | | | |
| Net income (loss) | \$ (16,292) | \$ (12,397) | \$ 5,249 |
| Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities: | | | |
| Nonrecurring item, net recovery related to RDM | | | (8,244) |
| (Increase) decrease in restricted cash | (6,282) | | |
| Stock-based compensation | 260 | 268 | |
| Impairment of investment in AAC | 100 | | |
| Depreciation and amortization, including deferred debt issuance | 6,362 | 6,062 | 5,526 |
| Impairment of inventory | 1,674 | | |
| Write-off of debt placement fees | | 591 | 9 |
| Loss on asset sales and write-offs | 12,496 | 6,304 | 3 |
| Recognition of deferred gain | (221) | (214) | (33) |
| Changes in assets and liabilities: | | | |
| (Increase) decrease in accounts receivable | 2,882 | 5,527 | (9,028) |
| Decrease in prepaid expenses and other current assets | (296) | (22) | (198) |
| Increase in other assets | 23 | 108 | 1,341 |
| Decrease in deferred revenue | (168) | (490) | (5,429) |
| Decrease in accounts payable and accrued expenses and accounts payable-Astrium | (388) | (638) | (1,504) |
| (Decrease) increase in accrued subcontracting services and other | (2,893) | (990) | 4,876 |
| Increase in advances for construction contract | 5,722 | | |
| Increase in customer deposits | 3,106 | | |
| (Decrease) increase in long-term contracts costs and other liabilities | (57) | (125) | 279 |
| Net cash (used in) provided by operating activities | 6,028 | 3,984 | (7,153) |
| Cash flows from investing activities | | | |
| Purchases of property, equipment and leasehold improvements | (577) | (2,111) | (3,429) |
| Proceeds received from sale of property and equipment | | | 6,767 |
| Proceeds from sales of investments | | | 6,641 |
| (Increase) decrease in cash securing credit facilities | | 970 | (540) |
| Proceeds from contract indemnification | | | 8,244 |
| Payment for legal claim settlement | (500) | | |
| Net cash (used in) provided by investing activities | (1,077) | (1,141) | 17,683 |
| Cash flows from financing activities | | | |
| Proceeds from issuance of Common Stock | 92 | 142 | 138 |
| Increase in deferred financing | | (1,939) | (456) |
| Net repayments under revolving loan payable | | | (1,445) |
| Repayment of mortgage loan | (1,636) | (2,056) | (1,946) |
| Net cash used in financing activities | (1,544) | (3,853) | (3,709) |
| Net change in cash and cash equivalents | 3,407 | (1,010) | 6,821 |
| Cash and cash equivalents at beginning of period | 6,317 | 7,327 | 506 |
| Cash and cash equivalents at end of period | \$ 9,724 | \$ 6,317 | \$ 7,327 |

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 and developing space utilization applications such as microgravity processing.

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, 2007, 2006, and 2005 approximately 84%, 80%, and 81% of our revenues were generated under U.S. Government contracts, respectively.

Leveraging its heritage of supporting 23 space shuttle missions with the development and provision of flight qualified hardware assets, the Flight Services business unit is continuing to offer a range of engineering, research, logistics, integration, operations, and ground support services. Our experience with the integration of complex science payloads enables our entrance into the field of microgravity processing of high value bioscience products for the benefit of the general public.

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 Government Services 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. Government Services 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.

We believe that NASA's current major programs, including the Space Shuttle Program (through at least 2010) and the International Space Station Program 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, we are subject to risks and uncertainties.

The Company has incurred net losses in the years ended June 30, 2007 and 2006. Historically, the Company has financed its capital expenditures, research and development and working capital requirements with progress payments under its various contracts, as well as with proceeds received from both public and private debt and equity offerings and borrowings under credit facilities.

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The financial statements do not include any adjustments relating to the recoverability of assets and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

As of June 30, 2007 we had cash and restricted cash on hand of \$16.0 million and our working capital was approximately (\$5.5) million. Restricted cash, which consists of advance payments on a government contract to modify certain spacecraft processing facilities, totaled \$6.3 million at June 30, 2007. For fiscal year 2007 we generated \$12.3 million from operating activities. Our \$5.0 million revolving credit facility expired as of February 11, 2007 and we elected not to renew the facility.

Our \$10.3 million of outstanding 8.0% convertible notes are due on October 15, 2007 and our \$52.9 million of 5.5% senior convertible notes are due in October 2010. A covenant in our 5.5% note indenture restricts us from using the proceeds from the sale or mortgage of our Astrotech Florida assets for purposes other than reducing outstanding balances on our bank loan, repaying our now extinguished mortgage loan, or redeeming outstanding 5.5% senior convertible notes. We do not have sufficient liquidity to repay the principle and interest on our 8.0% convertible notes and the interest on our 5.5% senior convertible notes when due on October 15, 2007 unless our Exchange Transaction (see Note 27) is successfully consummated.

On August 31, 2007 we filed a Schedule TO pursuant to Rule 13e-4 promulgated under the Securities Exchange Act of 1934, as amended, in connection with the Company's offer to exchange (the Exchange Offer) 74 shares of common stock and 1.2 shares of Series C Convertible Preferred Stock for each \$1,000 principal amount of outstanding 8% Convertible Subordinated Notes due 2007 (the Junior Notes) up to \$10,306,000 in aggregate principal amount of the Junior Notes and 667 shares of common stock and 1 share of Series C Convertible Preferred Stock for each \$1,000 principal amount of outstanding 5.5% Senior Convertible Notes due 2010 (the Senior Notes) up to \$52,944,000 in aggregate principal amount of the Senior Notes, upon the terms and subject to the conditions set forth in the Company's offering memorandum, dated August 31, 2007 (the Offering Memorandum), and the related Exchange Offer materials which are filed as Exhibits (a)(1)(B) to (a)(1)(I) of the Schedule TO (which Offering Memorandum and related Exchange Offer materials, as amended or supplemented from time to time, collectively constitute the Offer Materials).

Additionally, on August 28, 2007, the Company and Astrium, GmbH mutually agreed to terminate the lease agreement dated as of February 28, 2001 in regards to the Company's lease of the Integrated Cargo Carriers (ICC) assets from Astrium, GmbH. Also, we mutually agreed to terminate the lease agreement dated as of July 3, 2001 in regards to the Company's lease of the Vertical Cargo Carrier (VCC) assets from Astrium, GmbH. In order to terminate these two leases, we have mutually agreed that the Company will reimburse Astrium, GmbH \$1,389,000 for the period March 1, 2007 through August 31, 2007 for the ICC assets and incur no financial obligations for either the ICC or VCC after August 31, 2007.

We continue to focus our efforts on improving 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. 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.

Our capital resources which are solely comprised of cash reserves and cash generated from operations, may not be sufficient to meet these capital requirements. While we believe that the exchange offer would help address our foreseeable refinancing risk related to the Junior Notes that mature in October 2007, there is no assurance that the exchange offer will be sufficient to alleviate our liquidity issues due to a lack of capital resources. In addition, with the conclusion of STS-118 in August 2007, we expect to have a material decrease in our revenue from our Flight Services business, which has accounted for over 65% of our consolidated revenue during fiscal year 2007. Moreover, our revolving credit line expired on February 11, 2007. As a result, in order to continue to fund our current operations, we will need additional capital. No assurance can be given that we will be able to obtain a new source of capital on terms that are acceptable to us. If we are unable to obtain new capital, we may be forced to subject ourselves to bankruptcy, reorganization, liquidation, dissolution or similar proceeding.

As discussed above, management has implemented significant strategies to address its liquidity requirements and expects that it will be successful in accomplishing the remaining portion of the plan; however, no assurance can be given that the Company will be successful in achieving the remaining goals. If the Company is unable to complete its strategy, cash flow may be insufficient to cover the Company's operating and debt service requirements in fiscal year 2008.

(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. The Company owns approximately 99% of Space Media, Inc. 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.

Accounts Receivable

The carrying value of the Company's receivable, net of the allowance for doubtful accounts, represents their estimated net realizable value. We estimate the allowance for doubtful accounts based on type of customer, age of outstanding receivable, historical collection trends, and existing economic conditions. Accounts are considered past due after 90 days from invoice date. If events or changes in circumstances indicate that a specific receivable balance may be unrealizable, further consideration is given to the collectibility of those balances and the allowance is adjusted accordingly. Receivable balances deemed uncollectible are written off against the allowance.

Restricted Cash

Restricted cash represents cash that is not readily available for general purpose cash needs. As of June 30, 2007 there was \$6.3 million in our restricted cash balance. As of June 30, 2006 there was no restricted cash included in our cash balance.

Inventories

We state inventories at the lower of cost or market as determined by the first-in-first-out (FIFO) method.

Investments

We account for investments in accordance with Statements of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities.

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. On 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, 2007, 2006, and 2005, interest income was \$0.5 million, \$0.3 million, and \$0.2 million, respectively. Interest income is recorded as a component of other income.

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 years.

We have estimated the useful lives of our space flight assets, which is a component of property and equipment, through December 31, 2010, based on current available information published by NASA.

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.

From time to time, we purchase equipment or enhance our facilities to meet specific customer requirements. These enhancements or equipment purchases are compensated through our contract with the customer. The difference between the amount reimbursed and the cost of the enhancements is recognized as revenue.

Deferred Financing Costs

Deferred financing costs represent loan origination fees paid to the lender and related professional fees. These costs are amortized on a straight-line basis over the term of the respective loan agreements. Amortization expense for the years ended June 30, 2007, 2006, and 2005 were \$0.5 million, \$0.5 million, and \$0.4 million, respectively.

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.

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.

Share Based Compensation

Effective July 1, 2005 the Company adopted SFAS No. 123R to account for share-based awards to employees. SFAS No. 123R requires measurement of the cost of employee services received in exchange for an award based on the fair value of the award on the grant date. Prior to the adoption of SFAS No. 123R, the Company applied the provisions of Accounting Principles Board (APB) Opinion No. 25, and related interpretations to account for options granted under our various stock option plans. Based on the provisions of this plan, no compensation expense had been recognized for options issued under this plan. The fair value of the stock options is estimated using expected dividend yields of the Company's stock, the expected volatility of the stock, the expected length of time the options remain outstanding and risk-free interest rates. Changes in one or more of these factors may significantly affect the estimated fair value of the stock options. Additionally, SFAS No. 123R requires the Company to estimate the number of instruments for which the required service is expected to be rendered. The Company estimates forfeitures using historical forfeiture rates for previous grants of equity instruments.

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 Flight Services 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 Government Services 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.

Deferred Revenue

Deferred revenue represents amounts collected from customers for projects, products, or services expected 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 expected 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 12).

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.

New Accounting Pronouncements

In June 2006 the Financial Accounting Standards Board issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109 (*FIN 48*). *FIN 48* requires companies to determine whether it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recorded in the financial statements. This interpretation also provides guidance on derecognition, classification, accounting in interim periods, and expanded disclosure requirements. *FIN 48* will become effective for the Company beginning in fiscal year 2008. We are currently in the process of assessing the impact that *FIN 48* will have on our consolidated financial statements.

(3) Statements of Cash Flows Supplemental Information

(a) Cash paid for interest costs was approximately \$3.8 million, \$4.7 million, and \$5.4 million for the years ended June 30, 2007, 2006, and 2005, respectively. In fiscal year 2006 there was \$0.6 million of non-cash charges due to the acceleration of debt placement fees related to the convertible notes. The bond exchange of \$52,944,000 of 8% convertible subordinated notes for 5.5% of senior convertible notes resulted in no cash inflow or outflow.

(b) The Company paid no income taxes for the years ended June 30, 2007, 2006 and 2005.

(4) Accounts Receivable

At June 30, 2007 and 2006, accounts receivable consisted of the following (in thousands):

| | 2007 | | 2006 |
|---|----------|----|--------|
| U.S. Government contracts: | | | |
| Billed | \$ 5,272 | \$ | 5,674 |
| Unbilled: | | | |
| Revenues in excess of milestone and time-based billings | 1,072 | | 3,723 |
| Total U.S. Government contracts | 6,344 | | 9,397 |
| Commercial contracts: | | | |
| Billed | 1,154 | | 1,495 |
| Unbilled | 726 | | 850 |
| Allowances | | | (363) |
| Total commercial contracts | 1,880 | | 1,982 |
| Total accounts receivable | \$ 8,224 | \$ | 11,379 |

The Company anticipates collecting all unreserved 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 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. In February 2006 the revolving credit facility was renewed and the term extended until February 11, 2007 with substantially the same terms as the original agreement. The interest rate for the term loan was prime plus one percent (9.25% as of June 30, 2006). The unused revolving credit facility balance was subject to interest charges of 0.25% to 0.5%. Funds available under the revolving credit facility were limited to 80% of eligible accounts receivable and we were 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. This credit facility expired on February 11, 2007 and we elected not to renew.

Mortgage Loan Payable

On August 30, 2001 our Astrotech subsidiary completed a \$20.0 million financing of its spacecraft processing facility 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 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, 2007, the remaining \$1.6 million of principal was repaid.

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.

On November 22, 2005 we exchanged \$52,944,000 of 8.0% Convertible Subordinated Notes for a like amount of 5.5% Senior Convertible Notes due 2010 and convertible into shares of the Company's Common Stock at a per share price of \$1.50 which include a mandatory conversion feature once the stock price reaches \$1.95 per share for twenty consecutive days. The 5.5% Senior Convertible Notes will accrue interest from the issue date at a rate of 5.5% per year. We will pay interest on the exchange notes semi-annually on each April 15 and October 15. The Senior Convertible Notes are convertible into 35,296,000 shares of Common Stock.

The remaining Convertible Subordinated Notes payable of \$10,306,000 are convertible into 756,404 shares of Common Stock at \$13.625 per share. As a result of converting these notes in November 2005, we wrote-off \$0.6 million of debt placement fees associated with the original issuance of these notes. The Subordinated Convertible Notes accrue interest at 8% annually, paid semiannually, and mature in October 2007.

The Senior Convertible Notes were amended in November 2005 to include a covenant providing a limitation on disposition of Astrotech assets and limitations on liens of Astrotech assets. Details of these covenants can be obtained via the Company's Prospectus Supplement to Schedule TO (Amendment 5), public filing on the SEC's web site dated October 27, 2005. (See Note 27)

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

| | | Balance 6/30/2007 | FY08 | FY09 | FY10 | FY11 | FY12 |
|--|----|----------------------|-----------|------|------|-----------|------|
| Convertible Subordinated Notes Payable 8.0% | \$ | 10,306 | \$ 10,306 | \$ | \$ | \$ | \$ |
| Senior Convertible Notes Payable 5.5% | | 52,944 | | | | 52,944 | \$ |
| | \$ | 63,250 | \$ 10,306 | \$ | \$ | \$ 52,944 | |

(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, 2007 and 2006 in accordance with SFAS No. 107, "Disclosures about Fair Value of Financial Instruments" (in thousands):

| | June 30, 2007 | | June 30, 2006 | |
|--|--------------------|---------------|--------------------|---------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Mortgage Loan Payable | \$ | \$ | \$ 1,636 | \$ 1,636 |
| Convertible Subordinated Notes Payable 8.0% | 10,306 | 5,501 | 10,306 | 8,631 |
| Senior Convertible Notes Payable 5.5% | 52,944 | 50,694 | 52,944 | 47,650 |

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**

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. Flight Services is currently under contract with Lockheed Martin for unpressurized pallet and pressurized module services supporting STS-118 (module and ICC).

External Stowage Platform Contract

Flight Services' 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

Flight Services 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.

Program Integration and Control

In January 2004 we continued providing ISS Configuration Management support to NASA as a major subcontractor on the PI&C contract. ARES Corporation is the prime contractor for PI&C. The contract has a base period of performance of four years and nine months plus two one-year options.

Astrotech's NASA Contracts

During fiscal year 2004 Astrotech started direct spacecraft processing support for NASA. Currently, Astrotech has three IDIQ contracts with NASA. One is valued at \$4.9 million that has three task orders authorized. The second one is valued at \$9.9 million that has two task orders authorized. The third one is valued at \$35.0 million and was awarded in June 2007. As of June 30, 2007, there were no task orders authorized but one, OSTM, was awarded subsequent to year-end.

(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. 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.

(9) Convertible Preferred Stock

On August 2, 1999 Astrium (formerly EADS), 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, Astrium purchased all of SPACEHAB's 975,000 authorized and unissued shares of preferred stock. 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 Astrium allowing them to purchase the additional 358,334 preferred shares. The preferred stock purchase increased Astrium'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 (see Note 27).

(10) Common Stock Options and Stock Purchase Plans

As of June 30, 2007, 3,185,774 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 total number of options that are available under this plan is 3,950,000. As of June 30, 2007 there are 3,005,774 available for 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. The total number of options that are available under this plan is 500,000. Through June 30, 2007 there are 180,000 available for 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, 2007 employees have purchased 1,482,645 shares under the plan. Employees purchased an aggregate of 167,032 shares at an average price of \$0.55 during the twelve-month period ended June 30, 2007. The shares purchased under this plan are considered compensation for accounting and reporting purposes (see SFAS No. 123R below). During the fourth quarter of fiscal year 2007, we discontinued the purchasing of Common Stock by the employees from this plan.

Space Media, Inc. Stock Option Plan (SMI 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, 2007 and June 30, 2006, 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, 2007 and June 30, 2006 with a weighted-average exercise price of \$1.00 and a weighted-average remaining contractual life of four to five 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, 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 |
| Granted | | | 212,000 | 1.43 | 30,000 | 0.77 |
| Exercised | | | (17,000) | 0.87 | | |
| Forfeited | | | (413,039) | 5.28 | (50,000) | 7.00 |
| Outstanding at June 30, 2006 | | \$ | 1,332,201 | \$ 3.11 | 245,000 | \$ 2.14 |
| Granted | | | 310,000 | 1.15 | 30,000 | 0.72 |
| Exercised | | | | | | |
| Forfeited | | | (835,266) | 2.48 | (5,000) | (0.99) |
| Outstanding at June 30, 2007 | | \$ | 806,935 | \$ 2.81 | 270,000 | \$ 2.00 |

Options exercisable at:

| | | | | | |
|---------------|----|-----------|---------|---------|---------|
| June 30, 2005 | \$ | 1,031,740 | \$ 5.04 | 210,000 | \$ 3.50 |
| June 30, 2006 | | 860,701 | 3.95 | 215,000 | 2.33 |
| June 30, 2007 | | 516,935 | 3.59 | 240,000 | 2.16 |

Weighted-average fair value (pursuant to FAS 123) at date of grant of options issued during the fiscal year ended

| | | | | | |
|---------------|----|---------|---------|--------|---------|
| June 30, 2005 | \$ | 249,000 | \$ 2.00 | 70,000 | \$ 1.49 |
| June 30, 2006 | | 212,000 | 1.39 | 30,000 | 0.70 |
| June 30, 2007 | | 310,000 | 0.54 | 30,000 | 0.98 |

| Range of exercise prices | Options outstanding | | | Options exercisable | | |
|--------------------------|---------------------|---|---------------------------------|---------------------|---------------------------------|--|
| | Number Outstanding | Weighted-Average Remaining Contractual Life (years) | Weighted-Average Exercise Price | Number Exercisable | Weighted-Average Exercise Price | |
| \$ 0.700 - 1.150 | 404,000 | 6.48 | \$ 0.971 | 206,000 | \$ 0.869 | |
| 1.430 - 2.410 | 274,000 | 6.59 | 1.899 | 152,000 | 1.993 | |
| 2.600 - 5.125 | 386,000 | 2.33 | 4.513 | 386,000 | 4.513 | |
| 11.750 - 11.750 | 12,935 | 0.00 | 11.750 | 12,935 | 11.750 | |
| | 1,076,935 | 4.94 | \$ 2.606 | 756,935 | \$ 3.139 | |

A summary of our stock option activity as of June 30, 2007 and changes during fiscal year 2007 are presented in the following table:

| | Shares Under Fixed Options | Weighted- Average Exercise Price | Weighted- Average Remaining Contractual Term | Aggregate Intrinsic Value |
|------------------------------|-------------------------------|---|--|---------------------------------|
| Outstanding at June 30, 2006 | 1,577,201 | \$ 2.96 | 5.52 | \$ |
| Granted | 340,000 | \$ 1.11 | 5.97 | \$ |
| Exercised | | | | \$ |
| Forfeited/Expired | (840,266) | \$ 2.68 | | \$ |
| Outstanding at June 30, 2007 | 1,076,935 | \$ 2.61 | 4.94 | \$ |
| Exercisable | 756,935 | \$ 3.14 | 4.94 | \$ |
| Vested at June 30, 2007 | 756,935 | \$ 3.14 | 4.94 | \$ |

The weighted-average grant-date fair value of options granted during fiscal year 2007 was \$0.58 per share. The intrinsic value for stock options is defined as the difference between the current market value and the grant price. As of June 30, 2007 there was \$363,021 of unamortized expense related to our stock option plans.

Statement of Financial Accounting Standard No. 123R

Effective July 1, 2005 we adopted SFAS No. 123 (revised 2004), Share-Based Payment, (SFAS No. 123R) which was issued by the FASB in December 2004. SFAS No. 123R revises SFAS No. 123, Accounting for Stock Based Compensation, and supersedes APB No. 25, Accounting for Stock Issued to Employees, and its related interpretations. SFAS No. 123R requires recognition of the cost of employee services received in exchange for an award of equity instruments in the financial statements over the period the employee is required to perform the services in exchange for the award (presumptively the vesting period). SFAS No. 123R also requires measurement of the cost of employee services received in exchange for an award based on the grant-date fair value of the award. SFAS No. 123R also amends SFAS No. 95, Statement of Cash Flows, to require that excess tax benefits be reported as financing cash inflows, rather than as a reduction of taxes paid, which is included within operating cash flows. Before adoption of SFAS No. 123R, pro forma disclosures reflected the fair value of each option grant estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

| | 2007 | 2006 | 2005 |
|---------------------------------|-------|-------|-------|
| Expected Dividend Yield | 0% | 0% | 0% |
| Expected Volatility | 1.08 | 1.68 | 1.00 |
| Risk-Free Interest Rates | 4.83% | 4.31% | 3.79% |
| Expected Option Life (in years) | 6.25 | 6.25 | 6.25 |

Results of prior periods do not reflect any restated amounts and we had no cumulative effect adjustment upon adoption of SFAS No. 123R under the modified prospective method. Our policy is to recognize compensation for awards with only service conditions and a graded vesting schedule on a straight line basis over the requisite service period for the entire award.

The fair value of each option award is estimated on the date of grant using the Black Scholes option pricing model, which determines inputs as shown in the following table. Because of differences in option terms and historical exercise patterns among the plans, we have segregated option awards into two homogenous groups for the purpose of determining fair values for its options. Valuation assumptions are determined separately for the two groups which represent, respectively, the 1994 Stock Incentive Plan and the Director's Stock Option Plan. The assumptions are as

follows:

- We estimated volatility using our historical share price performance over the last ten years. Management considered the guidance in SFAS No. 123R and believes the historical estimated volatility is materially indicative of expectations about expected future volatility.
- We use the simplified method outlined in SEC Staff Accounting Bulletin No. 107 to estimate expected lives for options granted during fiscal year 2006.

- The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for the expected term of the option.
- The expected dividend yield is based on our current dividend yield and the best estimate of projected dividend yield for future periods within the expected life of the option.

(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, | | |
|-------------------------------------|---------------------|--------------|-----------------|
| | 2007 | 2006 | 2005 |
| Current: | | | |
| Federal | \$ (47) | \$ 32 | \$ (176) |
| State and local | (22) | 32 | 30 |
| Foreign | (69) | 32 | (146) |
| Deferred: | | | |
| Federal | | | |
| State and local | | | |
| Foreign | | | |
| Income tax expense (benefit) | \$ (69) | \$ 32 | \$ (146) |

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, | | |
|---|---------------------|--------------|-----------------|
| | 2007 | 2006 | 2005 |
| Expected expense (benefit) | \$ (5,563) | \$ (4,204) | \$ 1,735 |
| Change in valuation allowance | 6,514 | 3,593 | (4,838) |
| Over-accrual of Federal Tax in prior year | (443) | | (290) |
| State income taxes | | 21 | 30 |
| Expiration of general business credits | (764) | | |
| Other, primarily goodwill amortization | 187 | 622 | 3,217 |
| Total | \$ (69) | \$ 32 | \$ (146) |

The Company's deferred tax assets as of June 30, 2007 and 2006 consist of the following (in thousands):

| | 2007 | 2006 |
|--|-----------|----------|
| Deferred tax assets: | | |
| Net operating loss carryforwards | \$ 13,014 | \$ 7,985 |
| General business credit carryforwards | 200 | 964 |
| Alternative minimum tax credit carryforwards | 640 | 640 |
| Accrued expenses | 401 | 425 |
| Capitalized start-up and organization costs | 485 | 142 |
| Deferred gain | 467 | 542 |
| Property and equipment, principally due to differences in depreciation | 470 | |
| Other | 5 | 5 |
| Total gross deferred tax assets | 15,682 | 10,703 |
| Less - valuation allowance | (15,537) | (9,023) |
| Net deferred tax assets | 145 | 1,680 |
| Deferred tax liabilities: | | |
| Property and equipment, principally due to differences in depreciation | | 1,596 |
| Other | 145 | 84 |
| Total gross deferred tax liabilities | 145 | 1,680 |
| Net deferred tax assets (liabilities) | \$ | \$ |

At June 30, 2007, the Company had accumulated net operating loss carryforwards of approximately \$38.3 million for Federal income tax purposes, which are available to offset future regular taxable income. These net operating loss carryforwards expire between the years 2020 and 2025. Utilization of these net operating losses may be subject to limitations in the event of significant changes in stock ownership of the Company.

Additionally, the Company has approximately \$0.2 million of research and experimentation tax credit carryforwards and \$0.6 million of alternative tax credit carryforwards, respectively, available to offset future regular tax liabilities. The research and experimentation credits expire between the years 2008 and 2009.

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, 2007, the Company provided a full valuation allowance of approximately \$15.5 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, 2007, 2006, and 2005. There were no adjustments for the numerators.

| | 2007 | June 30, 2006 | 2005 |
|--|------------|------------------|------------|
| | 12,919,506 | 12,743,533 | 12,613,491 |

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| | | | |
|---|------------|------------|------------|
| Weighted average outstanding common shares basic | | | |
| Common Stock equivalents | | | 1,576,790 |
| Weighted average outstanding common shares - diluted | 12,919,506 | 12,743,533 | 14,190,281 |

For fiscal years 2007, 2006, and 2005, 1,076,935, 1,601,786 and 1,306,486, respectively, of options to purchase shares of Common Stock were excluded for the computations of diluted net income because the impact of such options are anti-dilutive.

For fiscal years 2007 and 2006, \$52,944,000 of Senior Convertible Notes that are convertible into 35,296,000 shares of Common Stock were excluded for the computations of diluted net income because the impact of such notes are anti-dilutive.

For fiscal years 2007, 2006, and 2005, the \$10,306,000 of Convertible Subordinate Notes that are convertible into 756,404 shares of Common Stock were excluded for the computations of diluted net income because the impact of such notes are anti-dilutive.

For fiscal years 2007, 2006, and 2005, the \$12,000,000 of Preferred Stock (1,333,334 shares at \$9.00 per share) were excluded for the computations of diluted net income because the impact of such stock would be anti-dilutive.

(13) Employee Benefit Plan

We have a defined contribution retirement plan, which covers substantially all employees and officers. For the years ended June 30, 2007, 2006, and 2005, we have contributed the required match of \$0.6 million, \$0.6 million, and \$0.6 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, 2007, 2006, and 2005.

(14) Commitments

Construction Contract Contingency

In August 2007 we entered into a \$14.0 million modification to our existing Vandenberg construction contract. The modification requires us to complete the construction on the redesigned facility by September 30, 2009. The modification contains penalties if we do not meet the contracted completion date. As a result we have a contingency of up to \$3.0 million in penalties.

Leases

The Company is obligated under noncancelable operating leases for equipment, office space, storage space, and 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 |
|----------------------|---------------------|
| 2008 | \$2,662 |
| 2009 | 970 |

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| | |
|---------------------------------|----------|
| 2010 | 982 |
| 2011 | 769 |
| 2012 | 547 |
| 2013 and thereafter | 6,649 |
| Subtotal | 12,579 |
| Less: payments due for sublease | 479 |
| Total | \$12,100 |

Rent expense for the years ended June 30, 2007, 2006, and 2005 was approximately \$4.6 million, \$4.8 million, and \$4.8 million, respectively, including lease expenses for the ICC and VCC asset leases of \$3.8 million in 2007, \$3.9 million in 2006, and \$3.8 million in 2005 (see Note 28 for Agreement to Termination of ICC and VCC Leases). For fiscal years 2008 and 2009 the Company expects to receive net payments of approximately \$0.4 million and \$0.1 million, respectively, for subleases.

(15) Segment Information

Based on our organization, we operate in three business segments: Flight Services, Astrotech, and Government Services. Flight Services was founded to commercially develop space habitat modules to operate in the cargo bay of the space shuttles. Flight Services 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.

Government Services is primarily engaged in providing engineering services and products to the Federal government including NASA.

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, as well as the results of operations for SMI, Inc.

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, 2007:

| | Revenue | Income (loss) before income taxes | Net Fixed Assets | Depreciation And Amortization |
|---------------------|-----------|--------------------------------------|------------------------|-------------------------------------|
| Flight Services | \$ 34,422 | \$ (7,637) | \$ 705 | \$ 3,612 |
| Government Services | 5,965 | 909 | | |
| Astrotech | 12,136 | 1,989 | 42,633 | 2,088 |
| Other | 239 | (11,622) | 546 | 662 |
| | \$ 52,762 | \$ (16,361) | \$ 43,884 | \$ 6,362 |

Year ended June 30, 2006:

| | Revenue | Income (loss) before income taxes | Net Fixed Assets | Depreciation And Amortization |
|---------------------|-----------|--------------------------------------|------------------------|-------------------------------------|
| Flight Services | \$ 33,275 | \$ (1,678) | \$ 16,784 | \$ 3,219 |
| Government Services | 5,518 | 475 | - | - |
| Astrotech | 11,061 | 2,541 | 44,228 | 2,149 |
| Other | 892 | (13,703) | 625 | 694 |
| | \$ 50,746 | \$ (12,365) | \$ 61,637 | \$ 6,062 |

Year ended June 30, 2005:

| | Revenue | Income (loss) before income taxes | Net Fixed Assets | Depreciation And Amortization |
|---------------------|-----------|--------------------------------------|------------------------|-------------------------------------|
| Flight Services | \$ 42,144 | \$ 15,376 | \$ 27,329 | \$ 2,768 |
| Government Services | 6,093 | 896 | 50 | 24 |
| Astrotech | 10,367 | 2,079 | 45,710 | 2,087 |
| Other | 797 | (13,248) | 558 | 647 |
| | \$ 59,401 | \$ 5,103 | \$ 73,647 | \$ 5,526 |

Foreign revenue for the years ended June 30, 2007, 2006, and 2005 was approximately zero, \$0.2 million, and zero, respectively. The foreign revenue was mainly generated in China and Japan. Domestic revenue for the years ended June 30, 2007, 2006, and 2005 was approximately \$52.8 million, \$50.6 million, and \$59.4 million, respectively.

(16) Related Party Transactions

The Company engaged in certain transactions with directors, executive officers, shareholders, and certain former officers during fiscal years 2007, 2006, and 2005. Following is a description of these transactions:

Astrium (formerly EADS Space Transportation)

Astrium 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, 2007, 2006, and 2005, Astrium's payload and integration services included in cost of revenue was approximately \$13.8 million, \$11.4 million, and \$15.3 million, respectively.

Executive Credit Cards

Certain named executive officers of the Company have company paid credit cards for ordinary business expenses. Although the Company pays the amounts on the credit cards, the executive officer is obligated to substantiate the charges and reimburse the Company for any non-business related charges. As of June 30, 2007 the Company has a receivable due from an executive officer for \$12,354.

(17) 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, 2007 | | | | |
| Revenue | \$ 14,898 | \$ 12,851 | \$ 12,183 | \$ 12,830 |
| Income (loss) from operations | 886 | (1,073) | (348) | (12,295) |
| Net loss | (32) | (1,840) | (1,195) | (13,225) |
| Net loss per share basic | (0.00) | (0.14) | (0.09) | (1.02) |
| Net loss per share diluted | (0.00) | (0.14) | (0.09) | (1.02) |

| | Three months ended | | | |
|-------------------------------------|--------------------|-------------|-----------|-----------|
| | September 30 | December 31 | March 31 | June 30 |
| Year ended June 30, 2006 | | | | |
| Revenue | \$ 11,985 | \$ 11,793 | \$ 12,400 | \$ 14,568 |
| Income (loss) from operations | (585) | (7,067) | (593) | 1,054 |
| Net income (loss) | (1,916) | (8,856) | (1,673) | 48 |
| Net income (loss) per share basic | (0.15) | (0.70) | (0.13) | 0.00 |
| Net income (loss) per share diluted | (0.15) | (0.70) | (0.13) | 0.00 |

(18) 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 have leased 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 retained 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 have leased 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 Florida facility is 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 is recognized over the ten year lease term.

(19) Bond Exchange Senior Convertible Notes

On November 22, 2005 we exchanged \$52,944,000 of 8.0% Convertible Subordinated Notes for a like amount of 5.5% Senior Convertible Notes due 2010 and convertible into shares of the Company's Common

Stock at a per share price of \$1.50 which included a mandatory conversion feature once the stock price reaches \$1.95 per share for twenty consecutive days. The 5.5% Senior Convertible Notes will accrue interest from the issue date at a rate of 5.5% per year. We will pay interest on the exchange notes semi-annually on each April 15 and October 15. The Senior Convertible Notes are convertible into 35,296,000 shares of Common Stock.

The remaining Convertible Subordinated Notes payable of \$10,306,000 are convertible into 756,404 shares of Common Stock at \$13.625 per share. As a result of converting these notes in November 2005, we wrote-off \$0.6 million of debt placement fees associated with the original issuance of these notes. The Subordinated Convertible Notes accrue interest at 8% annually, paid semiannually, and mature in October 2007 (see Note 27).

(20) Asset Write Down

During the quarter ended December 31, 2005 NASA revised the flight manifest for the International Space Station build out for which funding was approved and signed into law on December 30, 2005. As a result, we have written down the Flight Services flight unit 3 module asset as it has been determined that the asset is unlikely to generate significant future cash flows and revenue. We believed it was more likely for NASA to simply utilize the flight unit 2 module for future missions under the revised manifest and related funding approved by Congress in December 2005. Therefore, we wrote-down flight unit 3 module to a salvage value of \$0.1 million resulting in a cost of revenue expense of \$6.3 million for the quarter ended December 31, 2005. The \$6.3 million is included in cost of revenue for the Flight Services segment because costs associated with the use of this asset, including depreciation expense, have historically been recorded here.

During the quarter ended June 30, 2007, we performed a SFAS No. 144 analysis of our remaining shuttle based assets due to STS-118 being our last contracted shuttle mission. As a result, we have written down the Flight Services flight unit 2 module asset and other shuttle based assets as it has been determined that the asset is unlikely to generate significant future cash flows and revenue. Therefore, we wrote-down our flight unit 2 module to a salvage value of \$0.1 million, excluding depreciation expense for July and August 2007. This non-cash write-down resulted in a cost of revenue expense of \$10.4 million for the quarter ended June 30, 2007. The \$10.4 million is included in cost of revenue for the Flight Services segment because costs associated with the use of this asset, including depreciation expense, have historically been recorded here.

Additionally, we wrote-down other assets and work in progress related to the modules and the unpressurized carriers for \$3.8 million. This amount is included in operating expenses. Included in this \$3.8 million write-down is \$1.6 million write-down of inventory that was being held for future use. The write-down is based on current market conditions.

(21) Accounting Change in Estimate Depreciation

Effective October 1, 2005 we have changed our depreciable lives used to depreciate our Flight Services flight assets from being fully depreciated by June 2016 to being fully depreciated by December 2010. We have reviewed the latest NASA planning manifest schedule for the shuttles and the manifest carries the scheduled shuttle flights out to 2009 with an additional one year period for mission delays. Our analysis has taken into consideration the association of our assets to the shuttle fleet based on the fact that our assets have been designed to fly on the shuttles, and the revenue generated from the assets is directly related to the NASA shuttle missions. The shuttle retirement could occur at an earlier or later date which would change future depreciation recognized upon revision of the useful life.

Effective July 1, 2007, we have changed our depreciable lives to depreciate our Flight Services flight assets from being fully depreciated by December 2010 to being fully depreciated August 31, 2007. This is due to our last contracted mission, STS-118, being completed in August 2007.

(22) Gain on Sale of The Space Store LLC

On October 13, 2006 the Company consummated a transaction in which Space Media, Inc., a majority-owned subsidiary of SPACEHAB, Inc., sold the assets of The Space Store LLC, consisting of retail and internet identity, inventory, furniture, fixtures, and other items. Due to the immaterial amount and insignificant impact this transaction will have on our financial statements, we elected to not present this discontinued operation as a separate component in our consolidated statements of operations for the three months ended December 31, 2006. The gain on the sale is reflected in the interest and other income section on our financial statements.

(23) Legal Proceedings

In January 2004 the Company initiated a formal proceeding against NASA in which the Company was seeking damages in the amount of \$87.7 million for the loss of its Research Double Module (RDM) as a result of the Columbia accident. In October 2004, NASA responded to this claim with the determination that its liability was \$8.2 million, including interest, and paid SPACEHAB this amount. SPACEHAB subsequently filed an appeal with the Armed Services Board of Contract Appeals and over the past two years, the two parties have proceeded with preparations for a court hearing planned for July 2008. The Company also filed a tort claim in November 2004, seeking damages of \$79.7 million for the loss of the RDM, to which the court granted a motion in June 2006 to stay the case until resolution of the Company's contract claim appeal.

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.

On February 21, 2007, the Company dismissed with prejudice all litigation against NASA relating to losses incurred by the Company as a result of the February 2003 Space Shuttle Columbia accident.

As a result of the claim dismissal, the Company paid Lloyd's of London, the insurer of the RDM, \$0.5 million in accordance with the May 12, 2005 agreement with Lloyd's.

Except as above, the Company is not a party to any pending or threatened proceedings, which in management's opinion, would have a material adverse effect on our business, financial condition, or results of operation.

(24) Restricted Cash and Advances on Construction Contract

In December 2006 our Astrotech subsidiary was awarded a contract with a governmental agency to modify one of our payload processing facilities to specific requirements of a programmed mission. Under the terms of this \$20.0 million fixed price contract, we will own the improvements after completion of the contract obligations. We have entered into a firm fixed price construction subcontract with J. P. Donovan Construction, Inc. to provide a significant portion of the design and construction work that will be required under our contract. In accordance with our contracts, payments will be received from our customer on a milestone schedule that generally provides receipt of cash before payments are required to the contractor under their milestone schedule. Receipts in advance of disbursements will be retained in a restricted cash account within our subsidiary company and used exclusively for purposes of the contract obligations. As of June 30, 2007, net cash receipts of \$6.3 million have been designated as restricted cash and \$5.7 million has been designated as a liability.

Restricted cash is excluded from current assets under ARB 43 as resources designated for the expenditure in the acquisition or construction of non current assets and is classified as other assets. The liability for advances of such construction contract is included as a non current liability.

(25) Adverse Event

On January 30, 2007 Sea Launch experienced a launch failure resulting in the loss of a satellite and damage to the floating launch platform. A full inspection, evaluation, and repair operations of the damage incurred and preliminary reports indicate that Sea Launch will return to operations in October 2007. We are paid under our contract with Sea Launch upon launch of each mission; therefore, anticipated revenues have been delayed until the resumption of normal operations.

(26) Customer Deposits

During the quarter ended March 31, 2007 we billed to our customer \$3.1 million for in-flight insurance on our pressurized module for use on STS-118. STS-118 launched mid-August 2007. This amount is included in cash and in customer deposits as of June 30, 2007. The insurance payment was paid to the insurance carrier in July 2007.

(27) **Subsequent Events**

Tender Offer

On August 31, 2007 we filed a Schedule TO pursuant to Rule 13e-4 promulgated under the Securities Exchange Act of 1934, as amended, in connection with the Company's offer to exchange (the Exchange Offer) 74 shares of common stock and 1.2 shares of Series C Convertible Preferred Stock for each \$1,000 principal amount of outstanding 8% Convertible Subordinated Notes due 2007 (the Junior Notes) up to \$10,306,000 in aggregate principal amount of the Junior Notes and 667 shares of common stock and 1 share of Series C Convertible Preferred Stock for each \$1,000 principal amount of outstanding 5.5% Senior Convertible Notes due 2010 (the Senior Notes) up to \$52,944,000 in aggregate principal amount of the Senior Notes, upon the terms and subject to the conditions set forth in the Company's offering memorandum, dated August 31, 2007 (the Offering Memorandum), and the related Exchange Offer materials which are filed as Exhibits (a)(1)(B) to (a)(1)(I) of the Schedule TO (which Offering Memorandum and related Exchange Offer materials, as amended or supplemented from time to time, collectively constitute the Offer Materials).

The Junior Notes were issued pursuant to an Indenture, dated as of October 15, 1997, as amended by a First Supplemental Indenture, dated as of November 22, 2005, among the Company and U.S. Bank National Association (formerly, Wachovia Bank, National Association). The Senior Notes were issued pursuant to an Indenture, dated as of November 22, 2005, among the Company and U.S. Bank National Association (formerly, Wachovia Bank, National Association).

The Exchange Offer expires on October 1, 2007, which we refer to as the expiration date, unless extended.

Agreement to Termination of ICC and VCC Leases

On August 28, 2007, the Company and Astrium, GmbH mutually agreed to terminate the lease agreement dated as of February 28, 2001 in regards to the Company's lease of the Integrated Cargo Carriers (ICC) assets from Astrium, GmbH. Also, we mutually agreed to terminate the lease agreement dated as of July 3, 2001 in regards to the Company's lease of the Vertical Cargo Carrier (VCC) assets from Astrium, GmbH. In order to terminate these two leases, we have mutually agreed that the Company will reimburse Astrium, GmbH \$1,389,000 for the period March 1, 2007 through August 31, 2007 for the ICC assets and incur no financial obligations for either the ICC or VCC after August 31, 2007.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

In January 2007, we discharged Grant Thornton LLP as our independent auditors and engaged PMB Helin Donovan LLP as our independent auditors. We had no disagreements as to accounting policy or disclosure with Grant Thornton LLP at the time.

Item 9A. Controls and Procedures.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we have evaluated the effectiveness of our design and operation of our disclosure controls and procedures as of the end of the period covered by this annual report, and, based on the evaluation, our principal executive officer and principal financial officer have concluded that these controls and procedures are effective. There have been no changes in our internal control over financial reporting that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially effect, our internal control over financial reporting.

Disclosure controls and procedures are our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Item 9B. Other Information.

None to report for the period ended June 30, 2007.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

1. The following documents are filed as part of the report:

a. 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 |
|--|-------------|
| <u>Report of PMB Helin Donovan LLP, Independent Registered Public Accounting Firm</u> | 22 |
| <u>Report of Grant Thornton LLP, Independent Registered Public Accounting Firm</u> | 23 |
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| <u>2. Financial Statement Schedules</u> | 47 |
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| <u>3. Exhibits</u> | 48 |

| 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** | 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) |
| 10.2** | 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) |
| 10.3** | 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) |
| 10.4** | 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) |
| 10.5** | 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) |

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- 10.6** 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)
- 10.7** 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)
- 10.8** 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)
- 10.9** 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)
- 10.10** 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)
- 10.11** 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)
- 10.12** 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)
- 10.13** 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)
- 10.14** 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)
- 10.15** 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)
- 10.16** 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)
- 10.17** 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)

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- 10.18** 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)
- 10.19** 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)
- 10.20** 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)
- 10.21** 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)
- 10.22** 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)
- 10.23** 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)
- 10.24** 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)
- 10.25** 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)
- 10.26** 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)
- 10.27** 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)
- 10.28** Contract No. NNN04LA75C, 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)

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- 10.29** 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)
- 10.30** 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)
- 10.31** 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)
- 10.32** 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)
- 10.33** Lease No. SPCVAN-2-94-0001, between the Secretary of the Air Force 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)
- 10.34** 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)
- 10.35** 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)
- 10.36** 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)
- 10.37** 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)
- 10.38** 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)
- 10.39** Assignment of CLIN I 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)
- 10.40** 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)

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- 10.41** 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)
- 10.42** 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)
- 10.43** First Amendment to Loan Agreement (incorporated by reference to Exhibit 10.49 of the Registrant's Current Report on 8-K filed with the Securities Exchange Commission on November 10, 2005), effective September 30, 2005 between SPACEHAB, Incorporated (the Borrower) and Citibank Texas, N.A., formerly known as First American Bank, SSB (the Lender), as executed on November 10, 2005
- 10.44** Second Amendment to Loan Agreement (incorporated by reference to Exhibit 10.50 of the Registrant's Current Report on 8-K filed with the Securities Exchange Commission on March 3, 2006), dated February 11, 2006 between SPACEHAB, Incorporated (the Borrower) and Citibank Texas, N.A., formerly known as First American Bank, SSB (the Lender), as executed on February 28, 2006
- 10.45** Separation Agreement and Mutual Release, dated as of December 15, 2006, between the Registrant and Michael E. Kearney (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K, filed with the Securities and Exchange Commission on December 15, 2006)
- 10.46** Separation Agreement and Mutual Release, dated as of January 19, 2007, between the Registrant and Michael E. Bain (incorporated by reference to Exhibit 10.1 of the Registrant's Quarterly Report on 10-Q, filed with the Securities and Exchange Commission on February 14, 2007)
- 10.47** Separation Agreement and Mutual Release, dated as of January 19, 2007, between the Registrant and E. Michael Chewing (incorporated by reference to Exhibit 10.2 of the Registrant's Quarterly Report on 10-Q, filed with the Securities and Exchange Commission on February 14, 2007)
- 10.48** Employment and Non-Interference Agreement, dated as of June 4, 2007, between the Registrant and Michael J. Bowker (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K, filed with the Securities and Exchange Commission on June 12, 2007)
- 10.49** Contract No. NNK07LA79C, dated as of June 15, 2007, between Astrotech Space Operations, Inc. and NASA Kennedy Space Center
- (16) Letter Regarding Change in Certifying Accountant**
- 16.1** Letter from Grant Thornton LLP regarding change in certifying accountant, dated January 18, 2007 (incorporated by reference to Exhibit 16 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 19, 2007)
- (21) SPACEHAB, Incorporated and Subsidiaries Subsidiaries of the Registrant**
- (23) Consents of Experts and Counsel**
- 23.1** Consent of PMB Helin Donovan LLP
- 23.2** Consent of Grant Thornton LLP
- (31) Rule 13a-14(a) Certifications**
- 31.1** Certification of Thomas B. Pickens, III, the Company's 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 Thomas B. Pickens, III, the Company's 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) Additional Exhibits

99.1** Schedule II Valuation and Qualifying Accounts

**previously submitted

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/Thomas B. Pickens, III
Thomas B. Pickens, III
Chief Executive Officer and Director

Date: February 28, 2008

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

Date: February 28, 2008