

SPACEHAB INC \WA\  
Form 10-Q/A  
July 20, 2005

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q/A**

(Amendment No. 1)

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(Mark One)

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

For the quarterly period ended March 31, 2005

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 0-27206

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**SPACEHAB, Incorporated**

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(Exact name of registrant as specified in this charter)

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**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**

**(713) 558-5000**

(Address of principal executive offices, including zip code, and telephone number)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in rule 12b-2 of the Exchange Act). Yes  No

As of May 12, 2005 there were 12,644,127 shares of the registrant's common stock outstanding.

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**EXPLANATORY NOTE**

SPACEHAB Inc. is amending their third quarter fiscal year 2005 Form 10-Q as a result of a reclassification of the \$8.2 million proceeds received from NASA associated with the ReALMS contract relating to the loss of our Research Double Module. We are amending the document, because the payment was previously classified as Operating Cash Flows for which we are now classifying as Investing Cash Flows in accordance with FAS 95, Footnote 5. Amendments to this document in accordance with the standard are outlined in the subsequent pages below.

**NOTE: THERE ARE NO OTHER SIGNIFICANT CHANGES TO THE ORIGINAL FORM 10-Q FILING OTHER THAN THOSE OUTLINED IN THIS DOCUMENT. THIS FORM 10-Q/A DOES NOT REFLECT EVENTS OCCURRING AFTER THE FILING OF THE ORIGINAL FORM 10-Q, OR MODIFY OR UPDATE THE DISCLOSURES THEREIN IN ANY WAY OTHER THAN AS REQUIRED TO REFLECT THE AMENDMENT SET FORTH BELOW.**

**PART 1: FINANCIAL INFORMATION****ITEM 1. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****SPACEHAB, INCORPORATED AND SUBSIDIARIES****Unaudited Condensed Consolidated Balance Sheets**

(In thousands, except share data)

	<b>March 31, 2005</b>	<b>June 30, 2004</b>
	<u>(unaudited)</u>	<u></u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 5,122	\$ 506
Restricted cash	872	430
Short-term investments		5,037
Restricted short-term investments		1,604
Accounts receivable, net	9,459	7,878
Prepaid expenses and other current assets	895	495
	<u>16,348</u>	<u>15,950</u>
Total current assets	16,348	15,950
Property and equipment, net of accumulated depreciation and amortization of \$53,640 and \$49,755, respectively	76,530	79,600
Deferred financing costs, net	1,048	1,163
Other assets, net	1,799	3,212
	<u>95,725</u>	<u>99,925</u>
Total assets	\$ 95,725	\$ 99,925
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Revolving loan payable	\$	\$ 1,445
Mortgage loan payable, current portion	1,946	1,946
Accounts payable	1,335	2,424
Accounts payable-EADS	1,057	3,262
Accrued interest	2,358	1,108
Accrued expenses	2,414	3,600
Accrued subcontracting services	3,752	2,176
Deferred revenue, current portion	2,429	6,340
	<u>15,291</u>	<u>22,301</u>
Total current liabilities	15,291	22,301
Accrued contract cost and other	255	372
Deferred revenue, net of current portion		900
Mortgage loan payable, net of current portion	2,244	3,692
Convertible subordinated notes payable	63,250	63,250
	<u>81,040</u>	<u>90,515</u>
Total liabilities	81,040	90,515
Commitments and contingencies		
Stockholders' equity		
Preferred Stock, no par value, convertible, 2,500,000 shares authorized, 1,333,334 shares issued and outstanding, (liquidation preference of \$9.00 per share)	11,892	11,892
	<u>83,857</u>	<u>83,751</u>

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Common stock, no par value, 30,000,000 shares authorized, 12,760,227 and 12,688,062 shares issued, respectively		
Additional paid-in capital	16	16
Treasury stock, 116,100 and 116,100 shares, respectively, at cost	(117)	(117)
Accumulated deficit	(80,963)	(86,132)
	<u>14,685</u>	<u>9,410</u>
Total stockholders' equity		
	<u>\$ 95,725</u>	<u>\$ 99,925</u>
Total liabilities and stockholders' equity		

See accompanying notes to unaudited condensed consolidated financial statements.

## SPACEHAB, INCORPORATED AND SUBSIDIARIES

## Unaudited Condensed Consolidated Statements of Operations

(In thousands, except share data)

	Three Months Ended		Nine Months Ended	
	March 31,		March 31,	
	2005	2004	2005	2004
Revenue	\$ 14,272	\$ 14,800	\$ 40,443	\$ 66,466
Costs of revenue	11,085	9,815	32,592	36,172
Gross profit	3,187	4,985	7,851	30,294
Operating expenses				
Selling, general and administrative	2,321	2,545	6,556	8,880
Research and development	21	7	37	9
Goodwill impairment				8,274
Impairment of investment in Guigne				1,800
Recovery of nonrecurring charge, loss of Research Double Module			(8,244)	
Total operating expenses	2,342	2,552	(1,651)	18,963
Income from operations	845	2,433	9,502	11,331
Interest expense	(1,413)	(2,177)	(4,299)	(6,776)
Interest and other income, net	40	22	121	97
Income (loss) before income taxes	(528)	278	5,324	4,652
Income tax expense	(13)	(11)	(155)	(251)
Net income (loss)	\$ (541)	\$ 267	\$ 5,169	\$ 4,401
Income (loss) per share:				
Net income (loss) per share basic	\$ (0.04)	\$ 0.02	\$ 0.41	\$ 0.35
Shares used in computing net income (loss) per share basic	12,626,130	12,476,342	12,603,240	12,415,977
Net income (loss) per share diluted	\$ (0.04)	\$ 0.02	\$ 0.36	\$ 0.31
Shares used in computing net income (loss) per share diluted	12,626,130	14,264,818	14,203,597	14,039,798

See accompanying notes to unaudited condensed consolidated financial statements.



## SPACEHAB, INCORPORATED AND SUBSIDIARIES

## Unaudited Condensed Consolidated Statements of Cash Flows

(In thousands)

	Nine Months Ended March 31,	
	2005 (Restated)	2004
<b>Cash flows from operating activities</b>		
Net income	\$ 5,169	\$ 4,401
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Goodwill impairment		8,274
Recovery of nonrecurring charge, loss of Research Double Module	(8,244)	
Impairment of investment in Guigne		1,800
Amortization of debt placement costs		729
Depreciation and amortization	3,953	4,206
Loss on asset sales and write-offs	29	358
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(1,581)	953
Increase in prepaid expenses and other current assets	(400)	(329)
(Increase) decrease in other assets	1,413	(30)
Decrease in accounts payable, accounts payable-EADS, accrued interest, and accrued expenses	(3,230)	(4,412)
Increase in accrued subcontracting services	1,576	12
Decrease in deferred revenue	(4,811)	(8,581)
Decrease in long-term contracts costs and other liabilities	(117)	(94)
Net cash provided by (used in) operating activities	(6,243)	7,287
<b>Cash flows from investing activities</b>		
Payments for flight assets under construction	(62)	(426)
Purchases of property, equipment and leasehold improvements	(750)	(868)
Proceeds received from sale of property and equipment	15	46
Sale of short-term investments	6,641	7,419
Proceeds from contract indemnification	8,244	
Increase in restricted cash	(442)	
Net cash provided by investing activities	13,646	6,171
<b>Cash flows from financing activities</b>		
Repayment of revolving loan payable, net	(1,445)	
Payment of mortgage loan	(1,448)	(10,978)
Payment of convertible notes payable to shareholder		(2,004)
Proceeds from issuance of common stock, net of expenses	106	273
Purchase of treasury stock		(6)
Net cash used in financing activities	(2,787)	(12,715)
Net change in cash and cash equivalents	4,616	743
Cash and cash equivalents at beginning of period	506	1,301
Cash and cash equivalents at end of period	\$ 5,122	\$ 2,044





See accompanying notes to unaudited condensed consolidated financial statements.

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**SPACEHAB, INCORPORATED AND SUBSIDIARIES**

**Notes to Unaudited Condensed Consolidated Financial Statements**

**1. The Company**

Incorporated in 1984, SPACEHAB was the first company to commercially develop, own and operate pressurized space habitat modules which serve the international community in supporting both manned and unmanned missions to space. SPACEHAB and its subsidiaries provide the following services:

Access to space through the use of research and logistics modules and carriers

Expertise on space architectures, habitability and occupational challenges of space

Facility operations and spacecraft processing services

Engineering, analysis, and space payload transportation services

Program integration and control

Space equipment and product design and development

Space media, education, and retail goods

Through our SPACEHAB Flight Services ( SFS ) business unit, the Company owns pressurized space habitat modules which are carried in the cargo bay of the space shuttle to provide capacity and workspace for cargo and research payloads, and unpressurized cargo carriers which also are carried in the cargo bay of the space shuttle providing unpressurized capacity for cargo payloads such as International Space Station spare and component parts. The need for our modules and ICCs depends on the specific requirements of each space shuttle mission. When our equipment is deployed on a space shuttle mission we provide the mission integration and operations support required to successfully configure, load, operate and ultimately unload our modules and/or ICCs. We also solicit research payloads worldwide for space shuttle missions when space is available on our modules beyond NASA's requirements and have provided similar research payload marketing for the Russian *Progress* spacecraft and the European ATV. Through March 31, 2005, SPACEHAB modules and ICCs have flown on 18 missions on the space shuttle, including 12 logistics missions (five to the ISS and seven to the Russian space station *Mir*).

SPACEHAB provides commercial spacecraft processing facilities and services through its wholly-owned subsidiary, Astrotech Space Operations, Inc. ( Astrotech or ASO ). Astrotech is a commercial provider of ground processing services in the United States, supplying the facilities and services used in the launch preparation of spacecraft. We offer customers an alternative to using government-owned facilities and serve payload customers launching on a wide range of expendable launch vehicles including Atlas, Delta, Pegasus, Sea Launch, and Taurus, as well as secondary payloads flown on the space shuttle. In fiscal year 2002, we completed construction of a state-of-the-art processing facility in Titusville, Florida to process larger five-meter class satellites and payload fairings for the Evolved Expendable Launch Vehicle ( EELV ) programs. With more than 220 satellites processed, ASO diversifies SPACEHAB's customer base and broadens our core competencies.

SPACEHAB Government Services ( SGS ) provides engineering support services for the U.S. Government and various commercial industries. As a NASA contractor for over 30 years, this unit offers a wide array of products and services in the engineering, program integration and control, and product development disciplines. Specifically, we manage projects in need of comprehensive engineering solutions and provide unique capabilities such as specialty engineering, hardware design and development, and configuration and data management.

Space Media, Inc. ( SMI ), a majority-owned subsidiary intended to create proprietary space-themed content for education and commerce, provides the space enthusiast with a variety of services. These services range from outfitting a comprehensive space exhibit to providing astronaut appearances and product endorsements and includes an online retailing outlet, TheSpaceStore.com. This website and retail store, adjacent to NASA s Johnson Space Center in Houston, offers more than 500 products, including distinctive and personalized gifts, clothing, mission patches, and more. Through the STARS Program, we also provide educational and outreach services to schools around the globe.

## 2. Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, consisting of only normal recurring accruals, except as discussed elsewhere within, necessary for a fair presentation of the consolidated financial position of SPACEHAB, Incorporated and its subsidiaries as of March 31, 2005, and the results of its operations and cash flows for the periods ended March 31, 2005 and 2004. However, the condensed consolidated financial statements are unaudited and do not include all related footnote disclosures. Certain amounts presented for prior periods have been reclassified to conform with the fiscal year 2005 presentation.

The consolidated results of operations for the three and nine month periods ended March 31, 2005 are not necessarily indicative of the results that may be expected for the full year. Our results of operations have fluctuated significantly from quarter to quarter. The interim unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements appearing in our Annual Report on Form 10-K for the fiscal year ended June 30, 2004.

The Company's cash and short-term investments were approximately \$6.0 million, of which \$0.9 million is restricted, as of March 31, 2005. Management believes that we have sufficient liquidity, including cash and short-term investments, advances available under the Company's revolving credit facility, and cash anticipated or expected to be generated from operations to fund ongoing operations. We also expect to utilize existing cash and cash anticipated from future operations for research and development activities, and for new business initiatives.

## 3. Earnings per Share

The following are reconciliations of the numerators and denominators of the basic and diluted earnings per share (EPS) computations for the three and nine month periods ended March 31, 2005 and 2004 (in thousands, except share and per share data):

	Three months ended			Three months ended		
	March 31, 2005			March 31, 2004		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
<b>Basic EPS:</b>						
Income (loss) available to common stockholders	\$ (541)	12,626,130	\$ (0.04)	\$ 267	12,476,342	\$ 0.02
<b>Effect of dilutive securities:</b>						
Options and warrants, using the treasury stock method					455,142	
Convertible preferred shares					1,333,334	
<b>Diluted EPS:</b>						
Income (loss) available to common stockholders	\$ (541)	12,626,130	\$ (0.04)	\$ 267	14,264,818	\$ 0.02

	Nine months ended			Nine months ended		
	March 31, 2005			March 31, 2004		
	Income	Shares	Per Share	Income	Shares	Per Share
	(Numerator)	(Denominator)	Amount	(Numerator)	(Denominator)	Amount
<b>Basic EPS:</b>						
Income available to common stockholders	\$ 5,169	12,603,240	\$ 0.41	\$ 4,401	12,415,977	\$ 0.35
<b>Effect of dilutive securities:</b>						
Options and warrants, using the treasury stock method		267,023			290,487	
Convertible preferred shares		1,333,334			1,333,334	
<b>Diluted EPS:</b>						
Income available to common stockholders	\$ 5,169	14,203,597	\$ 0.36	\$ 4,401	14,039,798	\$ 0.31

Convertible notes payable outstanding as of March 31, 2005, convertible into 4,642,202 shares of common stock at \$13.625 per share and due October 2007, were not included in the computation of diluted EPS for the three and nine months ended March 31, 2005 and 2004, as the conversion price of the convertible notes payable per share was greater than the average market price of the common shares during the periods.

Options to purchase 1,877,313 shares of common stock outstanding at March 31, 2005 were not included in diluted EPS for the three months ended March 31, 2005 as they were anti-dilutive to the Company's net loss. The options expire between July 2, 2005 and August 16, 2014.

Options to purchase 1,363,559 shares of common stock, at prices ranging from \$2.08 to \$11.75 per share, were outstanding at March 31, 2005 but were not included in diluted EPS for the nine months ended March 31, 2005 as the option prices were greater than the average market price of the common shares during the period. The options expire between July 2, 2005 and August 16, 2014.

Options to purchase 1,422,411 shares of common stock, at prices ranging from \$3.44 to \$12.00 per share, were outstanding at March 31, 2004 but were not included in diluted EPS for the three months ended March 31, 2004 as the option prices were greater than the average market price of the common shares during the period. The options expire between July 13, 2004 and February 12, 2011.

Options to purchase 1,468,441 shares of common stock, at prices ranging from \$2.31 to \$12.00 per share, were outstanding at March 31, 2004 but were not included in diluted EPS for the nine months ended March 31, 2004 as the option prices were greater than the average market price of the common shares during the period. The options expire between July 13, 2004 and July 23, 2011.

#### 4. Revenue Recognition

Our business units' revenue is derived primarily from long-term contracts with the U.S. Government, U.S. Government contractors, and commercial customers. Revenue under these contracts is recognized using the methods described below. Estimating future costs and, therefore, revenues and profits is a process requiring management judgment. Management bases its estimate on historical experience and on various assumptions that are believed to be reasonable under the circumstances including the negotiation of an equitable adjustment on the Research and Logistics Mission Support ( ReALMS ) contract which was added to the contract as a pricing amendment due to the delay in the return to flight of

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the space shuttle. Costs to complete include, when appropriate, material, labor, subcontracting costs, lease costs, commissions, insurance and depreciation. Our business segment 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 Segment	Services/Products		Method of Revenue	
	Provided	Contract Type		Recognition
SPACEHAB Flight Services	Commercial Space Habitat Modules, Integration & Operations Support Services	Firm Fixed Price		Percentage-of-completion based on costs incurred
Astrotech Space Operations	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
SPACEHAB Government Services	Configuration Management, Engineering Services	Cost Plus Award/Fixed Fee		Reimbursable costs incurred plus award/fixed fee
Space Media, Inc.	Space-Themed Commercial Products/Activities	Retail		Internet and retail sales recognized when goods are shipped

For the three and nine months ended March 31, 2005, the Company recognized revenue of approximately \$0.6 million and \$2.7 million, respectively, under the Japanese Experiment Thermal Incubator Service ( JETIS ) contract with the Mitsubishi Corporation, representing the Japanese Aerospace Exploration Agency ( JAXA ), that was entered into in 2000. Subsequent to the suspension of the space shuttle flights and destruction of SPACEHAB's Research Double Module ( RDM ), we contracted for construction of certain space research equipment, for research space onboard the ISS, and for up to three Russian *Progress* cargo missions with V.J.F. Russian Consulting who is representing Rocket Space Corporation Energia ( RSC-Energia ), a major Russian aerospace manufacturer and mission operator. Revenue on this contract is recognized on the percentage-of-completion method as costs are incurred.

The ReALMS contract expired January 31, 2004 and support for STS-121, 116, and 118 continues under a subcontract with Lockheed Martin Corporation ( Lockheed Martin ), effective February 1, 2004. We are currently providing these services under letter contract and we are in final contract negotiations with Lockheed Martin for this new contract. Pending finalization of contract negotiations with Lockheed Martin, we are providing asset maintenance and continuing services in anticipation of the contractual missions under letter agreements, generally entered into on a month-to-month basis. Revenues for the Lockheed Martin agreement are being accounted for under the percentage-of-completion method based on costs incurred over the period of the agreement. In April 2005 NASA announced the postponement of the return to flight of the space shuttle from mid May 2005 to mid July 2005. We expect this delay to have a marginal impact on our revenues and margins over the coming months as we continue the mission specific work and receive revenue for our asset maintenance fees.

For the period ended March 31, 2003, we recognized a non-recurring charge of \$50.3 million net of insurance proceeds, on the loss of its RDM in the Space Shuttle *Columbia* accident. Upon notification by NASA of its acceptance of our claim for indemnification of \$8.0 million plus interest of \$0.2 million, we recognized a recovery of \$8.2 million of previously recognized loss in the period ended September 30, 2004. The Company received payment of the \$8.2 million accounts receivable established for the period ended September 30, 2004 in October 2004. The \$8.2 million has been reflected as cash flows from investing activities in the restated statement of cash flows for the nine months ended March 31, 2005.

## 5. Statements of Cash Flows - Supplemental Information

- (a) Cash paid for interest costs was \$2.8 million and \$4.9 million for the nine months ended March 31, 2005 and 2004, respectively. We did not capitalize any interest costs during the nine months ended March 31, 2005 or 2004.
- (b) We paid an immaterial amount of income taxes for the nine months ended March 31, 2005 and paid no income taxes the nine months ended March 31, 2004.

## 6. Credit Facilities

On August 29, 2002 we entered into a \$5.0 million line of credit with a financial institution. The term of this credit facility was through August 28, 2005. Covenants included a liquidity ratio and a limited pledge of \$5.6 million of the Company's investment account. The restriction on the investment balance was equal to 111% of the borrowings on the line of credit. In June 2004 the credit agreement was amended again to remove the financial covenant on capital expenditures. Borrowing on this credit facility for the nine months ended March 31, 2005 was at a weighted average interest rate of 4.8%. This credit facility was replaced with a new revolving credit facility from another financial institution on February 11, 2005.

On February 11, 2005 we entered into a revolving credit facility with a bank providing for loans up to \$5.0 million secured by the Company's accounts receivable. Funds available under the revolving credit facility are limited to 80% of eligible accounts receivable and the Company is subject to various financial and other covenants including a minimum tangible net worth covenant, a cash flow coverage covenant, and a secured debt coverage covenant. As of March 31, 2005 there have been no borrowings under this revolving credit facility, and we posted a restricted cash balance of \$314,000 in accordance with the financial covenants. As of March 31, 2005 there was \$5.0 million available under this credit facility.

On August 30, 2001 our Astrotech subsidiary completed a \$20.0 million financing of its Spacecraft Processing Facility ( SPF ) expansion project in Titusville, Florida (the term loan ) with a financial institution. The proceeds of this financing were used to complete the construction of the SPF and supporting infrastructure. The term loan was collateralized primarily by the multi-year payload processing contracts with The Boeing Company ( Boeing ) and Lockheed Martin and by the building. The net book value of the building as of March 31, 2005 was \$22.5 million. The term loan was scheduled to mature on January 15, 2011.

On October 1, 2004 Astrotech was notified by Boeing that it was exercising its termination rights with regards to its financial guarantees under the contract agreement with Astrotech for payload processing support services for the Delta launch vehicle program. Boeing indicated that the decision to terminate its guarantees for future Astrotech services was based on the downturn of the commercial expendable launch market rather than performance related considerations. We were in full compliance with the contract terms at the time of the termination. Under the contract provision related to termination of its financial guarantees, Boeing paid us \$17.5 million representing consideration of future contract payments previously used to collateralize the obligation. In the quarter ending March 31, 2004 we repaid \$9.5 million of principal on the term loan.

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



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period ended March 31, 2004. We recognized as additional interest expense the unamortized debt placement costs of \$0.2 million and the balance of the deferred loss on the swap in other comprehensive loss of \$0.5 million in the third quarter of fiscal year 2004 in connection with the amendment of the loan agreement.

The term 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, 2004, approximately \$11.4 million of principal was repaid and the outstanding balance was \$5.6 million as of June 30, 2004. For the nine months ended March 31, 2005, approximately \$1.4 million was repaid and the outstanding balance was \$4.1 million as of March 31, 2005.

## 7. Segment Information

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

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.

### Three Months Ended March 31, 2005

(in thousands):	Revenue	Income (Loss) before income taxes	Net Fixed Assets	Depreciation And Amortization
SPACEHAB Flight Services	\$ 10,007	\$ 2,032	\$ 30,279	\$ 706
Astrotech	2,533	443	45,966	525
SPACEHAB Government Services	1,553	337	55	6
Space Media	179	(41)		
Corporate		(3,299)	230	93
	<u>\$ 14,272</u>	<u>\$ (528)</u>	<u>\$ 76,530</u>	<u>\$ 1,330</u>

### Three Months Ended March 31, 2004

(in thousands):	Revenue	Income (Loss) before income taxes	Net Fixed Assets	Depreciation And Amortization
SPACEHAB Flight Services	\$ 10,240	\$ 3,996	\$ 32,935	\$ 842
Astrotech	2,542	416	47,422	524
SPACEHAB Government Services	1,826	171	125	15
Space Media	192	(15)		
Corporate		(4,290)		
	<u>\$ 14,800</u>	<u>\$ 278</u>	<u>\$ 80,482</u>	<u>\$ 1,381</u>

**Nine Months Ended March 31, 2005**

<b>(in thousands):</b>	<b>Revenue</b>	<b>Income (Loss) before income taxes</b>	<b>Net Fixed Assets</b>	<b>Depreciation And Amortization</b>
SPACEHAB Flight Services	\$ 28,351	\$ 13,523	\$ 30,279	\$ 2,110
Astrotech	6,755	566	45,966	1,556
SPACEHAB Government Services	4,710	862	55	19
Space Media	627	(29)		
Corporate		(9,598)	230	268
	<u>\$ 40,443</u>	<u>\$ 5,324</u>	<u>\$ 76,530</u>	<u>\$ 3,953</u>

**Nine Months Ended March 31, 2004**

<b>(in thousands):</b>	<b>Revenue</b>	<b>Income (Loss) before income taxes</b>	<b>Net Fixed Assets</b>	<b>Depreciation And Amortization</b>
SPACEHAB Flight Services	\$ 32,612	\$ 9,381	\$ 32,935	\$ 2,635
Astrotech	24,654	16,169	47,422	1,518
SPACEHAB Government Services	8,601	(5,469)	125	53
Space Media	599	(25)		
Corporate		(15,404)		
	<u>\$ 66,466</u>	<u>\$ 4,652</u>	<u>\$ 80,482</u>	<u>\$ 4,206</u>

**8. Stock Based Compensation**

In December 2002 the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 148, Accounting for Stock-Based Compensation Transition and Disclosure an amendment of SFAS No. 123. This statement amends SFAS No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. We have chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board ( APB ) Opinion No. 25 and related interpretations. Accordingly, compensation expense for stock options is measured as the excess, if any, of the fair market value of the Company's stock at the date of the grant over the exercise price of the related option.

If compensation costs for the Company's stock options were determined based on SFAS No. 123, Accounting for Stock-Based Compensation, our net income (loss) and earnings per share would have been as follows (in thousands, except per share amounts):

	Three Months Ended		Nine Months Ended	
	March 31,		March 31,	
	2005	2004	2005	2004
Net income (loss), as reported	\$ (541)	\$ 267	\$ 5,169	\$ 4,401
Deduct: Total stock-based compensation expense determined under fair value based Method (SFAS No. 123) for all awards, net of related tax effects	(70)	(75)	(157)	(248)
Pro forma net income (loss)	\$ (611)	\$ 192	\$ 5,012	\$ 4,153
Earnings per share:				
Basic - as reported	\$ (0.04)	\$ 0.02	\$ 0.41	\$ 0.35
Diluted - as reported	\$ (0.04)	\$ 0.02	\$ 0.36	\$ 0.31
Basic - pro forma	\$ (0.05)	\$ 0.02	\$ 0.40	\$ 0.33
Diluted - pro forma	\$ (0.05)	\$ 0.01	\$ 0.35	\$ 0.30

## 9. Stock Repurchase

On March 25, 2003 the Board of Directors authorized the Company to repurchase up to \$1.0 million of the Company's outstanding common stock at market prices. Any purchases under the Company's stock repurchase program may be made from time to time, in the open market, through block trades or otherwise in accordance with applicable regulations of the Securities and Exchange Commission (SEC). For the three and nine months ended March 31, 2005, we did not repurchase any shares. As of March 31, 2005, we had repurchased 116,100 shares at a cost of \$117,320 under the program.

## 10. Related Party Transactions

The Company engaged in certain transactions with directors, executive officers, shareholders, and certain former officers during the three and nine months ended March 31, 2005. Following is a description of these transactions:

### EADS Space Transportation

Dr. Graul, a member of SPACEHAB's Board of Directors, is the Executive Vice President for EADS Space Transportation. EADS provides unpressurized payload and integration efforts to SPACEHAB on a fixed-price basis in addition to providing engineering services as required. For the three months ended March 31, 2005 and 2004, EADS's payload and integration services included in cost of revenue were approximately \$2.9 million and \$1.5 million, respectively. For the nine months ended March 31, 2005 and 2004, EADS's payload and integration services included in cost of revenue were approximately \$9.2 million and \$5.4 million, respectively.

**V.J.F. Russian Consulting**

On January 30, 2004 we entered into a subcontract agreement with V.J.F. Russian Consulting. The president of V.J.F. Russian Consulting, Vladimir Fishel, is a former Vice President of SPACEHAB who at the time of entering into a part-time employment agreement for other consulting activities was receiving severance payments from the Company on a part-time employment arrangement for other consulting activities. The services being provided under the subcontract agreement (valued at \$2.6 million) is in support of a contract that SPACEHAB has with the Mitsubishi Corporation in support of JAXA. The amount paid for the three months ended March 31, 2005 was \$0.3 million. The amount paid for the nine months ended March 31, 2005 was \$0.7 million.

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

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

Total commitments under the consulting agreement are \$0.4 million, of which \$0.1 million was paid in the three months ended March 31, 2005. For the nine months ended March 31, 2005, \$0.2 million was paid.

### **11. Recent Accounting Pronouncement**

The FASB has issued Statement 123R (revised 2004), *Share-Based Payment*. Statement 123(R) which will, with certain exceptions, require entities that grant stock options and shares to employees to recognize the fair value of those options and shares as compensation cost over the service (vesting) period in their financial statements. The measurement of that cost will be based on the fair value of the equity or liability instruments issued. The effective date for Statement 123(R) for the Company is the fiscal year beginning July 1, 2005. We have not yet made an assessment as to the impact on the Company's financial statements.

### **12. Subsequent Events**

On April 28, 2005 we consummated the sale and simultaneous leaseback of our Cape Canaveral Florida SPPF. The sales price of the building was \$4.8 million including a note receivable of \$0.7 million due December 2010. We received \$4.1 million in cash of which \$0.3 million was used for expenses related to the transaction. We will lease the building back for an initial term expiring December 31, 2010 with an option to renew for one additional five-year term. In accordance with FASB 28, the Company will defer the gain of approximately \$0.5 million from the sale leaseback transaction and recognize it as an offset to rent expense over the five-year lease term.

In April 2005 NASA announced the postponement of the return to flight of the space shuttle from mid May 2005 to mid July 2005. The delay is expected to have a small impact on our revenues and margins over the coming months as we continue the mission specific work now underway and are protected in our contractual arrangements with a periodic asset maintenance fee applicable to provide and maintain our space assets pending launch.

### **13. Statement of Cash Flows**

For the period ending March 31, 2005, the statement of cash flows has been changed from that reported previously to classify the proceeds received from NASA related to the loss of our Research Double Module as an investing cash flow consistent with the guidance in footnote 5 of Financial Accounting Standards No. 95, *Statement of Cash Flows*. The proceeds were reported previously as an operating cash flow.



**ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion should be read together with the unaudited consolidated financial statements and the notes thereto included in this report.*

**OVERVIEW**

This document may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including (without limitation) statements under Management's Discussion and Analysis of Financial Condition and Results of Operations and Liquidity and Capital Resources. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected in the statements. In addition to those risks and uncertainties discussed herein, such risks and uncertainties include, but are not limited to, whether the Company will fully realize the economic benefits under its NASA and other customer contracts, continued utilization by NASA and others of our habitat modules and related commercial space assets, completion of the ISS, continued availability and use of the U.S. space shuttle system, technological difficulties, product demand and market acceptance risks, the effect of economic conditions, uncertainty in government funding and the impact of competition, delays and uncertainties in future space shuttle and ISS programs, uncertainties related to the Government's commitment to President Bush's vision for space exploration, and resolution of the Company's claims against NASA arising from the loss of its RDM on the *Columbia* orbiter during the STS-107 mission.

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

We believe the impacts of this vision will materialize over time, and we will continue to align our business direction to remain a constructive force in the human spaceflight program. In the long term, we believe that our core competencies offer opportunities to continue to provide services as well as to design, build, and operate assets that could support initiatives beyond low Earth orbit. We plan to pursue these new opportunities. In the near term, our primary objective is to continue providing services to NASA and the space community in support of the space shuttle and the International Space Station programs. Even with the renewed vision, we expect that the space shuttle and International Space Station will remain an integral part of the human spaceflight program through at least 2010. We are currently supporting four of the next six scheduled space shuttle flights and are pursuing additional missions that will be important for completing the final assembly of the International Space Station. In January 2005 we received authorization to proceed on integration and operations activities for the STS-116 shuttle mission currently scheduled for February 2006. In addition, we received authorization for new contract work to add a deployable stowage platform to the STS-118 shuttle mission scheduled to launch in July 2006. This deployable storage platform will be permanently affixed to the International Space Station. In April 2005 NASA announced the delay of the return to flight of the space shuttle from mid May 2005 to mid July 2005. The delay is expected to have a small impact on our revenues and margins over the coming months as we continue the mission specific work now underway. Our contractual arrangements provide for the payment to us of a periodic asset maintenance fee when we are making available and maintaining our space assets pending launch.

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





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

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

### **Business Segments**

Following is a brief discussion of each of our four business segments, including a list of key factors that have affected, and are expected to continue to affect, their respective earnings and cash flows. We also present a brief discussion of our corporate-level expenses along with a summary of our current liquidity position and items that could impact our liquidity position in fiscal year 2005 and beyond.

*SPACEHAB Flight Services.* This business unit generates revenue by providing space shuttle-based, turnkey services that include customer access to space via our pressurized modules and unpressurized integrated cargo carriers; integration and operations support to logistics suppliers transporting their cargo aboard our modules and integrated cargo carriers to and from the orbiting International Space Station; and/or integration and operations support to scientists and technologists responsible for experiments performed aboard module and integrated cargo carrier research platforms.

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

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

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

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Congress funding for NASA and the allocation of that funding to International Space Station operations and space shuttle cargo missions;

the return to flight of the U.S. space shuttle;

the role of international space research projects flying on future space shuttle and Russian and European Space Agency missions;

the growth of space exploration programs within NASA and NASA's commitment to the President's Vision for Space Exploration regarding enhancement of the role of commercial enterprise in space exploration programs; and

our ability to control our capital expenditures, particularly those for spare or replacement parts for space assets.

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

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

our ability to control our capital expenditures, which primarily are limited to modifications to accommodate payload processing for new launch vehicles, maintenance and safety, environmental and reliability projects, and other costs, through disciplined management and safe, efficient operations; and

the continuing limited availability of competing facilities at the major domestic launch sites that can offer compatible services, leading to an increase in government use of our services.

*SPACEHAB Government Services.* Our Government Services business unit generates revenue by providing support to the U.S. Government in the areas of large-scale configuration and data management programs such as the International Space Station; specialized hardware design, development, and fabrication; low-to high-fidelity mockup design and construction; and safety and quality support services. This business unit offers a wide array of products and services in these varied fields. Our Government Services business unit currently provides configuration management services as a subcontractor of ARES under ARES Program Integration and Control contract with NASA.

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

continuation through 2008 of our Program Integration and Control contract with the International Space Station program;

our ability to maintain small business qualification for our Government Services business unit under NASA contracting rules; and

our ability to control costs within our budget commitments.

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

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

interest expense, which has decreased in the first nine months of fiscal year 2005 as compared to the first nine months of fiscal year 2004, due to the repayment of a substantial portion of our mortgage debt during fiscal year 2004 using proceeds from Boeing's early termination of their satellite preparation contract with our Astrotech business unit;

general and administrative costs, which were reduced in fiscal year 2004 due to staff reductions and the closing of our Washington D.C. corporate office, and our ability to continue to manage future overhead costs;

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

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

*Liquidity.* As of March 31, 2005 we had cash on hand and in short-term investments of \$6.0 million, including \$0.9 million in restricted cash. Our \$5.0 million revolving credit facility had no outstanding borrowings as of March 31, 2005. Our ability to maintain sufficient liquidity in the future will depend on a number of factors including our ability to acquire future business, control our costs and manage capital expenditures, the return to flight of the space shuttle, and the continued activity in the commercial and governmental satellite launch industry.

We expect that our operating cash flows through fiscal year 2006 will be sufficient to satisfy our capital expenditures, debt maturities, interest expenses, and operating commitments. In February 2005, we entered into a new \$5.0 million revolving credit facility, replacing our previous revolving credit facility. This new revolving credit facility is secured by our accounts receivable and funds available under the facility are limited to 80% of eligible accounts receivable. Under the credit facility, we are subject to various financial and other covenants, including a minimum tangible net worth covenant, a cash flow covenant, and a secured debt coverage covenant. As of March 31, 2005, there was \$5.0 million available for borrowings under this credit facility and restricted cash of \$0.3 million. We were required to maintain a restricted cash balance of \$0.3 million as of March 31, 2005, because we did not satisfy the minimum tangible net worth covenant in our credit facility as of March 31, 2005. As of June 30, 2005, we were in compliance with this covenant and were not required to maintain a restricted cash account.

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

## Revenue

Our revenue for the nine months ended March 31, 2005 and 2004 was generated primarily from the Research and Logistics Mission Support contract, the Lockheed Martin letter contract, and contracts with related commercial customers in the Flight Services business unit; the remaining contracts under the Flight Crew Systems Development contract and the Program Integration and Control contract in our Government Services business unit; and our contracts with Lockheed Martin and other commercial satellite providers in our Astrotech business unit. Revenue for our Space Media business unit was immaterial for the nine months ended March 31, 2005 and 2004. During the period, there were launch delays that affected planned revenue that is expected to materialize in the upcoming months in our Astrotech business unit.

Our Flight Services business unit is supporting NASA's return-to-flight activities and is continuing operations in preparation for shuttle missions, including STS-114, 121, 116, and 118 (in order of their anticipated flight sequence). We contracted directly with NASA's prime International Space Station contractor, Boeing, for the STS-114 mission. Our Flight Services business unit is preparing cargo carriers for shuttle missions STS-114 and STS-118, the External Stowage Platforms 2 and 3, respectively, that will be deployed and permanently mounted to the International Space Station. For STS-121, we are scheduled to provide our non-deployable integrated cargo carrier to NASA under our Cargo Mission Contract subcontract with Lockheed Martin for transport of several critical International Space Station orbital replacement unit spares. For both STS-116 and 118, missions also under the Cargo Mission contract, we are scheduled to provide our pressurized single module and an unpressurized non-deployable integrated cargo carrier for transport of critical cargo and orbital replacement units to and from the International

Space Station. We have successfully completed negotiations with Boeing and Lockheed Martin for the respective contract equitable

adjustments required to continue uninterrupted support to ongoing STS-114, 121, 116 and 118 mission preparation activities during the shuttle down period following the *Columbia* tragedy. Support for missions STS-121, 116 and 118 is continuing under a subcontract agreement with Lockheed Martin, effective February 1, 2004. We are currently providing these services under a letter contract, have completed final contract negotiations with Lockheed Martin, and are awaiting issuance of this new contract. Additionally, after approximately April 15, 2004, our Flight Services business unit no longer is subcontracting its module mission integration, operations and sustaining engineering technical support to Boeing. Most module mission tasks previously performed by Boeing personnel are now being performed by our Flight Services business unit personnel, and selected NASA cargo integration tasks on our module missions are now being performed by Lockheed Martin as a part of their Cargo Mission Contract with NASA. This decision enables our Flight Services business unit to continue to provide services to NASA and is consistent with the direction of the International Space Station program office.

In January 2004 we initiated activity under the Japanese Experiment Thermal Incubator Service contract with the Mitsubishi Corporation, representing the Japanese Aerospace Exploration Agency, that was entered into in 2000 and originally scheduled to fly aboard our research double module. Subsequent to the suspension of the space shuttle flights and destruction of our research double module, we contracted for construction of certain space research equipment, research space aboard the International Space Station and up to three Russian *Progress* cargo missions with V.J.F. Russian Consulting, representing RSC Energia, a major Russian aerospace manufacturer and mission operator. The first experiment was successfully launched on the Russian *Progress* spacecraft on August 11, 2004.

During the three and nine months ended March 31, 2005, deferred revenue decreased by \$0.2 million and \$4.8 million, respectively, as we recognized revenue on contracts where milestone payments had been received in prior periods. We expect further reduction of deferred revenue 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, in-flight insurance, 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 Recurring Charge**

On February 1, 2003 our research double module was lost in the *Columbia* tragedy. The net book value of the research double module was \$67.9 million, which, net of insurance proceeds of \$17.7 million, was recognized as a loss in the third quarter of fiscal year 2003. The \$8.0 million plus interest of \$0.2 million paid by NASA as indemnification for our loss of the research double module is recognized as a recovery of previously recognized loss in the quarter ended September 30, 2004. At this time, we do not plan to replace the research double module. Our Flight Services business unit has two additional modules and other flight assets available to support current NASA requirements. We believe that these modules and assets can also be used to support future NASA requirements during the remaining life of the space shuttle fleet. The space shuttle's expected return to flight was delayed on July 13, 2005.



**RESULTS OF OPERATIONS***Three Months Ended March 31, 2005 as Compared to the Three Months Ended March 31, 2004*

*Revenue.* Revenue decreased approximately 4% to \$14.3 million as compared to \$14.8 million for the three months ended March 31, 2005 and 2004, respectively (in millions).

	<b>Three Months Ended March 31,</b>		<b>Dollar Change</b>	<b>Percent Change</b>
	<b>2005</b>	<b>2004</b>		
Flight Services	\$ 10.0	\$ 10.3	\$ (0.3)	(3)%
Astrotech Space Operations	2.5	2.5		
Government Services	1.6	1.8	(0.2)	(11)%
Space Media	0.2	0.2	0.0	
	<b>\$ 14.3</b>	<b>\$ 14.8</b>	<b>\$ (0.5)</b>	<b>(4)%</b>

Revenue from our Flight Services business unit has been adversely affected by the temporary grounding of the shuttle fleet due to the *Columbia* tragedy in February 2003, partially offset by revenue from the Lockheed Martin letter contract, and other contract revenue. The following summarizes the significant changes for the three months ended March 31, 2005 as compared to the comparable period in fiscal year 2004:

a decrease in the Research and Logistics Mission Support contract revenue of \$4.2 million in the three months ended March 31, 2005 compared to the three months ended March 31, 2004 due to the termination of the Research and Logistics Mission Support contract in January 2004;

an increase in Lockheed Martin contract revenue of \$4.4 million in the three months ended March 31, 2005 compared to the three months ended March 31, 2004 due to the startup of the contract in February 2004;

a decrease in revenue from the Japanese Experiment Thermal Incubator Service contract of \$1.2 million due to the timing of the mission operations;

an increase in revenue attributable to our Concept Exploration and Refinement contract with NASA of \$0.6 million that was started in the first quarter of fiscal year 2005; and

other contract revenue increase of \$0.1 million.

Revenue from our Astrotech business unit was generally unchanged in the quarter ending March 31, 2005 as compared to the comparable quarter in 2004.

The decrease in revenue at our Government Services business unit is primarily due to the closeout of the Stowage, Engineering and Decal contract and Configuration Management contract in December 2004. The following summarizes the significant changes for the three months ended March 31, 2005 as compared to the comparable period in fiscal year 2004:

a revenue decrease of \$0.4 million due to the closeout of the Stowage, Engineering and Decal contract and Configuration Management contract in December 2004; and

other contract revenue increase of \$0.2 million.

*Costs of Revenue.* Costs of revenue for the three months ended March 31, 2005 increased by 13% to approximately \$11.1 million, as compared to \$9.8 million for the prior fiscal year's comparable quarter (in millions):

	<b>Three Months Ended March 31,</b>		<b>Dollar Change</b>	<b>Percent Change</b>
	<b>2005</b>	<b>2004</b>		
Flight Services	\$ 7.9	\$ 6.2	\$ 1.7	27%
Astrotech Space Operations	2.0	2.0		0%
Government Services	1.1	1.5	0.4	(27)%
Space Media	0.1	0.1		
	<b>\$ 11.1</b>	<b>\$ 9.8</b>	<b>\$ 1.3</b>	<b>13%</b>

Costs of revenue from our Flight Services business unit have primarily increased due to costs of revenue attributable to our performance under the Lockheed Martin letter contract, the termination of Boeing as a subcontractor for module services, and other contract costs of revenue, partially offset by reduced costs as a result of the temporary grounding of the shuttle fleet due to the *Columbia* tragedy in February 2003. The following summarizes the significant changes for our Flight Services business unit for the three months ended March 31, 2005 as compared to the comparable period in fiscal year 2004:

a decrease in costs of revenue for shuttle related mission work performed by Boeing of \$0.9 million due to subcontract termination;

an increase in costs of revenue for shuttle related mission work performed by EADS of \$1.4 million due to the scheduled launch of the STS-114 shuttle mission in July 2005;

an increase in costs of revenue for shuttle related missions for in-house engineering labor of \$1.2 million; and

other costs of revenue decreases of \$0.4 million, offset by Concept Exploration and Refinement contract costs of \$0.3 million.

Cost of revenue from our Astrotech business unit were generally unchanged in the quarter ending March 31, 2005 as compared to the comparable quarter in 2004.

The decrease in costs of revenue at our Government Services business unit is primarily due to the closeout of the Stowage, Engineering and Decal contract in December 2004. The following summarizes the significant changes for our Government Services business unit for the three months ended March 31, 2005 as compared to the comparable period in fiscal year 2004:

costs of revenue decrease of \$0.3 million due to the closeout of the Stowage, Engineering and Decal contract in December 2004; and

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other costs of revenue decreases of \$0.1 million due to less contract activities in the third quarter of 2005 as compared to third quarter of fiscal year 2004.

*Operating Expenses.* Operating expenses decreased to \$2.3 million for the three months ended March 31, 2005 as compared to approximately \$2.6 million for the three months ended March 31, 2004. Operating expenses are lower in the quarter ended March 31, 2005 compared to the last fiscal year's comparable quarter due to our ongoing cost reduction efforts and staffing and reductions in selling, general and administrative expenses. Research and development expenses were immaterial for the three months ended March 31, 2005 and 2004, although we expect these costs to increase in future periods. In the three months ended March 31, 2005, we recognized legal expenses of \$0.3 million relating to our claims against NASA for the loss of the research double module and response to Lloyd's complaint regarding its payment of insurance proceeds on the accident.

**Interest Expense.** Interest expense was approximately \$1.4 million for the three months ended March 31, 2005 as compared to approximately \$2.2 million for the three months ended March 31, 2004. The decrease in interest expense is primarily due to the loss of hedge accounting in 2004 as a result of the termination of our interest rate swap for our mortgage loan payable, resulting in expense of \$0.5 million on a portion of the interest rate swap. Additionally, there was an acceleration of \$0.2 million of debt placement costs in 2004 associated with the repayment of the mortgage loan and decreasing interest expense on the amended mortgage loan.

**Interest and Other Income.** Interest and other income was immaterial for the three months ended March 31, 2005 and March 31, 2004. Interest income is earned on our short-term investments.

**Income Taxes.** Based on our projected effective tax rate for fiscal year 2005, we recorded minimal tax expense for the three months ended March 31, 2005 as compared to a minimal tax expense for the three months ended March 31, 2004.

**Net Income (Loss).** Net loss for the three months ended March 31, 2005 was approximately \$0.5 million or \$0.04 per share basic and diluted on 12,626,130 shares as compared to net income of approximately \$0.3 million or \$0.02 per share basic and \$0.02 per share diluted on 12,476,342 and 14,264,818 shares, respectively, for the three months ended March 31, 2004.

***Nine Months Ended March 31, 2005 as Compared to the Nine Months Ended March 31, 2004.***

**Revenue.** Revenue decreased approximately 39% to \$40.4 million for the nine months ended March 31, 2005 as compared to \$66.5 million for the nine months ended March 31, 2004 (in millions):

	<b>Nine Months Ended</b>		<b>Dollar</b>	<b>Percent</b>
	<b>March 31,</b>			
	<b>2005</b>	<b>2004</b>	<b>Change</b>	<b>Change</b>
Flight Services	\$ 28.4	\$ 32.6	\$ (4.2)	(13)%
Astrotech Space Operations	6.7	24.7	(18.0)	(73)%
Government Services	4.7	8.6	(3.9)	(45)%
Space Media	0.6	0.6		
	<b>\$ 40.4</b>	<b>\$ 66.5</b>	<b>\$ (26.1)</b>	<b>(39)%</b>

Revenue from our Flight Services business unit has been adversely affected by the temporary grounding of the shuttle fleet due to the *Columbia* tragedy in February 2003. Even though the shuttle fleet was grounded for both the nine months ended March 31, 2005 and nine months ended March 31, 2004, there is a significant difference in revenue due to how NASA proceeded with the grounding of the shuttle fleet. For the nine months ended March 31, 2004, we were operating as if the shuttle would return to flight in the near term which resulted in higher revenue due to the products and services that were being required to be delivered to NASA in preparation for the return to flight. For the period ended March 31, 2005, we were required to deliver fewer products and services to NASA due to a more defined return to flight schedule. The following summarizes the significant changes for our Flight Services business unit for the nine months ended March 31, 2005 as compared to the comparable period in fiscal year 2004:

a decrease in the Research and Logistics Mission Support contract revenue of \$23.3 million in the nine months ended March 31, 2005 compared to the nine months ended March 31, 2004 due to the termination of the Research and Logistics Mission Support contract in January 2004;

an increase in revenue from the Lockheed Martin contract, which replaced the Research and Logistics Mission Support contract in February 2004, of \$16.0 million in the nine months ended March 31, 2004;

an increase in the External Stowage Platform 2 contract revenue of \$3.6 million in the nine months ended March 31, 2005 compared to the nine months ended March 31, 2004 due to the anticipated launch in July 2005;

an increase in revenue from the Japanese Experiment Thermal Incubator Service contract of \$0.8 million that was started in the third quarter of fiscal year 2004;

an increase in revenue from the Concept Exploration and Refinement contract of \$1.0 million that was started in the first quarter of fiscal year 2005; and

other contract revenue decrease of \$2.3 million, mainly due to the cancellation of the research double module's planned second mission under the Research and Logistics Mission Support contract during the nine months ended March 31, 2004.

The decrease in revenue at our Astrotech business unit is primarily due to Boeing's termination in October 2003 of its contractually fixed guarantee payments, which was partially offset by the one time termination payment in the amount of \$17.5 million that we received from Boeing in the nine months ended March 31, 2004 and by the additional services that we supply to Boeing. During the nine months ended March 31, 2005, our Astrotech business unit underwent scheduled downtime between launches and recognized contractually guaranteed revenues of \$2.5 million and \$0.6 million from missions that began in the fourth quarter of fiscal year 2004 and were completed in the first quarter of fiscal year 2005, contract revenue from five missions that began in the second and third quarters of fiscal year 2005 of \$2.9 million and other revenue of \$0.7 million.

The decrease in revenue at our Government Services business unit is primarily due to the closeout of the Stowage, Engineering and Decal contract and the Configuration Management contract in December 2004 partially offset by the Program Integration & Control contract which started in January 2004. The following summarizes the significant changes for our Government Services business unit for the nine months ended March 31, 2005 as compared to the comparable period in fiscal year 2004:

a revenue decrease of \$6.3 million due to the closeout of the Stowage, Engineering and Decal contract and the Configuration Management contract in December 2004;

other contract revenue decrease of \$0.3 million due to less contract activity; and

a revenue increase of \$2.7 million due to the Program Integration & Control contract.

*Costs of Revenue.* Costs of revenue for the nine months ended March 31, 2005 decreased by 10% to approximately \$32.6 million, as compared to \$36.2 million for the nine months ended March 31, 2004 (in millions):

<b>Nine Months Ended</b>			
<b>March 31,</b>			
<u>2005</u>	<u>2004</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>

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Flight Services	22.8	23.0	(0.2)	(1)%
Astrotech	5.9	5.7	0.2	4%
Government Services	3.6	7.2	(3.6)	50%
Space Media	0.3	0.3		
	<u>32.6</u>	<u>36.2</u>	<u>(3.6)</u>	<u>10%</u>



Costs of revenue from the Flight Services business unit has been affected by the temporary grounding of the shuttle fleet due to the *Columbia* tragedy in February 2003, partially offset by costs of revenue from the Lockheed Martin letter contract, the termination of Boeing as a subcontractor for module services, and other contract costs of revenue. The following summarizes the significant changes for our Flight Services business unit for the nine months ended March 31, 2005 as compared to the comparable period in fiscal year 2004:

a decrease in the Research and Logistics Mission Support contract costs of revenue of \$13.0 million from March 31, 2004 to March 31, 2005 due to the Research and Logistics Mission Support contract closeout;

costs of revenue from Lockheed Martin letter contract of \$9.7 million that started in the third quarter of fiscal year 2004;

an increase in the External Stowage Platform 2 costs of revenue of \$3.1 million due to the expected launch in July 2005;

costs of revenue of \$0.2 million from Japanese Experiment Thermal Incubator Service that was started in the third quarter of fiscal year 2004;

costs of revenue of \$0.8 million from the Concept Exploration and Refinement contract that was started in the first quarter of fiscal year 2005; and

other costs of revenue decreases of \$1.0 million, primarily resulting from the termination of Boeing as a subcontractor for module services, offset by in-house engineering labor and related costs.

Our Astrotech business unit's increase in costs of revenue is due primarily to increased mission support costs and increase in the costs of operations at the satellite processing facilities, including increased utility costs.

The decrease in costs of revenue at our Government Services business unit is primarily due to the closeout of the Stowage, Engineering and Decal contract and the Configuration Management contract in December 2004 partially offset by the Program Integration & Control contract. The following summarizes the significant changes for our Government Services business unit for the nine months ended March 31, 2005 as compared to the comparable period in fiscal year 2004:

a cost of revenue decrease of \$3.8 million due to the closeout of the Stowage, Engineering and Decal contract in December 2004;

a cost of revenue decrease of \$2.3 million due to the closeout of the Configuration Management contract in December 2004;

a cost of revenue increase of \$3.1 million due to the startup of the Program Integration & Control contract in January 2004; and

other costs of revenue decreases of \$0.6 million due to less contract activity.

*Operating Expenses.* Operating expenses, other than the \$8.2 million recovery of a non-recurring charge for the loss of the research double module that was recorded for the period ended September 30, 2004, and the goodwill and Guignè impairments totaling \$10.1 million that were recorded for the period ended March 31, 2004, decreased to \$6.6 million for the nine months ended March 31, 2005 as compared to approximately \$8.9 million for the nine months ended March 31, 2004. The primary factors causing this decrease are our on-going reductions in

staff and facilities. Research and development expenses were immaterial for the nine months ended March 31, 2005 and 2004, although we expect these costs to increase in future periods. For the nine months ended March 31, 2005, our expenses for bid and proposal efforts were less than \$0.1 million. In the nine months ended March 31, 2004, we incurred bid and proposal costs of \$0.2 million primarily relating to the Mission Integration Contract proposal. During the nine months ended March 31, 2005, we recognized legal expenses of \$0.8 million relating to our claims against NASA for loss of our research double module and response to Lloyd's complaint regarding its payment of insurance proceeds on the accident.

*Interest Expense.* Interest expense was approximately \$4.3 million for the nine months ended March 31, 2005 as compared to approximately \$6.8 million for the nine months ended March 31, 2004. The decrease in interest expense is primarily due to the loss of hedge accounting on a portion of the interest rate swap for the mortgage loan in 2004 resulting in the expensing of \$1.3 million of unrealized losses previously in other comprehensive loss upon repayment of \$9.5 million of the mortgage loan, as well as the acceleration of \$0.7 million of debt placement costs associated with the repayment for the nine months ended March 31, 2004. Due to the \$9.5 million payment on the mortgage loan and the subsequent lower interest rate (5.5%), the interest expense on our mortgage loan was \$0.8 million less in the nine months ended March 31, 2005 compared to the nine months ended March 31, 2004.

*Interest and Other Income.* Interest and other income was immaterial for the nine months ended March 31, 2005 and March 31, 2004. Interest income is earned on our short-term investments.

*Income Taxes.* Based on our projected effective tax rate for fiscal year 2005, we recorded a tax expense of \$0.2 million for the nine months ended March 31, 2005 as compared to a tax expense of \$0.3 million during the nine months ended March 31, 2004.

*Net Income.* Net income for the nine months ended March 31, 2005 was approximately \$5.2 million or \$0.41 per share basic and \$0.36 per share diluted on 12,603,240 and 14,203,597 shares, respectively, as compared to net income of approximately \$4.4 million or \$0.35 per share basic and \$0.31 per share diluted on 12,415,997 and 14,039,798 shares, respectively, for the nine months ended March 31, 2004.

## **Liquidity and Capital Resources**

Historically, the Company obtained operating and capital investment funds from the proceeds of its initial public offering of common stock and an offering of Series B Senior Convertible Preferred Stock. We also completed a private placement offering of convertible subordinated notes to support capital investments required for development and construction of space flight assets.

Our primary source of liquidity is cash flow from operations and short-term investments. The principal uses of cash flow that affect our liquidity position include both operational expenditures and debt service payments. Management is focused on increasing cash flow and on managing cash effectively through limiting cash investments in long-term assets.

The Company maintained a working capital line of credit facility totaling \$5.0 million in order to ensure appropriate levels of liquidity. The term of this credit facility was through January 2005. Covenants included a liquidity ratio and a limited pledge of \$5.6 million of the Company's investment account. The restriction on the investment balance was limited to 111% of the Company's borrowings on the line of credit. This credit facility was replaced in February 2005 with a new revolving credit facility from another financial institution.

On February 11, 2005 we entered into a revolving credit facility with a new credit facility providing for loans up to \$5.0 million secured by the Company's accounts receivable. Funds available under the revolving credit facility are limited to 80% of eligible accounts receivable, and we are subject to various financial and other covenants including a minimum tangible net worth covenant, a cash flow coverage covenant, and limitation of future secured debt relative to tangible net worth. As of March 31, 2005 there was \$5.0 million available under this credit facility and restricted cash of \$0.3 million.

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*Cash Flows From Operating Activities.* Cash provided by (used in) operations for the nine months ended March 31, 2005 (**Restated**) and 2004 was (\$6.2) million and \$7.3 million, respectively. The significant items affecting the differences in cash flows from operating activities for the nine months ended March 31, 2005 as compared to the nine months ended March 31, 2004 are discussed below:

Net income for the nine months ended March 31, 2005 was \$5.2 million as compared to net income for the nine months ended March 31, 2004 of \$4.4 million. Included in net income for the nine months

ended March 31, 2005 is \$8.2 million recognized as recovery of a previously reported non-recurring loss of our Research Double Module. The \$8.2 million proceeds is being reclassified to Investing Cash Flows out of Operating Cash Flows.

For the nine months ended March 31, 2004, we received \$17.5 million due to the Boeing termination. In addition, we recorded a non-cash charge of \$8.3 million for impairment of goodwill at our Astrotech and Government Services business units. We recorded a non-cash valuation allowance charge of \$1.8 million for our investment in Guigne. We also recorded a non-cash charge of approximately \$0.7 million due to the loan repayment.

Depreciation and amortization for the nine months ended March 31, 2005 was \$4.0 million as compared to \$4.2 million for the nine months ended March 31, 2004.

Changes in assets for the nine months ended March 31, 2005 used cash from operations of \$0.6 million. This change is primarily due to an increase in accounts receivable of \$1.6 million and an increase in prepaid expenses of \$0.4 million, which were partially offset by a decrease in other assets of \$1.4 million. The increase in accounts receivable is primarily due to increased billings on the Cargo Mission contract due to contract billable milestones being delivered. The decrease in other assets is primarily due to a decrease in deferred mission costs for the Japanese Experiment Thermal Incubator Service contract due to the launch of the first mission in July, 2004 and the subsequent on-orbit operations. For the nine months ended March 31, 2004 change in assets provided cash from operations of \$0.6 million primarily from a decrease in accounts receivable.

Changes in liabilities for the nine months ended March 31, 2005 used cash from operations of \$6.6 million. This change is due primarily to the decreases in accounts payable and accrued expenses of \$1.8 million and the decrease in deferred revenue of \$4.8 million. The decrease in deferred revenue is primarily due to the first launch for the Japanese Experiment Thermal Incubator Service contract during the nine months ended March 31, 2005 and subsequent on-orbit operations. For the nine months ended March 31, 2004 changes in liabilities used cash in operations of \$13.0 million, primarily due to a decrease in accounts payable to EADS of \$4.4 million and a decrease in deferred revenue of approximately \$8.6 million primarily due to revenue recognition for STS-116 and NASA's planned dedicated research mission that was previously scheduled to follow STS-107.

*Cash Flows From Investing Activities.* For the nine months ended March 31, 2005 (**Restated**) and 2004, cash flows provided by investing activities were \$13.6 million and \$6.1 million, respectively. The significant items affecting the differences in cash flows from investing activities for the nine months ended March 31, 2005 as compared to the nine months ended March 31, 2004 are discussed below:

There were property and equipment purchases of \$0.8 million for the nine months ended March 31, 2005 as compared to \$1.3 million for the nine months ended March 31, 2004.

For the nine months ended March 31, 2005, cash flows from investing activities were primarily generated from the sale of short-term investments of \$6.6 million as compared to sales of such short-term investments of \$7.4 million for the nine months ended March 31, 2004.

The increase in investing cash flows was offset by an increase in restricted cash of \$0.4 million as compared to no change for the nine months ended March 31, 2004.

For the nine months ended March 31, 2005, cash flows from investing activities included \$8.2 million received from NASA under the ReALMS contract indemnification clause for the loss of our Research Double Module

*Cash Flows From Financing Activities.* For the nine months ended March 31, 2005 and 2004, cash flows used in financing activities were \$2.8 million and \$12.7 million, respectively. The significant items affecting the differences in cash flows from financing activities for the nine months ended March 31, 2005 as compared to the nine months ended March 31, 2004 are discussed below:

For the nine months ended March 31, 2005, we had net repayments of \$1.4 million in principal under the revolving credit facility as compared to no net borrowings for the nine months ended March 31, 2004.

For the nine months ended March 31, 2005, we paid \$1.4 million under various credit agreements as compared to \$13.0 million for the nine months ended March 31, 2004. This reduction is primarily due to the payment of \$11.0 million on our mortgage loan due to the Boeing termination and the final payment to Alenia Spazio S.P.A during the nine months ended March 31, 2004.

For the nine months ended March 31, 2005, we had proceeds from the issuance of common stock upon the exercise of employee stock options of \$0.1 million as compared to \$0.3 million for the nine months ended March 31, 2004.

On March 25, 2003 the Board of Directors authorized us to repurchase up to \$1.0 million of our outstanding common stock at market prices. Any purchases under our stock repurchase program may be made from time to time, in the open market, through block trades or otherwise in accordance with applicable regulations of the SEC. As of March 31, 2005, we had repurchased 116,100 shares at a cost of \$117,320 under the program. We will continue to evaluate the stock repurchase program and the funds authorized for the program.

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

On April 28, 2005 we consummated the sale and simultaneous lease back of our Cape Canaveral, Florida payload processing facility. The sale resulted in net cash to us of approximately \$3.8 million. We leased back the facility for an initial period of five years, with an option period of an additional five years. The annual rental for the first five years of this lease is approximately \$0.45 million. On May 26, 2005 we consummated the sale and lease back of our corporate offices in Webster (Houston), Texas. The sale resulted in net cash to us of approximately \$0.9 million. We leased back 100% of the facility for an initial period of ten years, with two five-year options. We also retained the adjacent 3.0 acres parcel for future development or sale. The annual rental for the first year of this lease is approximately \$0.32 million and gradually increases through the tenth year of the lease to approximately \$0.4 million.

Our cash and short-term investments were approximately \$6.0 million, including \$0.9 million in restricted cash, as of March 31, 2005. We believe that we have sufficient liquidity, including cash and short-term investments, advances available under our revolving credit facility, and cash anticipated or expected to be generated from operations to fund ongoing operations beyond the remainder of this fiscal year. We also expect to utilize existing cash and cash anticipated from future operations to support strategies for new business initiatives and to reduce long-term debt.

The Company's contractual obligations as of March 31, 2005 are as follows (in thousands):

Contractual Obligations	At						
	March 31, 2005	Remaining in Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2009	Thereafter
Long-term Debt	\$ 63,250	\$	\$	\$	\$ 63,250	\$	\$
Mortgage Loan Payable	4,190	497	2,057	1,636			
V.J.F. Russian Consultant Agreement	210	45	165				
V.J.F. Russian Subcontract	1,003	603	400				
Operating leases <sup>1,3</sup>	21,826	960	4,918	4,507	4,372	4,217	2,852
<b>Total Contractual Cash Obligations<sup>2</sup> (excluding interest payments)</b>	<b>\$ 90,479</b>	<b>\$ 2,105</b>	<b>\$ 7,540</b>	<b>\$ 6,143</b>	<b>\$ 67,622</b>	<b>\$ 4,217</b>	<b>\$ 2,852</b>

- 1 - For the remainder of fiscal year 2005, the Company expects to receive net payments of \$0.2 million for subleases. For fiscal years 2006, 2007, and 2008, the Company expects to receive net payments of approximately \$0.7 million, \$0.5 million, and \$0.3 million, respectively, for subleases. Additionally, we exercised a four year option on our ICC/VCC leases with EADS.
- 2 - Does not include commitment to Dayna Justiz for compensation that can be earned as a result of the agreement dated June 19, 2000. The agreement states that Dayna Justiz can earn up to \$375,000 as additional compensation if she meets certain financial goals in the management of The Space Store. The yearly amount is equal to five percent of The Space Store's net after-tax operating income during each fiscal year until such time an aggregate amount of \$375,000 has been earned. At this time, we have not recorded a liability for this obligation due to the uncertainty of the obligation being met.
- 3 - Does not include amounts for sale leaseback of the SPPF consummated on April 28, 2005



**ITEM 6. EXHIBITS**

The following exhibits are filed herewith:

<u>Exhibit No.</u>	<u>Description</u>
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
32	Certification pursuant to Rule 13a-14(b) of the Securities and Exchange Act of 1934.

**SIGNATURE**

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

Date: July 18, 2005

SPACEHAB, INCORPORATED

/s/ Michael E. Kearney

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Michael E. Kearney  
President and Chief Executive Officer

/s/ Brian K. Harrington

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Brian K. Harrington  
Senior Vice President and Chief Financial Officer