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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 2)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 30, 2004

Commission File No. 0-27206

SPACEHAB, Incorporated

(Exact name of registrant as specified in this charter)

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

12130 Highway 3, Building 1

Webster, Texas 77598-1504

(713) 558-5000

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

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

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

Number of shares of Common Stock (no par value) outstanding as of January 5, 2004, 12,435,827. Aggregate market value of Common Stock (no par value) held by non-affiliates of the registrant on January 5, 2004, based upon the closing price of the Common Stock on the NASDAQ National Market of $1.92 was approximately $23,876,788.

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 x   NO ¨

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

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

EXPLANATORY NOTE

Spacehab Inc. is amending their 2004 Form 10-K as a result of a reclassification of the $17.7 million insurance proceeds received during 3Q 2003 relating to the loss of our Research Double Module, which 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 changes to the original Form 10-K filing other than those outlined in this document. This Form 10-K/A does not reflect events occurring after the filing of the original Form 10-K, or modify or update the disclosures therein in any way other than as required to reflect the amendment set forth below.

PART II

Item 6. Selected Financial Data.

The selected financial data presented below are derived from the audited consolidated financial statements of SPACEHAB. This selected financial information should be read in conjunction with the Consolidated Financial Statements of the Company and the notes thereto included elsewhere in this report.

	Year Ended June 30 2000	Year Ended June 30 2001	Year Ended June 30 2002	Year Ended June 30 2003 (Restated)	Year Ended June 30 2004
	(in thousands, except per share data)				
Statement of Operations Data:					
Revenue	$ 105,708	$ 105,254	$ 102,773	$ 94,963	$ 77,606
Costs of revenue	87,931	92,243	81,767	78,791	45,678
Gross profit	17,777	13,011	21,006	16,172	31,928
Selling, general and administrative expenses	17,832[1]	21,796	19,507[4]	91,434[5]	20,982[7]
Research and development expenses	2,440[2]	393	383	118	223
Income (loss) from operations	(2,495)	(9,178)	1,116	(75,380)	10,723
Interest expense, net of capitalized amounts and interest and other income	3,773	4,804	5,533	7,252	8,142
Net income (loss)	(3,844)	(12,785)[3]	(2,367)	(81,775)	2,075
Net income (loss) per common share diluted	$ (0.34)	$ (1.12)	$ (0.20)	$ (6.66)	$ 0.15
Shares used in computing net income (loss) per common share diluted	11,273	11,400	11,884	12,285	14,142
Other Data:					
Cash provided by operations	$ 1,424	$ 17,124	$ 8,592	$ 2,114	$ 5,273
Cash provided by (used in) investing activities	(29,794)	(23,076)	(13,167)	$ 3,037[6]	5,019
Balance Sheet Data (at period end):					
Working capital deficit	$ (1,601)	$ (41,424)	$ (22,022)	$ (4,750)	$ (6,351)
Total assets	225,109	222,477	220,826	121,356	99,925
Long-term debt, excluding current portion	75,901	64,589	83,426	80,056	66,942
Stockholders equity	102,702	90,356	87,670	5,090	9,410

1 Includes approximately $1.8 million of expenses associated with the startup of SMI.
2 Includes approximately $0.5 million of expenses associated with the *Enterprise* module.
3 Includes approximately $3.3 million of non-cash expense to record a full valuation allowance on the Company s deferred tax asset.
4 Includes approximately $0.8 million of non-cash expenses related to subleasing of excess facilities.
5 Includes approximately $78.3 million of non-cash write downs related to the loss of our Research Double Module, goodwill impairment at SGS, and asset impairment.
6 Includes approximately $17.7 million of insurance proceeds related to the loss of our Research Double Module.
7 Includes approximately $0.3 million of non-cash expenses related to subleasing of excess facilities, $8.3 million of goodwill impairment at SGS and ASO, and a $1.8 million non-cash write-down of investment in Guignè.

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

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

OVERVIEW

SPACEHAB operates through 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 administrative services in support of government space operations. We also operate a retail space merchandise operation 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.

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. This Overview section concludes with a summary of our current liquidity position and items that could impact our liquidity position in fiscal year 2005 and beyond. Please note that this Overview section is merely a summary and should be read together with the remainder of Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, as well as the audited consolidated financial statements, including the notes thereto, and the other information included in this report.

SPACEHAB Flight Services generates revenue by providing space shuttle-based, turnkey services that include customer access to space via our fleet of pressurized modules and unpressurized pallet carriers; integration and operations support to logistics suppliers transporting their cargo aboard our carriers to and from the orbiting ISS; and/or integration and operations support to scientists and technologists responsible for experiments performed aboard module and pallet research platforms.

On a space-available basis for each mission, additional revenue can be generated by SFS 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 SPACEHAB and its commercial customers.

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

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

Congress funding for NASA and the allocation of that funding to ISS operations and space shuttle cargo missions

The return to flight of the U. S. Space Shuttle Program

The role of international space research projects flying on future space shuttle missions

The growth of space exploration programs within NASA and NASA s commitment to the National Vision on Space Exploration regarding enhancement of the role of commercial enterprise in space exploration programs

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

Astrotech Space Operations, Inc. revenue is generated from various fixed-price contracts with launch service providers in both the commercial and government markets. The services and facilities Astrotech provides to its customers support the final assembly, checkout, and countdown functions associated with preparing a satellite for launch. This preparation may include: the final assembly and checkout of the satellite, check-out and installation of the solid rocket motors, loading of the liquid propellants, encapsulation of the satellite in the launch vehicle payload fairings, and command and control of the satellite during pre-launch countdown.

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 maintenance and safety, environ-mental and reliability projects, and other costs through disciplined management and safe, efficient operations

The continuing unavailability of government-owned facilities at the major domestic launch sites that can offer compatible services, leading to an increase in government use of ASO services

SPACEHAB Government Services, Inc. expands SPACEHAB s core business of supporting people living and working in space. Specifically, SGS has proven capabilities supporting the Government in the areas of large-scale configuration and data management programs such as the ISS; 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 and brings over thirty years of advanced ideas and solid execution of these innovations to its customers. SGS is currently under contract to provide configuration management services within the PI&C contract of which ARES Corporation is the prime contractor. Prior to this time, from May 1993 to April 2003, SGS primarily operated under the Flight Crew Systems Development (FCSD) contract which was a $399.1 million multi-task cost-plus award and incentive-fee contract.

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

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

Our ability to maintain small business qualification under NASA contracting rules

Our ability to control costs within our budget commitments

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

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

Interest expense is expected to decrease in fiscal year 2005 due to the repayment of a substantial portion of our mortgage debt during fiscal year 2004 from proceeds from Boeing s early termination of their satellite preparation contract with our Astrotech subsidiary

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

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 June 30, 2004, we had cash on hand and in short-term investments of $7.6 million. Our $5.0 million revolving credit facility, which includes a potential restriction on $5.6 million of our short-term investments if fully utilized, had a balance drawn of $1.4 million as of June 30, 2004, of which approximately $2.0 million of restricted cash and investments is pledged against. Our ability to maintain sufficient liquidity in the future will depend on a number of factors including the amount and timing of the ultimate settlement of our claim for indemnification for losses we suffered on the Space Shuttle *Columbia* accident, the return to flight of the space shuttle and the continued activity in the commercial and governmental satellite launch industry.

For the next 12 months, we expect that our operating cash flows will be sufficient to satisfy our capital expenditures, debt maturities, interest expenses, and operating commitments. In order to increase our liquidity and to provide capacity in the event of a further delay in the ultimate settlement of our claim for indemnification from NASA; to fund capital expenditures for stand-by spare parts for our modules; and for costs of developing and submitting proposals for new government contracts, we will seek to replace or amend our $5.0 million revolving credit facility to remove its restriction on our short-term investments and to increase the amount available under the facility.

Over the longer term, we believe that the space shuttle return to flight and the Nation s Vision for Space Exploration will lead to increased activity and related cash flows from operations for our SFS business segment, and that we will reach an amicable settlement with NASA on our claim for indemnification of losses on the Space Shuttle *Columbia*. If these events happen, they would increase our liquidity significantly and provide resources and financial capacity for the redemption of our subordinated convertible notes when due in October 2007. The notes are convertible into our Common Stock at a rate of $13.625 per share. However, there can be no assurance that the space shuttle will return to flight in the near term or that we will be able to reach an acceptable resolution of our claim for indemnification from NASA. Failure of either such events would have a material adverse effect on our financial condition and results of operations and could adversely affect our ability to redeem our subordinated convertible notes when they mature in October 2007.

Critical Accounting Policies

Revenue Recognition. SPACEHAB s business units revenue is derived primarily from long-term contracts with the U.S. Government and commercial customers. Revenue under these contracts are recognized using the methods described below. Estimating future costs and, therefore, revenues and profits, is a process requiring a high degree of management judgment. 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 ReALMS contract which was added to the contract as a pricing amendment due to the delay in the return to flight. Costs to complete include, when appropriate, material, labor, subcontracting costs, lease costs, commissions, insurance and depreciation. Our business 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 Provided	Contract Type	Method of Revenue Recognition
SFS	Commercial Space Habitat Modules, Integration & Operations Support Services	Firm Fixed Price	Percentage-of-completion based on costs incurred
SGS	Configuration Management, Engineering Services	Cost Plus Award/Fixed Fee	Reimbursable costs incurred plus award/fixed fee
Astrotech	Payload Processing Facilities	Firm Fixed Price Mission Specific	Ratably, over the occupancy period of a satellite within the facility from arrival through launch
		Firm Fixed Price Guaranteed Number of Missions	For multi-year contract payments recognized ratably over the contract period
SMI	Space-Themed Commercial Products/Activities	Retail	Internet and retail sales recognized when goods are shipped

Goodwill. In assessing the recoverability of goodwill and other intangibles, we must make assumptions regarding the estimated future cash flows and other factors to determine the fair value of the respective assets. If and when these circumstances or their related assumptions change in the future, the Company may be required to record impairment charges for these assets. We adopted SFAS No. 142, Goodwill and Other Intangible Assets , on July 1, 2002, under which the Company ceased to amortize goodwill and instead analyze goodwill at least annually for impairment issues. Goodwill on the balance sheet as of December 2003 was tested for impairment and was written off in fiscal year 2004.

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

RESULTS OF OPERATIONS

Overview. In this section we discuss our results of operations, both on a consolidated basis and, where appropriate, by segment for our fiscal years ended June 30, 2004, 2003, and 2002. Where we report earnings or loss on a per share basis, we have done so on a diluted earnings per share basis. The weighted average number of common shares applicable to diluted earnings for 2004, 2003, and 2002 were 14,141,949, 12,285,467, and 11,884,309 respectively. At the end of this section we have included our outlook for fiscal year 2005 for each business unit.

We had net earnings (loss) of $2,075,000 or $0.15 per diluted share on revenues of $77,606,000 for our 2004 fiscal year compared to ($81,775,000) or ($6.66) per share on revenues of $94,963,000 for 2003 and ($2,367,000) or ($0.20) per share on revenues of $102,773,000 for 2002. For our 2002 fiscal year, net earnings and earnings per share included $0.09 per share of goodwill amortization expense. Amortization of goodwill ceased January 1, 2002 as a result of adoption of Statement of Financial Accounting Standards (SFAS) No. 142.

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

The following tables provide summary financial data regarding our consolidated and segmented results of operations for our 2004, 2003, and 2002 fiscal years, respectively (in millions):

Fiscal Year Ended June 30, 2004

	SFS	ASO	SGS	SMI	Other	Total
Income (loss) from operations before charges	$ 8.9	$ 20.0	$ 0.3	$ (0.1)	$ (8.4)	$ 20.7
Goodwill impairment		(2.5)	(5.7)			(8.2)
Investment impairment charge					(1.8)	(1.8)
Operating income (loss)	8.9	17.5	(5.4)	(0.1)	(10.2)	10.7
Other income/expense					0.1	0.1
Interest expense					(8.2)	(8.2)

Pre-tax income (loss)	8.9	17.5	(5.4)	(0.1)	(18.3)	2.6
Income tax expense					(0.5)	(0.5)
Net income (loss)	$ 8.9	$ 17.5	$ (5.4)	$ (0.1)	$ (18.8)	$ 2.1

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Fiscal Year Ended June 30, 2003

	SFS	ASO	SGS	SMI	Other	Total
Income (loss) from operations before charges	$ 6.8	$ 4.5	$ 1.9	$ (0.3)	$ (10.0)	$ 2.9
Loss on *Columbia* accident	(50.3)					(50.3)
Goodwill impairment			(11.9)			(11.9)
Asset impairment charge	(7.9)				(8.2)	(16.1)
Operating income (loss)	(51.4)	4.5	(10.0)	(0.3)	(18.2)	(75.4)
Interest expense					(7.2)	(7.2)
Pre-tax income (loss)	(51.4)	4.5	(10.0)	(0.3)	(25.4)	(82.6)
Income tax benefit					0.9	0.9
Net income (loss)	$ (51.4)	$ 4.5	$ (10.0)	$ (0.3)	$ (24.5)	$ (81.7)

Fiscal Year Ended June 30, 2002

	SFS	ASO	SGS	SMI	Other	Total
Operating income (loss)	12.9	3.8	2.0	(1.6)	(16.0)	1.1
Other income					1.2	1.2
Interest expense					(6.7)	(6.7)
Pre-tax income (loss)	12.9	3.8	2.0	(1.6)	(21.5)	(4.4)
Income tax benefit					2.1	2.1
Net income (loss)	$ 12.9	$ 3.8	$ 2.0	$ (1.6)	$ (19.4)	$ (2.3)

Operating Income (Loss). Operating income (loss) was $10.7 million in fiscal year 2004, compared to ($75.4) million and $1.1 million for fiscal years 2003 and 2002 respectively. The following summarizes the activity in each of our operating segments:

SPACEHAB Flight Services. Operating income (loss) for our SFS segment was $8.9 million for fiscal year 2004, compared to ($51.4) million and $12.9 million for fiscal years 2003 and 2002, respectively. Operating income for 2004 included general and administrative expense of $0.7 million and depreciation and amortization expense of $2.8 million as compared to general and administrative expenses of $0.1 million and $0.1 million and depreciation and amortization expense of $5.0 million and $8.6 million for fiscal years 2003 and 2002, respectively. Please see Other beginning on page 27 for a consolidated discussion of general and administrative expense and depreciation and amortization expense.

<u>Fiscal year ended June 30, 2004 as Compared to the Fiscal Year Ended June 30, 2003</u>

SFS operating income before charges increased by $2.1 million from fiscal year 2003 to fiscal year 2004. The following summarizes significant items:

Revenue decrease of $8.4 million

ReALMS revenue decreased by $14.4 million as it was terminated in January 2004

New revenue from the Lockheed Martin contract of $7.8 million that replaced the ReALMS contract

ESP2 revenue decreased by $4.5 million

The various other contract revenue decreased $0.1 million

Recognized revenue from JETIS of $2.8 million

Cost of Revenue decrease of $10.5 million

Termination of Boeing s subcontract decreased cost of revenue by $7.0 million

Reduced EADS subcontract costs in 2004 of $3.6 million due to no missions in 2004

Decrease in asset depreciation in 2004 of $1.8 million due to the loss of the RDM in fiscal year 2003

Decrease in other cost of revenue of $0.3 million

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

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

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

Our SFS business unit is currently supporting NASA s return-to-flight activities and is continuing its operations in preparation for shuttle missions STS-114, 121, 116, and 118 (in order of their anticipated flight sequence). SFS is preparing a cargo carrier for STS-114, the External Stowage Platform 2 that will be deployed and permanently mounted to the ISS. SPACEHAB contracted directly with NASA s prime ISS contractor, Boeing, for the STS-114 mission. For STS-121, we are scheduled to provide our non-deployable ICC to NASA for transport of several critical ISS orbital replacement unit (ORU) spares. For both STS-116 and 118, missions previously placed under ReALMS, SPACEHAB is scheduled to provide its pressurized single module and its unpressurized non-deployable carrier for transport of critical cargo and ORUs to and from the ISS. We have completed negotiations with Boeing and NASA for the respective contract equitable adjustments required to continue uninterrupted support to ongoing mission preparation activities during the shuttle down period following the *Columbia* tragedy. As previously described, the ReALMS contract expired January 31, 2004 and support for missions STS-121, 116 and 118 is continuing under a subcontract agreement to Lockheed Martin, effective February 1, 2004. We are currently providing these services under letter agreement and we are in contract negotiations with Lockheed Martin for this new contract. Additionally, after April 15, 2004 SFS 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 will now be performed by our SFS personnel and selected NASA cargo integration tasks on SPACEHAB module missions will now be performed by Lockheed Martin as a part of the CMC with NASA. This action enables SFS to continue providing services to NASA and is consistent with the direction of the ISS Program Office.

In January 2004, SPACEHAB initiated activity under the Japanese Experiment Thermal Incubator Service (JETIS) contract with the Mitsubishi Corporation, representing JAXA, that was entered into in 2000 and originally scheduled to fly aboard our RDM. Subsequent to the suspension of the space shuttle flights and destruction of our RDM, we contracted for construction of certain space research equipment and for research space aboard the ISS and up to three (3) Russian *Progress* cargo missions with V.J.F. Russian Consulting, representing RSC Energia, a major Russian aerospace manufacturer and mission operator.

<u>Fiscal year ended June 30, 2003 as Compared to the Fiscal Year Ended June 30, 2002</u>

SFS operating income before charges decreased by $6.1 million from fiscal year 2002 to fiscal year 2003. The following summarizes significant items:

Revenue decrease of $4.7 million

- ReALMS revenue decreased by $8.8 million due to the completion of STS-107 and the grounding of the space shuttle fleet due to the STS-107 accident

- ESP2 revenue increased by $4.1 million due to the increased work on the project during fiscal year 2003 as compared to fiscal year 2002

Cost of Revenue increase of $2.8 million

- ESP2 cost of revenue increased by $3.6 million due to the increased work on the project during fiscal year 2003 as compared to fiscal year 2002

ReALMS cost of revenue decreased by $3.3 million primarily due to the closeout of STS-107

Increase of $1.5 million in ICC and VCC lease costs in fiscal year 2003 as compared to fiscal year 2002 primarily due to a full year of VCC lease costs in fiscal year 2003

Increase in indirect costs of $1.0 million due to recording certain costs that had been previously recorded as corporate costs as SFS indirect costs, such as, depreciation, insurance, benefits, etc

Our fiscal year 2003 operating income included a charge of approximately $50.3 million, net of insurance proceeds of $17.7 million on our loss of the RDM in the Space Shuttle *Columbia* tragedy. Also, due to the uncertainties in the human space flight programs following the *Columbia* accident, we decided to no longer fund certain work in process in development of future flight assets and recorded an impairment charge of $7.9 million. During fiscal year 2003, we contracted for the RDM on shuttle mission STS-107, the ICC on STS-114, and the logistics single module and ICC on STS-116 and 118.

We participated in one space shuttle mission in fiscal year 2002 which included the ICC. In fiscal year 2003 we participated in one space shuttle mission which included our RDM. There were no space shuttle missions in our fiscal year 2004.

Astrotech Space Operations. Operating income for our ASO segment was $17.5 million for fiscal year 2004, compared to $4.5 million and $3.8 million for fiscal years 2003 and 2002, respectively. Operating income for 2004 included selling, general and administrative expense of $0.4 million and depreciation and amortization expense of $2.0 million as compared to selling, general and administrative expense of $0.5 million and $0.9 million and depreciation and amortization expense of $1.9 million and $1.3 million for fiscal years 2003 and 2002, respectively. Please see Other beginning on page 27 for a consolidated discussion of selling, general and administrative expense and depreciation and amortization expense.

Fiscal year ended June 30, 2004 as Compared to the Fiscal Year Ended June 30, 2003

ASO s operating income before charges increased by $15.5 million from fiscal year 2003 to fiscal year 2004. The following summarizes significant items:

Revenue increase of $15.8 million

- $17.5 million early payment from Boeing termination of their financial guarantees partially offset by decreased Boeing missions in fiscal year 2004

Cost of Revenue increase of $0.3 million

- ASO supported 12 missions in 2004 versus 9 missions in 2003 which resulted in higher labor and benefit costs of $0.2 million
- Additional depreciation expense of $0.2 million in 2004
- Decrease in selling, general and administrative expense of $0.1 million

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

Fiscal year ended June 30, 2003 as Compared to the Fiscal Year Ended June 30, 2002

ASO s operating income before charges increased by $0.7 million from fiscal year 2002 to fiscal year 2003. The following summarizes significant items:

Revenue increased by $2.5 million from fiscal year 2002 to fiscal year 2003

ASO had nine launches in fiscal year 2003 as compared to seven launches for fiscal year 2002 which resulted in the $2.5 million increase in revenue

Cost of Revenue increased by $1.8 million

Increase is primarily due to increased facilities costs, as a result of ASO s new building in full operations for the entire fiscal year

Astrotech s operating expenses decreased $0.4 million due to no longer recording amortization of goodwill of $0.2 and reduction of $0.2 million in financing fees that occurred in fiscal year 2002.

SPACEHAB Government Services. Operating income (loss) for our SGS business unit was ($5.4) million for fiscal year 2004, compared to ($10.0) million and $2.0 million for fiscal years 2003 and 2002, respectively. Operating loss for 2004 included selling, general and administrative expense of $1.3 million and depreciation and amortization expense of $0.1 million as compared to selling, general and administrative expense of $1.9 and $2.0 and depreciation and amortization expense of $0.7 million and $1.6 million for fiscal years 2003 and 2002, respectively. Please see Other beginning on page 27 for a consolidated discussion of selling, general and administrative expense and depreciation and amortization expense.

Fiscal year ended June 30, 2004 as Compared to the Fiscal Year Ended June 30, 2003

SGS s operating income before charges decreased by $1.6 million from fiscal year 2003 to fiscal year 2004. The following summarizes significant items:

Revenue decreased by $24.5 million

The FCSD contract was completed April 30, 2003 which resulted in no revenue in fiscal year 2004 versus $25.8 million in fiscal year 2003

Revenue recorded under the SEDC contract increased in fiscal year 2004 as compared to fiscal year 2003 of $1.3 million due to increased project work in fiscal year 2004

The Configuration Management contract revenue decreased by $2.4 million from fiscal year 2003 to fiscal year 2004 due to completion of the contract and the award of the PI&C contract in January 2004

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

Decrease in other contract revenue of $0.4 million

Cost of revenue decreased by $22.9 million

The FCSD contract was completed April 30, 2003 which resulted in $23.9 million less cost of revenue in fiscal year 2004 as compared to fiscal year 2003

Cost of revenue increased under the SEDC contract in fiscal year 2004 as compared to fiscal year 2003 of $1.5 million due to increased project work in fiscal year 2004

The Configuration Management cost of revenue decreased by $1.9 million from fiscal year 2003 to fiscal year 2004 due to the completion of the contract and the award of the PI&C contract in January 2004

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

Decrease in Shanghai Scienceland project cost of revenue of $0.3 million

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

Decrease in other cost of revenue of $0.4 million

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

<u>Fiscal year ended June 30, 2003 as Compared to the Fiscal Year Ended June 30, 2002</u>

SGS s operating income before charges decreased by $0.2 million from fiscal year 2002 to fiscal year 2003. The following summarizes significant items:

Revenue decreased by $6.0 million from fiscal year 2002 to fiscal year 2003

- The FCSD contract was completed April 30, 2003 which resulted in $8.8 million less revenue in fiscal year 2003 as compared to fiscal year 2002
- Revenue recorded under the SEDC contract, which was awarded in fiscal year 2003, was $2.5 million
- The Configuration Management contract revenue decreased by $0.5 million from fiscal year 2002 to fiscal year 2003 due to decrease in project work
- Other revenue increased by $0.8 million

Cost of revenue decreased by $6.2 million

- The FCSD contract was completed April 30, 2003 which resulted in $8.0 million less cost of revenue in fiscal year 2003 as compared to fiscal year 2002
- Cost of revenue recorded under the SEDC contract, which was awarded in fiscal year 2003, was $2.4 million
- The Configuration Management cost of revenue decreased by $0.4 million from fiscal year 2002 to fiscal year 2003 due to decrease in project work

In fiscal year 2002, there was $1.0 million of cost of revenue for a project with Shanghai Scienceland that was completed in fiscal year 2002 with only minimum trailing costs in fiscal year 2003

Increase in other cost of revenue of $0.8 million

As a result of the loss of the recompete of the Flight Crew Systems Development contract at SGS in fiscal year 2003, a goodwill impairment test was performed. The impairment test indicated that the goodwill at SGS was impaired and a $11.9 million impairment charge of goodwill was recorded.

Space Media, Inc. Operating loss before charges for our SMI business unit was ($0.1) million for fiscal year 2004, compared to ($0.3) million and ($1.6) million for fiscal years 2003 and 2002, respectively. Operating loss for 2004 included selling, general and administrative expense of $0.3 million and no depreciation and amortization expense as compared to selling, general and administrative expense of $0.8 million and $1.7 million and depreciation and amortization expense of $0.3 million and $0.3 million for fiscal years 2003 and 2002, respectively. Please see Other below for a consolidated discussion of selling, general and administrative expense and depreciation and amortization expense.

Other. Other operating loss was ($10.2) million for fiscal year 2004, compared to ($18.2) million and ($16.0) million for fiscal years 2003 and 2002 respectively. The $10.2 million loss for fiscal year 2004 relates primarily to selling, general and administrative expenses and depreciation and amortization expenses which were incurred at the corporate level and an impairment change of $1.8 million of our investment in Guignè. The ($18.2) million loss for fiscal year 2003 includes a $8.2 million charge for asset impairments.

Consolidated selling, general and administrative expenses and research and development were $11.1 million in fiscal year 2004, compared to $13.2 million and $19.9 million in 2003 and 2002, respectively. The $2.1 million decrease for fiscal year 2004 to 2003 is principally the result of our ongoing cost reduction efforts and staffing reductions. In addition, for the year ended June 30, 2004, we recorded a charge of approximately $0.3 million related to the closing of the Washington, D.C. office.

The $6.7 million decrease for fiscal year 2002 to 2003 was primarily due to our Company-wide cost reduction actions. SMI s expenses decreased by $1.0 million associated with the downsizing of the SMI operations during the year ended June 2002. SPACEHAB selling, general and administrative expenses were reduced by $0.6 million in facilities, and $0.5 million in depreciation and other expense. Astrotech s selling, general and administrative expense decreased $0.4 million due to no longer recording amortization of goodwill of $0.2 million and reduction of $0.2 million in financing for that occurred in fiscal year 2002. SPACEHAB s selling, general and administrative expenses decreased due to the closing of the Huntsville operations partially offset by increased bid and proposal efforts.

Consolidated depreciation and amortization expenses were $5.4 million in fiscal year 2004 compared to $8.9 million and $12.7 million in 2003 and 2002, respectively. The $3.5 million decrease in fiscal year 2004 compared to 2003 is primarily due to the write-off of the RDM lost in the Space Shuttle *Columbia* accident, offset by the increased depreciation on the completion of the new SPF at the Astrotech Titusville, Florida campus. The decrease in depreciation of $3.8 million for fiscal year 2003 as compared to 2002 resulted from the RDM having 12 months of depreciation in fiscal year 2002 as compared to seven months of depreciation in fiscal year 2003.

Interest Expense. Interest expense totaled $8.2 million for fiscal year 2004, compared with $7.2 million and $8.0 million for 2003 and 2002, respectively. The $1.0 million increase for 2004 as compared to 2003 resulted primarily from the termination of the interest rate swap upon restructuring our mortgage financing of our Astrotech SPF, partially offset by the lower interest payments on the lower mortgage amount after the restructuring.

The decrease of interest expense from 2002 to 2003 was primarily due to the fact that no interest expense was capitalized in 2003 as compared to $1.3 million of capitalized interest in 2002. In addition, fiscal year 2003 includes a full year of interest on the mortgage loan payable. Interest was capitalized on the in-progress construction of our modules and payload processing facilities in 2002.

Income Tax Provision (Benefit). For fiscal year 2004 we recorded an income tax provision of $0.5 million, applying our net operating loss carry-forwards to the extent allowable. The income tax provision is a result of the alternative minimum tax limiting our ability to use all of our net operating loss carry forwards. We recorded an income tax benefit for fiscal years 2003 and 2002 of ($0.9) million and ($2.1) million, respectively. As of June 30, 2004, the Company had approximately $22.0 million of available net operating loss carry-forwards expiring between 2008 and 2023 to offset future regular taxable income.

Inflation. The effects of inflation and changing prices have not significantly impacted the Company s revenue or income from continuing operations during the years ended June 30, 2004 and 2003.

FINANCIAL CONDITION, CAPITAL RESOURCES AND LIQUIDITY

Balance Sheet. Our total assets at June 30, 2004 were $99.9 million compared to total assets of $121.4 million at the end of fiscal year 2003. The following table sets forth the significant components of the balance sheet as of June 30, 2004, compared with 2003 (in thousands):

	2004	2003	Chg.
Assets:			
Current assets	$ 15,950	$ 22,471	$ (6,521)
Property and equipment (net)	79,600	83,689	(4,089)
Other assets (net)	4,375	15,196	(10,821)
Total	$ 99,925	$ 121,356	
Liabilities and stockholders equity:			
Current liabilities	$ 22,301	$ 27,221	$ (4,920)
Long-term debt-less current portion	66,942	80,056	(13,114)
Other long-term liabilities	1,272	8,989	(7,717)
Stockholders equity	9,410	5,090	4,320
Total	$ 99,925	$ 121,356	

<u>Fiscal Year 2004 Compared to 2003</u>. Current assets as of June 30, 2004 decreased by $6.5 million as compared to June 30, 2003, primarily due to a reduction in short-term investments of $7.4 million, partially offset by an increase in accounts receivable of $1.1 million. Short-term investments as of June 30, 2004 and June 30, 2003 included proceeds of the insurance settlement from loss of the RDM on the Space Shuttle *Columbia*. The increase in accounts receivable was primarily attributable to:

The increased volume of sales at Astrotech

Changing from NASA as our primary customer to a commercial customer

The decrease in property and equipment from June 30, 2003 to June 30, 2004 resulted primarily from the write-off of furniture, fixtures, equipment, and leasehold improvements from the closing of our Washington D.C. and Huntsville, AL offices and the relocation of those activities to our Houston facility. Net property and equipment decreased by $4.1 million from 2003 to 2004 due to fixed asset additions during the year offset by depreciation expense for fiscal year 2004. Fiscal year 2004 included $1.2 million for assets removed from the books upon closing of certain offices.

The decrease in other assets of $10.8 million from June 30, 2003 to June 30, 2004 resulted primarily from the impairment of goodwill of $8.3 million, impairment of an investment of $1.8 million, and the reduction in deferred financing costs of $1.3 million resulting from refinancing our Astrotech SPF mortgage and amortization of financing costs in the current fiscal year. These reductions were partially offset by an increase in other assets of $0.6 million, primarily due to deferred mission costs for the Company s project with JAXA.

Our current liabilities declined by $5.0 million from June 30, 2003 to June 30, 2004. The following summarizes significant items:

- We paid the balance of $2.0 million on a convertible note to a shareholder, retiring the debt

- The current portion of our mortgage loan declined by $0.3 million due to the restructuring of the loan and the reduction of the total mortgage debt

- We had an outstanding balance of $1.4 million on our revolving credit facility at the end of the current fiscal year and no balance outstanding at June 30, 2003

- Our accounts payable and accrued expenses declined from $15.6 million to $12.6 million due to the reduced volume of business at the end of the current fiscal year due to the termination of certain government contracts and the suspension of space shuttle flights

- Our current portion of deferred revenue declined by $1.0 million with the completion of the ReALMS contract in the current fiscal year

Our long-term debt as of June 30, 2004 decreased by $13.1 million from the end of the prior fiscal year due primarily to the restructuring of our Astrotech facility mortgage. The restructuring included the repayment of $9.5 million of principal and the termination of an interest rate swap of $1.3 million held to effectively convert the floating rate interest on the mortgage into a fixed commitment. Our scheduled mortgage principal payments reduced the outstanding balance of this facility by $2.3 million.

Other long-term liabilities declined by $7.7 million at year end 2004 compared to 2003 due to a decrease in long-term deferred revenue, primarily from a contract with JAXA that was previously scheduled for a space shuttle mission, but due to the suspension of shuttle operations, we restructured the contract and placed the payload on a Russian *Progress* mission scheduled to fly early in our fiscal year 2005 with on-going flight operations support to 2006.

Cash Flows From Operating Activities. Cash provided by operations for the years ended June 30, 2004, 2003 **(Restated)**, and 2002 was $5.3 million, $2.1 million, and $8.6 million, respectively. The significant items affecting the differences in cash flows from operating activities in fiscal year 2004 compared to fiscal year 2003, and fiscal year 2003 compared to fiscal year 2002 are discussed below:

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

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

Included in fiscal year 2004 were charges for $8.3 million of goodwill related to early termination of the Boeing satellite processing contract and certain SGS contracts in fiscal year 2004 and a charge of $1.8 million of asset impairment for our investment in Guignè compared to charges of $11.9 million of goodwill impairment, $16.1 million of asset impairment, a nonrecurring charge of $50.3 million and termination of the Enterprise project and certain SGS contract terminations in fiscal year 2003.

Charges for depreciation and amortization in fiscal year 2004 were $3.5 million less than depreciation and amortization in fiscal year 2003 primarily resulting from the loss of our Research Double Module in fiscal year 2003.

Changes in assets and liabilities for fiscal year 2004 consumed cash from operations of $13.3 million, primarily due to increases in accounts receivable and reductions in accounts payable as previously discussed as compared to use of $3.7 million in fiscal year 2003 where a decrease in accounts receivable of $7.0 million partially offset the reductions in accounts payable and accrued subcontracting costs. Deferred flight revenue decreased approximately $8.9 million in each fiscal year resulting from the close-out of the ReALMS contract and the start-up of the JETIS contract.

Fiscal Year 2003 **(Restated)** Compared to 2002. For the fiscal year 2003 compared to fiscal year 2002, the significant items affecting cash provided by operating activities were primarily the net loss of $81.8 million in fiscal year 2003 which included $78.3 million of non-cash charges for the loss of our Research Double Module, asset impairment, and goodwill impairment. Other items that affected cash provided by operating activities in fiscal year 2003 as compared to fiscal year 2002 included the following:

Depreciation and amortization was approximately $9.4 million for the period ended June 30, 2003 compared to $13.4 million in the prior fiscal year resulting from the loss of our Research Double Module in February 2003 and amortization expense of $1.1 million.

Changes in assets and liabilities for fiscal year 2003 consumed $3.7 million of cash provided by operating activities as compared to $2.1 million in fiscal year 2002, due primarily from a decrease in deferred revenue of $8.9 million in fiscal year 2003 for three missions under contract, STS-116, STS-118 and STS-114 compared to a decrease in deferred revenue of $1.3 million in fiscal year 2002, an increase in accounts payable and accrued expenses of $0.6 million in fiscal year 2003 compared to a decrease in accounts payable and accrued expenses of $6.1 million in fiscal year 2002 and a decrease in accounts receivable of $7.0 million in fiscal year 2003 compared to a decrease of $4.2 million in fiscal year 2002.

Cash Flows From Investing Activities. For the years ended June 30, 2004, 2003 **(Restated)**, and 2002, cash flows provided by (used in) investing activities were $5.0 million, $3.0 million, and $(13.2) million. The significant items affecting the differences in cash flows from investing activities in fiscal year 2004 compared to fiscal year 2003 and fiscal year 2003 compared to fiscal year 2002 are discussed below:

Fiscal Year 2004 Compared to 2003 **(Restated)**. For the fiscal year 2004 compared to fiscal year 2003, the significant items affecting cash flows used in investing activities for 2004 were the sale of $7.4 million of short term investments offset by the use of $2.1 million cash flow for purchases of property and equipment, payments for buildings under construction and payments for flight assets under construction. The significant items affecting cash flows used in investing activities for 2003 were purchase of short term investments of $14.0 million and $2.1 million cash flow for purchases and payments, offset with insurance proceeds of $17.7 million resulting from the loss of our Research Double Module on the Space Shuttle *Columbia*.

Fiscal Year 2003 **(Restated)** Compared to 2002. For the fiscal year 2003 compared to fiscal year 2002, the significant items affecting cash flow used in investing activities were as follows:

During fiscal year 2003, the primary change in the cash used in investing activities was due to the increase in the Company s investments of $14.0 million primarily as the result of the commercial insurance received from the loss of our Research Double Module which is offset with those insurance proceeds of $17.7 million related to the loss of our Research Double Module on the Space Shuttle *Columbia*.

Approximately $15.4 million was spent in fiscal year 2002 for buildings under construction and equipment, primarily for the expansion of Astrotech s payload processing facilities in Titusville, Florida.

During fiscal year 2002, the Company s expenditures for flight assets under construction related primarily to the completion of the VCC for sale to EADS, adapter plates for unpressurized ICC and VCC missions, and for additional development work on the *Enterprise* module. The Company received $4.4 million in services payments for the sale of its VCC assets to EADS and received $1.4 million in cash, primarily for the Oriole sounding rocket business and the Clear Lake Industries sales.

Cash Flows From Financing Activities. For the years ended June 30, 2004, 2003, and 2002, cash flows (used in) provided by financing activities were ($11.1) million, ($6.5) million, and $7.2 million, respectively. In January 2004 we restructured our mortgage financing of our Astrotech Titusville SPF as a three-year fixed-rate loan by reducing the outstanding balance by $9.5 million, and terminating the interest rate swap in place at a cost of $1.3 million. Also during fiscal year 2004, the Company paid the outstanding balance on the loan from Alenia of $2.0 million. During fiscal year 2003, we repaid approximately $6.3 million of debt including the New Credit Facility which expired and was repaid in July 2002, $2.0 million on the mortgage loan, and $1.9 million on the loan from Alenia. During fiscal year 2002, we received $20.0 million related to the financing of the Astrotech SPF in Titusville, Florida and repaid approximately $0.9 million of the loan. We repaid $4.0 million of the loan payable, $4.0 million of the note payable to shareholder, and repaid in full $0.3 million of the note payable to insurers. In addition, we repaid $4.6 million of the New Credit Facility during fiscal year 2002.

Liquidity. Our liquidity has been constrained over the previous three fiscal years. A significant portion of this constraint arose from funding of new operations and assets in development to support future Company growth, funding a portion of the construction cost of the Astrotech Florida facility, and funding of required debt repayments. In addition, the Company was committed to capital investments to complete certain flight assets.

Beginning in the third quarter of fiscal year 2001, we began an aggressive multi-faceted plan to improve the Company s financial position and liquidity. This plan included restructuring and repayment of certain debt obligations.

Under this plan, the Company undertook extensive efforts to reduce cash required for both operations and capital investments. Additionally, we completed planned divesting of non-core assets. Development and construction of new assets is currently limited to those assets required to fulfill existing commitments under contract. The Company has no further on-going commitments to fund development or construction of any asset. We completed the planned restructuring of certain debt obligations and continue to focus on reducing our outstanding debt. We completed the implementation of the plan in the fourth quarter of fiscal year 2002.

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 SEC. Through June 30, 2004, the Company had repurchased 116,100 shares at a cost of $117,320. We will continue to evaluate the stock repurchase program and the funds authorized for the program.

The Company was under contract with NASA to support the STS-107 mission on its *Columbia* orbiter. The mission utilized our RDM flight asset. On February 1, 2003, the RDM was lost in the tragic STS-107 accident. The RDM was partially covered by commercial insurance. During the three months ended March 31, 2003, the Company received $17.7 million from commercial insurers. We do not plan on replacing the RDM. SPACEHAB has two additional modules available to support the Company s current NASA contracts. In January 2004, we submitted a detailed claim to NASA for recovery of our RDM investment in the amount of $87.7 million. We believe we have a basis for recovery of some or all of the loss from NASA but there can be no assurance as to the timing or the amount, if any, to be received from the claim. Upon resolution of the claim, any proceeds from NASA would be recorded in the period in which the claim is resolved.

We continue to focus our efforts on improving the overall liquidity of the Company through identifying new business opportunities within the areas of our core competencies, reducing operating expenses, limiting cash commitments for future capital investments and new asset development. Please read the discussion of liquidity in the overview section (page 17) in conjunction with this section.

The Company s cash and short-term investments are approximately $7.6 million as of June 30, 2004. We believe that the Company has sufficient liquidity to fund ongoing operations for at least the next fiscal year and expect to utilize existing cash and any potential payment from NASA to support strategies for new business initiatives and reduce debt service requirements. However, under certain scenarios the Company could be facing liquidity concerns after that point in time.

Contractual Obligations. The Company s contractual obligations as of June 30, 2004 are as follows (in thousands):

Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	Thereafter
Long-term Debt	$ 63,250	$	$	$ 63,250	$
Loan payable under credit facility	1,445	1,445			
Mortgage Loan Payable	5,638	1,946	3,692		
V.J.F. Russian Consultant Agreement	360	180	180		
V.J.F. Russian Subcontract	1,400	1,000	400		
Capital Leases	67	67			
Operating leases[1]	10,208	4,715	2,109	532	2,852
Total Contractual Cash Obligations[2] (excluding interest payments)	$ 82,368	$ 9,353	$ 6,381	$ 63,782	$ 2,852

1 For fiscal years 2005, 2006, 2007, and 2008, the Company expects to receive net payments of approximately $0.7 million, $0.7 million, $0.5 million, $0.2 million, respectively, for subleases.

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.

UNCERTAINTY OF FORWARD-LOOKING STATEMENTS AND INFORMATION

This Form 10-K includes statements reflecting assumptions, expectations, projections, intentions, or beliefs about future events that are intended as forward-looking statements. All statements included or incorporated by reference in this annual report, other than statements of historical fact, that address activities, events, or developments that we or our management expect, believe, or anticipate will or may occur in the future are forward-looking statements. These statements represent our reasonable judgment on the future based on various factors and using numerous assumptions and are subject to known and unknown risks, uncertainties, and other factors that could cause our actual results and financial position to differ materially from those contemplated by the statements. These statements can be identified by the fact that they do not relate strictly to historical or current facts. They use words such as anticipate, estimate, project, forecast, plan, may, will, should, expect, words of similar meaning. In particular, these include but are not limited to, statements relating to the following:

- Projected operating or financial results, including anticipated cash flows from operations and asset sale proceeds for fiscal year 2005
- Expectations regarding capital expenditures, interest expense, and other payments
- Our ability to execute the cost-saving measures we have identified

Our beliefs and assumptions relating to our liquidity position

The ultimate conclusion of our claim for indemnification for losses on the Space Shuttle *Columbia* accident

Our beliefs about the outcome of legal and administrative proceedings, in particular the outcome of the claims made by Lloyds of London regarding insurance proceeds they have paid to us

Any or all of our forward-looking statements may turn out to be wrong. They can be affected by inaccurate assumptions or by known or unknown risks, uncertainties, and other factors including, among others:

The continuation of the U.S. space exploration program

Congressional funding for NASA at levels that will support the programs that affect our business

The ultimate return to flight of the space shuttle and the frequency and configuration of flights after returning to flight

Our ability to compete in the market place to preserve our contracts upon the re-compete cycles and to acquire additional contracts

Our ability to operate our businesses efficiently, manage capital expenditures and costs (including general and administrative expenses) tightly, and generate earnings and cash flow from our asset-based businesses in relation to our debt and other obligations

The costs and other effects of legal and administrative proceedings, settlements, investigations, and claims, including legal proceedings related to our claim against NASA in regards to the *Columbia* accident and the related claim by Lloyds of London

General political conditions and developments in the U.S. and in foreign countries whose affairs affect our businesses

In addition, there may be other factors that could cause our actual results to be materially different from the results referenced in the forward-looking statements, some of which are included elsewhere in this Form 10-K. Many of these factors will be important in determining our actual future results. Consequently, no forward-looking statement can be guaranteed. Our actual future results may vary materially from those expressed or implied in any forward-looking statements.

All forward-looking statements contained in this Form 10-K are qualified in their entirely by this cautionary statement. Forward-looking statements speak only as of the date they are made, and we disclaim any obligation to update any forward-looking statements to reflect events or circumstances after the date of this Form 10-K, except as otherwise required by applicable law.

Item 8. Financial Statements and Supplementary Data.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

SPACEHAB, Incorporated and Subsidiaries:

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

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

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

/s/ Grant Thornton LLP

Houston, Texas

September 2, 2004

Report of Independent Registered Public Accounting Firm

The Stockholders and Board of Directors

SPACEHAB, Incorporated and Subsidiaries:

We have audited the accompanying consolidated balance sheet of SPACEHAB, Incorporated and subsidiaries (the Company) as of June 30, 2003, and the related consolidated statements of operations, stockholders equity and comprehensive income (loss), and cash flows for each of the two years in the period ended June 30, 2003. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

As discussed in Note 26 to the consolidated financial statements, the consolidated statement of cash flows for the year ended June 30, 2003 has been changed from that on which we reported previously to correct the classification of insurance proceeds received as a result of the loss of the Company s research double module.

As discussed in Note 2 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, effective July 1, 2002.

/s/ Ernst & Young LLP

McLean, Virginia

August 20, 2003

except for Note 26 as to which the date is

July 11, 2005

SPACEHAB, INCORPORATED AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands, except share data)

	June 30,	
	2004	**2003**
Assets		
Current assets		
Cash and cash equivalents	$ 506	$ 1,301
Restricted cash	430	
Short-term investments	5,037	14,047
Restricted short-term investments	1,604	
Accounts receivable, net	7,878	6,780
Prepaid expenses and other current assets	495	343
Total current assets	15,950	22,471
Property and equipment		
Flight assets	64,476	63,970
Module improvements in progress	913	305
Payload processing facilities	45,895	46,026
Furniture, fixtures, equipment and leasehold improvements	18,071	22,088
	129,355	132,389
Less accumulated depreciation and amortization	(49,755)	(48,700)
Property and equipment, net	79,600	83,689
Goodwill, net		8,274
Investment in Guignè, net		1,800
Deferred financing costs, net	1,163	2,182
Other assets, net	3,212	2,940
Total assets	$ 99,925	$ 121,356
Liabilities and Stockholders Equity		
Current liabilities		
Revolving loan payable	$ 1,445	$
Convertible notes payable to shareholder, current portion		2,004
Mortgage loan payable, current portion	1,946	2,218
Accounts payable	2,424	3,231
Accounts payable- EADS	3,262	7,824
Accrued interest	1,108	1,365
Accrued expenses	3,600	2,687
Accrued subcontracting services	2,176	522
Deferred revenue, current portion	6,340	7,370
Total current liabilities	22,301	27,221
Accrued contract costs and other	372	255
Deferred revenue, net of current portion	900	8,734

Mortgage loan payable, net of current portion	3,692	16,806
Convertible subordinated notes payable	63,250	63,250
Total liabilities	90,515	116,266
Commitments and contingencies		
Stockholders equity		
Preferred stock, no par value, convertible, authorized 2,500,000 shares, issued and outstanding 1,333,334 shares, (liquidation preference of $12,000)	11,892	11,892
Common stock, no par value, 30,000,000 shares authorized 12,688,062 and 12,484,779 shares issued, respectively	83,751	83,446
Treasury stock, 116,100 and 109,800 shares, respectively, at cost	(117)	(111)
Additional paid-in capital	16	16
Accumulated other comprehensive loss		(1,946)
Accumulated deficit	(86,132)	(88,207)
Total stockholders equity	9,410	5,090
Total liabilities and stockholders equity	$ 99,925	$ 121,356

See accompanying notes to consolidated financial statements.

SPACEHAB, INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Operations

(In thousands, except share and per share data)

	Year ended June 30, 2004	Year ended June 30, 2003	Year ended June 30, 2002
Revenue	$ 77,606	$ 94,963	$ 102,773
Costs of revenue	45,678	78,791	81,767
Gross profit	31,928	16,172	21,006
Operating expenses			
Selling, general and administrative	10,908	13,098	18,737
Loss on subleases			770
Research and development	223	118	383
Nonrecurring charge, loss of Research Double Module		50,268	
Goodwill impairment	8,274	11,925	
Asset impairment charge	1,800	16,143	
Total operating expenses	21,205	91,552	19,890
Income (loss) from operations	10,723	(75,380)	1,116
Interest expense, net of capitalized interest	(8,237)	(7,243)	(6,683)
Interest and other income (expense), net	95	(9)	1,150
Income (loss) before income taxes	2,581	(82,632)	(4,417)
Income tax expense (benefit)	506	(857)	(2,050)
Net income (loss)	$ 2,075	$ (81,775)	$ (2,367)
Net income (loss) per share - basic	$ 0.17	$ (6.66)	$ (0.20)
Shares used in computing net income (loss) per share basic	12,450,320	12,285,467	11,884,309
Net income (loss) per share - diluted	$ 0.15	$ (6.66)	$ (0.20)
Shares used in computing net income (loss) per share diluted	14,141,949	12,285,467	11,884,309

See accompanying notes to consolidated financial statements.

SPACEHAB, INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Stockholders Equity and Comprehensive Income (Loss)

(In thousands, except share data)

	Convertible Preferred Stock		Common Stock		Treasury Stock	Add l. Paid-In-	Accumulated Other Comprehensive	Accumulated	Total Stockholders
	Shares	Amount	Shares	Amount	Amount	Capital	Income (Loss)	Deficit	Equity
Balance at June 30, 2001	1,333,334	$ 11,892	11,528,145	$ 82,513	$	$ 16	$	$ (4,065)	$ 90,356
Common stock issued under bonus plan			224,635	350					350
Common stock issued under employee stock purchase plan			401,685	341					341
Accumulated other comprehensive loss							(1,010)		(1,010)
Net loss								(2,367)	(2,367)
Total comprehensive loss									