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SPACEHAB INC \WA\  
Form 10-K/A  
October 17, 2001

SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-K/A

(Mark One)

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 [No Fee Required] For the Fiscal Year Ended June 30, 2001.

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 [No Fee Required] For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 0-27206  
SPACEHAB, Incorporated  
300 D Street, SW  
Suite 814  
Washington, D.C. 20024  
(202) 488-3500

Incorporated in the  
State of Washington

IRS Employer Identification  
Number 91-1273737

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<br>on which Registered |
|--------------------------------|--|
| Common Stock<br>(no par value) | NASDAQ National Market                       |

Number of shares of Common Stock (no par value) outstanding as of August 23, 2001:11,528,145. Aggregate market value of Common Stock (no par value) held by non-affiliates of the registrant on August 19, 2001, based upon the closing price of the Common Stock on the Nasdaq National Market of \$1.91 was approximately \$22,018,757.

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

YES  NO .

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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. .

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### Item 8. Financial Statements and Supplementary Data

(As amended October 17, 2001, to include signature on Report of Independent Auditors).

#### Report of Independent Auditors

The 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, 2001, and the related consolidated statements of income, shareholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of SPACEHAB, Incorporated and subsidiaries at June 30, 2001, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As more fully described in Note 1, the Company has incurred significant losses from operations, negative cash flows and has a working capital deficiency. In addition, the Company has not complied with certain covenants of loan agreements with banks. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

/s/ Ernst & Young LLP

McLean, Virginia  
October 12, 2001

#### Report of Independent Auditors

The 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, 2000, and

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the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the two-year period ended June 30, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of SPACEHAB, Incorporated and subsidiaries as of June 30, 2000, and the results of their operations and their cash flows for each of the years in the two-year period ended June 30, 2000, in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP  
KPMG LLP

McLean, Virginia  
August 31, 2000

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SPACEHAB, INCORPORATED AND SUBSIDIARIES  
Consolidated Balance Sheets  
(In thousands, except share data)

Assets

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Current assets:

Cash and cash equivalents  
Accounts receivable, net (note 4)  
Prepaid expenses and other current assets

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Total current assets

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Property and equipment:

Flight assets  
Module improvements in progress  
Payload processing facilities  
Furniture, fixtures equipment and leasehold improvements

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Less accumulated depreciation and amortization

Property and equipment, net

Goodwill, net of accumulated amortization of \$3,500 and 2,428, respectively

Investment in Guigne, net (note 19)

Other assets, net

Total assets

Liabilities and Stockholders' Equity

Current liabilities:

Loans payable under credit agreement, current portion (note 6)

Loans payable, current portion (note 8)

Revolving loan payable (note 8)

Accounts payable

Accounts payable-Astrium

Accrued expenses

Accrued subcontracting services

Convertible notes payable to shareholder (note 7)

Deferred revenue

Total current liabilities

Loans payable under credit agreement, net of current portion (note 6)

Loans payable, net of current portion (note 8)

Convertible notes payable to shareholder (note 7)

Accrued contract costs

Miscellaneous note payable

Deferred revenue

Deferred income taxes (note 13)

Convertible subordinated notes payable (note 8)

Total liabilities

Commitments and contingencies (notes 1, 11 and 16) Stockholders' equity (notes 7, 8, 11 and 12):

Preferred stock, no par value, convertible, authorized 2,500,000 shares, issued and outstanding 1,333,334 shares, (liquidation preference of \$12,000)

Common stock, no par value, authorized 30,000,000 shares, issued and outstanding 11,528,145 and 11,345,032 shares, respectively

Additional paid-in capital

Retained earnings (accumulated deficit)

Total stockholders' equity

Total liabilities and stockholders' equity

See accompanying notes to consolidated financial statements.

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SPACEHAB, INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Operations  
(In thousands, except share data)

|  | Year ended<br>June 30,<br>2001 | Year<br>June<br>20 |
|--|--------------------------------|--------------------|
| Revenue  | \$ 105,254                     | \$ 10              |
| Costs of revenue                                       | 92,243                         | 8                  |
| Gross profit   | 13,011                         | 1                  |
| Operating expenses:                                    |                                |                    |
| Selling, general and administrative                    | 21,796                         | 1                  |
| Research and development                               | 393                            |                    |
| Total operating expenses                               | 22,189                         | 2                  |
| Income (loss) from operations                          | (9,178)                        | (                  |
| Interest expense, net of capitalized interest (note 3) | (4,804)                        | (                  |
| Interest and other income, net                         | 311                            |                    |
| Loss before income taxes                               | (13,671)                       | (                  |
| Income tax benefit (note 13)                           | (886)                          | (                  |
| Net Loss   | \$ (12,785)                    | \$ (               |
| Basic Loss per share:                                  |                                |                    |
| Net Loss per share - basic                             | \$ (1.12)                      | \$                 |
| Shares used in computing net loss per share - basic    | 11,400,482                     | 11,27              |
| Diluted Loss per share:                                |                                |                    |
| Net loss per share - diluted                           | \$ (1.12)                      | \$                 |
| Shares used in computing net loss per share - diluted  | 11,400,482                     | 11,27              |

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See accompanying notes to consolidated financial statements.

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SPACEHAB, INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity  
(In thousands, except share data)

|  | Convertible Preferred Stock |          | Common Stock |           |
|--|-----------------------------|----------|--------------|-----------|
|  | Shares                      | Amount   | Shares       | Amount    |
| Balance at June 30, 1998                               | -                           | \$ -     | 11,168,161   | \$ 81,000 |
| Common stock issued upon stock option exercises        | -                           | -        | 1,070        | -         |
| Common stock issued under employee stock purchase plan | -                           | -        | 60,415       | -         |
| Net income   | -                           | -        | -            | -         |
| Balance at June 30, 1999                               | -                           | \$ -     | 11,229,646   | \$ 81,000 |
| Preferred stock issued                                 | 1,333,334                   | 11,892   | -            | -         |
| Common stock issued under employee stock purchase plan | -                           | -        | 115,386      | -         |
| Net loss   | -                           | -        | -            | -         |
| Balance at June 30, 2000                               | 1,333,334                   | \$11,892 | 11,345,032   | \$ 82,000 |
| Common stock issued under employee stock purchase plan | -                           | -        | 183,113      | -         |
| Net loss   | -                           | -        | -            | -         |
| Balance at June 30, 2001                               | 1,333,334                   | \$11,892 | 11,528,145   | \$ 82,000 |

|   | Retained Earnings (Accumulated Deficit) | Total Stockholders' Equity |
|---|---|----------------------------|
| Balance at June 30, 1998                        | \$ 15,153                               | \$ 96,408                  |
| Common stock issued upon stock option exercises | -                                       | 8                          |

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|  |            |            |
|--|------------|------------|
| Common stock issued under employee stock purchase plan | -          | 338        |
| Net income   | (2,589)    | (2,589)    |
| -----  |            |            |
| Balance at June 30, 1999                               | \$ 12,564  | \$ 94,165  |
| -----  |            |            |
| Preferred stock issued                                 | -          | 11,892     |
| Common stock issued under employee stock purchase plan | -          | 489        |
| Net loss   | (3,844)    | (3,844)    |
| -----  |            |            |
| Balance at June 30, 2000                               | \$ 8,720   | \$ 102,702 |
| -----  |            |            |
| Common stock issued under employee stock purchase plan | -          | 439        |
| Net loss   | (12,785)   | (12,785)   |
| -----  |            |            |
| Balance at June 30, 2001                               | \$ (4,065) | \$ 90,356  |
| -----  |            |            |

See accompanying notes to consolidated financial statements

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SPACEHAB, INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Cash Flows  
(In thousands)

|   | Year ended<br>June 30, 2001 | Year ended<br>June 30, |
|---|-----------------------------|------------------------|
| -----   |                             |                        |
| Cash flows from operating activities:   |                             |                        |
| Net loss  | \$ (12,785)                 | \$ (3,844)             |
| Adjustments to reconcile net loss to net cash provided<br>by (used for) operating activities: |                             |                        |
| Depreciation  | 8,691                       | 7,133                  |
| Amortization  | 1,259                       | 1,089                  |
| Amortization of debt placement costs  | 623                         | 528                    |
| Valuation allowance of deferred tax asset   | 3,292                       | -                      |
| Valuation allowance of investment in Guigne   | -                           | (200)                  |
| Changes in assets and liabilities:  |                             |                        |
| (Increase) decrease in accounts receivable  | 8,440                       | (8,327)                |
| (Increase) decrease in prepaid expenses and other<br>current assets                           | 947                         | (1,182)                |
| Decrease (increase) in deferred mission costs   | -                           | (1,031)                |
| Increase in other assets  | (1,064)                     | (240)                  |
| Increase (decrease) in deferred flight revenue  | 10,973                      | 11,093                 |
| Increase in accounts payable and accrued expenses   | 2,007                       | 1,955                  |
| Increase (decrease) in advance billings   | -                           | -                      |
| Increase (decrease) in accrued subcontracting<br>services                                     | 113                         | (4,788)                |

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|   |          |          |
|---|----------|----------|
| Increase (decrease) in deferred taxes                       | (5,372)  | (762)    |
| Net cash provided by (used for) operating activities        | 17,124   | 1,424    |
| Cash flows from investing activities:                       |          |          |
| Payments for flight assets under construction               | (20,150) | (23,009) |
| Payments for building under construction                    | (8,934)  | (4,868)  |
| Purchases of property, equipment and leasehold improvements | (1,558)  | (2,361)  |
| Cash received from sale of Flight assets                    | 7,566    |          |
| Purchase of Johnson Engineering, net of cash acquired       | -        | 1,200    |
| Purchase of The Space Store                                 | -        | (156)    |
| Investment in Guigne  | -        | (600)    |
| Net cash used for investing activities                      | (23,076) | (29,794) |
| Cash flows from financing activities:                       |          |          |
| Payments of note payable to insurers                        | (333)    | (333)    |
| Proceeds from issuance of convertible preferred stock       | -        | 11,892   |
| Proceeds from note payable                                  | -        | -        |
| Proceeds from revolving line of credit                      | 2,250    | 4,500    |
| Payments of note payable                                    | (3,319)  | (2,575)  |
| Payments of note payable to shareholder                     | -        | -        |
| Proceeds from exercise of stock options                     | -        | -        |
| Proceeds from issuance of common stock, net of expenses     | 439      | 489      |
| Net cash provided by (used for) financing activities        | (963)    | 13,973   |
| Net increase (decrease) in cash and cash equivalents        | (6,915)  | (14,397) |
| Cash and cash equivalents at beginning of year              | 6,949    | 21,346   |
| Cash and cash equivalents at end of year                    | \$ 34    | \$ 6,949 |

See accompanying notes to consolidated financial statements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Description of the Company, Operating Environment and Liquidity

Description of the Company and Operating Environment

SPACEHAB, Incorporated (the "Company") is the first company to commercially develop, own and operate habitable modules that provide space-based laboratory research facilities and cargo services aboard the U.S. Space Shuttle system. The Company currently owns and operates four pressurized laboratory and logistics supply modules, which significantly enhance the capabilities of the Space Shuttle fleet. The Company is currently constructing a module that will attach to the International Space Station ("ISS") and be primarily used for storage, power and utility service and laboratory facilities for long-duration research. The Company's modules are unique to the Space Shuttle fleet and ISS.

To date, the Company has successfully completed sixteen missions aboard the Space Shuttle and substantially all of the Company's revenue has been generated under contracts with National Aeronautics and Space



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Administration ("NASA"). The Company's contracts are subject to periodic funding allocations by NASA. NASA's funding is dependent on receiving annual appropriations from the United States government. During the years ended June 30, 2001, 2000, and 1999 approximately 83%, 86% and 80% of the Company's revenues were generated under U.S. Government contracts.

On February 12, 1997, the Company acquired the assets and certain of the liabilities of Astrotech Space Operations, L.P. ("Astrotech"), a subsidiary of Northrop Grumman, a provider of commercial satellite launch processing services and payload processing facilities in the United States. These services are provided at the Astrotech facilities in Cape Canaveral, Florida and Vandenberg Air Force Base in California, and are provided to launch service providers on a fixed-price basis. Additionally, Astrotech provides management and consulting services to the Boeing Company for its Sea Launch program at the Sea Launch facility in Long Beach, California.

On July 1, 1998, the Company acquired all of the outstanding shares of capital stock of Johnson Engineering Corporation ("JE"). JE performs several critical services for NASA including flight crew support services, operations, training and fabrication of mockups at NASA's Neutral Buoyancy Laboratory and at NASA's Space Vehicle Mockup Facility, where astronauts train for both Space Shuttle and ISS missions. JE also designs and fabricates flight hardware, such as flight crew equipment and crew quarters' habitability outfitting as well as providing stowage integration services. JE is also responsible for configuration management of the ISS.

On April 11, 2000, the Company announced the formation of Space Media, Inc. ("SMI"), a majority-owned subsidiary that intends to create proprietary space-themed content for education and commerce. During the year ended June 30, 2001, SMI's activities were refocused primarily to develop content for the STARS Academy(TM), corporate promotion and advertising opportunities and offering a library of content that can be redistributed through various media channels. The STARS Academy is a global education program offering students a scientific, cultural and social adventure across the earth, into the oceans and aboard the International Space Station. SMI offers retail products associated with the STARS Academy. The STARS Academy program currently is planning to launch student-designed experiments on a Space Shuttle mission next year for schools in Australia, Canada, China, Israel, Japan, Singapore, Thailand, and the United States. During the year ended June 30, 2000, SMI acquired The Space Store, an online retail operation, anticipating that e-commerce is expected to be an integral part of its Internet business. The Space Store currently offers an assortment of space-related products through its Space Store website, [www.spacestore.com](http://www.spacestore.com).

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In the year ended June 30, 2000, the Company also began development and completed the preliminary design phase, in partnership with RSC Energia ("Energia") of Korolev, Russia, of a commercial space station habitation module. Named Enterprise(TM), this multipurpose module will be attached to the ISS. The Company anticipates that Enterprise will be the world's first commercial real estate in space and the first commercial module attached to the ISS. Enterprise is

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currently designed to offer space station users habitation, stowage space, communications, power and other utilities, and laboratory facilities for long-duration research.

The Company and Energia completed the organization of Space Station Enterprise, LLC ("SSE LLC"), a Delaware limited liability corporation, to complete development and future operation of Enterprise. The Company and Energia have an equal ownership interest in SSE LLC. SSE LLC is actively pursuing additional investors to provide investment funds and participate as owners of SSE LLC in completing Enterprise. Enterprise is anticipated to be launched in early 2004.

### Liquidity

The Company has incurred net losses in the years ended June 30, 2001, 2000 and 1999. Historically, the Company has financed its capital expenditures, research and development and working capital requirements with progress payments under its various contracts, as well as with proceeds received from both public and private debt and equity offerings and borrowings under credit facilities.

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

The Company's liquidity has been constrained over the past fiscal year. A significant portion of this constraint arose from funding of new operations and assets to support future Company growth and construction of the new Astrotech Florida facility prior to obtaining external financing. In addition, the Company was committed to capital investments to complete certain flight assets.

Due to changes in the external markets, the Company reevaluated its strategy. Beginning in the third quarter of the fiscal year, management began an aggressive multi-faceted plan to improve the Company's financial position and liquidity. This plan included the following components: i) completing the external financing for the new facility required to support operations at Astrotech's Florida location; ii) reducing operating costs and establishing an operating plan for fiscal year 2002 which provides for sufficient cash flow to support efficient operations; iii) renegotiating the terms and conditions of the Revolving Line of Credit (note B); iv) limiting cash commitments for future capital investments and new asset development; v) restructuring the repayment of certain debts maturing in fiscal year 2002; vi) divesting non-core assets; vii) obtaining external investor funding for its Space Media subsidiary; viii) completing negotiations for certain contract equitable adjustments due to the Company under its long-term services contract with NASA (note 10); and ix) improving the overall liquidity of the Company. Management anticipates that this strategy will generate sufficient additional liquidity to support its operations and satisfy its debt obligations.

Under this Plan, the Company undertook extensive efforts to reduce cash required for both operations and capital investments. Specifically, the Company took steps to reduce overhead beginning in the third quarter of the fiscal year and reduced its workforce by

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approximately 10%. The Company's fiscal year 2002 operating plan will continue to realize efficiencies from these actions. Subsequent to June 30, 2001, Astrotech obtained \$20 million of financing for the expansion of its payload processing facilities. The financing provides funds for completion of the facility construction as well as a return of approximately \$6.5 million of previously invested working capital of the Company. The Company used approximately \$3.1 million of these working capital funds to repay an existing obligation under Astrotech's credit facility (note 8). Additionally, the Company completed planned divesting of non-core assets (note 21). Development and construction of new assets is currently limited to those assets required to fulfill existing commitments under contracts. The Company has no further on-going commitments to fund development or construction of any asset.

Under this Plan, the Company refocused the scope of SMI's operations on near term initiatives in order to maximize the potential return of capital invested to date in SMI. Subsequent to year end, the Company obtained \$750,000 from an investor to fund future operations of SMI in

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exchange for equity in SMI. As a result, the Company's ownership interest in SMI was reduced to approximately 51% in September 2001.

The Company's ability to continue as a going concern is dependent on its ability to complete the restructure of certain debt obligations, secure the remaining portion of contract funding on the equitable adjustment due under its contract with NASA, achieve its fiscal year 2002 operating and cash flow objectives, and comply with the terms of its credit facility. The Company is in ongoing negotiations with its senior lender to renegotiate the terms and conditions of its credit facility and with Alenia Spazio S.p.A. to restructure its debt. The Company continues to receive negotiated interim funding for work performed under the NASA contract equitable adjustment (note 10). Management believes it will be successful in negotiating the repayment terms of its debt due to Alenia Spazio S.p.A.; however, there can be no assurances that the Company will be able to reach agreement with Alenia Spazio S.p.A. on the terms and conditions of a restructure. Additionally, management of the Company strongly believes such funding under its equitable adjustment with NASA will continue, although there can be no assurances that the contract will be fully funded in a timely manner to provide sufficient operating cash flow to support operations.

The Company's plans indicate that all cash generated from operations during the next fiscal year will be used to fund operations and reduce existing debt. The Company believes that the cash flows from operations, borrowings under the New Credit Facility and spending reductions related to discretionary capital expenditures and other expenses will be sufficient to enable the Company to meet its cash requirements for the next twelve months.

As discussed above, management has implemented and completed a significant portion of the plan begun in the third quarter of the fiscal year and expects that it will be successful in accomplishing the remaining portion of the plan; however, no assurance can be given that

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the Company will be successful in achieving the remaining goals. If the Company is unable to complete its strategy, cash flow may be insufficient to cover the Company's operating and debt service requirements in fiscal year 2002.

### (2) Summary of Significant Accounting Policies

#### Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of SPACEHAB, Incorporated and its wholly owned and majority-owned subsidiaries Astrotech, JE and SMI. All significant intercompany transactions have been eliminated in consolidation.

#### Cash and Cash Equivalents

For purposes of its consolidated statements of cash flows, the Company considers short-term investments with original maturities of three months or less to be cash equivalents. Cash equivalents are primarily made up of money market investments and overnight repurchase agreements recorded at cost, which approximates market value.

#### Property and Equipment

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

#### Goodwill

The excess of the cost over the fair value of net tangible and identifiable intangible assets acquired in business combinations accounted for as a purchase has been assigned to goodwill. Goodwill is being amortized on a straight-line basis over five to twenty-five years.

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The Company periodically evaluates whether changes have occurred that would require revision of the remaining estimated useful life of the assigned goodwill or render the goodwill not recoverable. If such circumstances arise, the Company would use an estimate of the undiscounted value of expected future operating cash flows to determine whether the goodwill is recoverable.

#### Investments in Affiliates

The Company generally uses the equity method of accounting for its investments in, and earnings of, investees. In accordance with the equity method of accounting, the carrying amount of such an investment is initially recorded at cost and is increased to reflect the Company's share of the investor's income and is reduced to reflect the Company's share of the investor's losses. Investments in which the Company has less than 20% ownership and no significant influence are accounted for under the cost method and are carried at cost.

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### Impairment of Long-Lived Assets

The Company accounts for long-lived assets in accordance with the provisions of Statements of Financial Accounting Standards ("SFAS") SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. This Statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

### Stock-Based Compensation

The Company accounts for stock-based employee compensation arrangements using the intrinsic value method as prescribed in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ("APB Opinion 25"), and related interpretations. Accordingly, compensation cost for options to purchase common stock granted to employees is measured as the excess, if any, of the fair value of common stock at the date of the grant over the exercise price an employee must pay to acquire the common stock. The Company has adopted the disclosure requirements of SFAS No. 123, Accounting for Stock-based Compensation ("SFAS 123").

Warrants to purchase common stock granted to other than employees as consideration for goods or services rendered are recognized at fair value.

### Revenue Recognition

Revenue generated under the REALMS Contract and for all other contract awards for which the capability to successfully complete the contract can be reasonably assured and costs at completion can be reliably estimated at contract inception, revenue recognition under the percentage-of-completion method is being used based on costs incurred over the period of the contract. Revenue provided by JE is primarily derived from cost-plus award fee contracts, whereby revenue is recognized to the extent of costs incurred plus estimates of award fee revenues using the percentage-of-completion method. Award fees, which provide earnings based on the Company's contract performance as determined by NASA evaluations, are recorded when the amounts can be reasonably estimated, or are awarded. Changes in estimated costs to complete, provisions for contract losses and estimated amounts recognized as award fees are recognized in the period they become known. Revenue provided by Astrotech's payload processing services is recognized ratably over the occupancy period of the satellite while in the Astrotech facilities.

### Research and Development

Research and development costs are expensed as incurred.

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### Income Taxes

The Company recognizes income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forward. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

### Net Income (Loss) Per Share

Net income (loss) per share is presented on both a basic and diluted basis in accordance with the provisions of SFAS No. 128, Earnings per Share.

Basic earnings (loss) per share are calculated by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share includes all common stock options and warrants and other common stock, to the extent dilutive, that potentially may be issued as a result of conversion privileges, including the convertible subordinated notes payable (note 8).

### Accounting Estimates

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

### Reclassifications

Certain 2000 and 1999 amounts have been reclassified to conform with the 2001 consolidated financial statement presentation.

### New Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board issued SFAS No. 142, "Accounting for Goodwill and Other Intangible Assets." The Statement eliminates the requirement to amortize costs in excess of net assets acquired (goodwill) under the purchase method of accounting, and sets forth a new methodology for periodically assessing and, if warranted, recording impairment of goodwill. Early adoption of this standard is permitted July 1, 2001, however, the Company does not plan to early adopt. The Company will be required to adopt the new rules effective July 1, 2002. The elimination of amortization of goodwill is expected to increase earnings by approximately \$1.0 million. The Company will analyze and assess the impairment provisions of the new Statement, but has not yet determined the impact, if any, of the adoption of those provisions.

### (3) Statements of Cash Flows - Supplemental Information

Cash paid for interest costs was approximately \$7.0 million;

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\$6.9 million and \$5.4 million for the years ended June 30, 2001, 2000 and 1999, respectively. The Company capitalized interest of approximately \$2.7 million, \$3.7 million and \$2.5 million during the years ended June 30, 2001, 2000 and 1999, respectively, related to the module improvements and a building in progress.

The Company paid no income taxes for the years ended June 30, 2001 and 2000, and paid income taxes of approximately \$400,000 for the year ended June 30, 1999.

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(4) Accounts Receivable

At June 30, 2001 and 2000, accounts receivable consisted of (in thousands):

|                                 | 2001      | 2000     |
|---------------------------------|-----------|----------|
|                                 |           |          |
| U.S. government contracts:      |           |          |
| Billed                          | \$ 9,181  | \$ 18,5  |
| Unbilled                        | 3,085     | 3,4      |
|                                 |           |          |
| Total U.S. government contracts | 12,266    | 21,9     |
|                                 |           |          |
| Commercial contracts:           |           |          |
| Billed                          | 4,378     | 1,61     |
| Unbilled                        | 714       | 2,28     |
|                                 |           |          |
| Total commercial contracts      | 5,092     | 3,89     |
|                                 |           |          |
| Total accounts receivable       | \$ 17,358 | \$ 25,79 |

The Company anticipates collecting substantially all receivables within one year.

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

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the Company's financial condition or results of operations.

### (5) Acquisition

#### The Space Store

On June 28, 2000, the Company paid approximately \$200,000 including transaction costs, to acquire all of the capital stock of The Space Store. The business combination has been accounted for using the purchase method under APB Opinion 16. The purchase price has been allocated to the assets and liabilities acquired based on estimates of fair value as of the date of acquisition. Based on the allocation of the net assets acquired, goodwill of approximately \$200,000 was recorded. Such goodwill is being amortized on a straight-line basis over 5 years. Historical results of operations of The Space Store are insignificant. The Space Store is a wholly owned subsidiary of SMI. The Space Store is involved in e-commerce and sells space related items.

### (6) Loans Payable Under Credit Agreement

Prior to an August 1996 amendment, the Company's credit agreement consisted of a \$6.5 million term loan bearing interest at 1 percent per month and a \$5.5 million non-interest-bearing term loan with several insurance companies. In addition, a revolving credit commitment with a subcontractor and former shareholder provided a maximum outstanding balance of \$6.0 million and bore interest at a rate of 1 percent per month.

In August 1996, the Company's credit agreement was amended. In exchange for the full satisfaction of the Company's term loans with the various insurance companies, the Company paid the insurance companies \$2.5 million and agreed to pay an additional \$2.0 million under a new non-interest-bearing term loan. As of June 30, 2001, the remaining balance due under the term

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loan is \$0.33 million due on August 1, 2001, which was repaid subsequent to the year ended June 30, 2001.

In conjunction with a payment in December 1998 of certain principal of notes payable due to Alenia Spazio S.p.A., (note 7), the annual interest rate on the outstanding balances under the credit agreement was amended to be 8.25 percent per year. Aggregate interest cost incurred on the debts due under the credit agreement was approximately \$30,000, \$57,000 and \$40,000 for the years ended June 30, 2001, 2000 and 1999, respectively.

### (7) Convertible Notes Payable to Shareholder

The Company issued subordinated notes for a portion of the amount due to Alenia Spazio S.p.A. ("Alenia"), a shareholder, under a previously completed construction contract for the Company's flight modules. In December 1998, the Company amended its agreement with Alenia Spazio S.p.A. relative to the subordinated notes payable with a then outstanding principal balance of \$11.9 million due in August 2001. In exchange for payment of \$4.0 million, Alenia agreed to waive the



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interest payment due for the quarter ended December 31, 1998 and to reduce the annual interest rate on the subordinated notes from 12 to 10 percent on the outstanding balance as of January 1, 1999. In addition, Alenia may elect to convert, in whole or part, the remaining principal amount into equity, on terms and conditions to be agreed with the Company.

The subordinated notes had aggregate outstanding balances of \$7.9 million at June 30, 2001. The notes bear interest at an annual rate of 10 percent. No amount of principal or accrued interest on the notes is due until all amounts under the amended and restated credit agreement due to the various insurance companies (note 6) are repaid. All principal payments were due under these notes on August 1, 2001. The maturity date of this debt was extended from August 1, 2001 to October 31, 2001. The Company is in ongoing discussions with Alenia to restructure the terms of this debt to provide for repayment over an extended period.

During the year ended June 30, 1998, the Company began paying interest on these notes quarterly. The Company paid approximately \$800,000 interest during each of the years ended June 30, 2001 and 2000 and \$400,000 in 1999.

### (8) Other Debt

#### Revolving Loan Payable

On June 16, 1997, the Company entered into a \$10.0 million revolving loan payable line of credit agreement with a financial institution. Outstanding balances on the line of credit accrue interest at either the lender's prime rate or a LIBOR-based rate. Certain assets of the Company collateralize this loan. The agreement expired on August 31, 2000. Through June 30, 2000, the Company had drawn \$4.5 million against the line of credit.

On August 9, 2000, the Company entered into a \$15 million revolving credit facility with a financial institution that provides a working capital line of credit with a letter of credit sub-limit of \$10.0 million. This new credit facility replaced the current \$10 million revolving line of credit. Certain assets of the Company collateralize the new credit facility. The term of the agreement is through August 2003. Through June 30, 2001, the Company had drawn \$6.75 million against the line of credit.

In conjunction with the Astrotech financing of its satellite processing facility in Titusville, Florida, in August 2001, the terms of the credit facility have been amended. Astrotech is no longer a party to the credit facility and the maximum amount allowable to be drawn under the Credit Facility has been reduced to \$6.5 million. The Company is in the process of negotiating new covenants and revisions to certain terms of the New Credit Facility.

#### Loans Payable

On July 14, 1997, the Company's subsidiary, Astrotech, entered into a credit facility for loans of up to \$15.0 million with a financial institution. The term of the agreement is through

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July 13, 2002. This loan is collateralized by the assets of Astrotech and certain other assets of the Company, and is guaranteed by the Company. Interest accrues at LIBOR plus three percent. Principal and interest are payable on a quarterly basis. In April 1999, the Company borrowed an additional \$1.0 million under this credit facility with the same terms, conditions and expiration date of the original loan. Principal payments of approximately \$3.1 million are due fiscal year ended 2002, \$1.1 million are due in the fiscal year early 2003, and \$40,000 in the fiscal year ending 2004. At June 30, 2001, the Company had an outstanding balance of \$4.3 million under this credit facility and accrued interest of \$87,000. In conjunction with the Astrotech financing, \$3.1 million of the balance outstanding at the year ended June 30, 2001 was subsequently repaid.

### Convertible Subordinated Notes

In October 1997, the Company completed a private placement offering for \$63.25 million of aggregate principal of unsecured 8 percent Convertible Subordinated Notes due 2007. Interest is payable semi-annually. The notes are convertible into the common stock of the Company at a rate of \$13.625 per share. This offering provided the Company with net proceeds of approximately \$59.9 million to be used for capital expenditures associated with the development and construction of space related assets and for other general corporate purposes.

### Loan Covenants

For the year ended June 30, 2001 the Company was in breach of certain loan covenants of the Term Loan and New Credit Facility. The Company received a waiver of the covenant violation on the New Credit Facility as of June 30, 2001 and also received a waiver and covenant reset for the Term Loan. For the year ended June 30, 2000, the Company was in breach of certain covenants of the Term Loan and Revolving Line of Credit facility. The covenant for the Revolving Line of Credit was waived through its term and the covenant on the Term Loan agreement was waived and amended on a going forward basis. The Company is in the process of negotiating new covenants on the New Credit Facility for future periods. Although there can be no assurances, the Company believes it will be in compliance with the amended covenants of the Term Loan and existing covenants of the New Credit Facility during the year ended June 30, 2002.

### (9) Fair Value of Financial Instruments

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments as of June 30, 2001 and 2000 in accordance with SFAS No. 107, Disclosures about Fair Value of Financial Instruments (in thousands):

|  | June 30, 2001      |               | June 30, 2000      |
|--|--------------------|---------------|--------------------|
|  | Carrying<br>Amount | Fair<br>Value | Carrying<br>Amount |

Financial liabilities:

Loans payable under

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|                                     |    |        |    |        |    |        |    |
|-------------------------------------|----|--------|----|--------|----|--------|----|
| credit agreement                    | \$ | 333    | \$ | 333    | \$ | 667    | \$ |
| Notes payable to shareholder        |    | 7,860  |    | 7,860  |    | 7,860  |    |
| Loans payable under credit facility |    | 4,264  |    | 4,264  |    | 7,583  |    |
| Convertible notes payable           |    | 63,250 |    | 38,029 |    | 63,250 |    |

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

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(10) NASA Contracts

Research and Logistics Module Services Contract

On December 21, 1997, the Company entered into the REALMS Contract to provide to NASA its flight modules and related integration services over three missions at an aggregate fixed price of \$44.9 million. This contract provides for NASA to use the flight modules for both science and logistics missions. During the period from December 21, 1997 to June 30, 2001, this contract was amended whereby the REALMS contract value was increased to \$160.3 million and the number of missions was increased to seven.

During the years ended June 30, 2001, 2000 and 1999, the Company recognized \$36.6 million, \$33.3 million and \$28.2 million of revenue, respectively, under this contract. SPACEHAB has a claim in excess of the REALMS contract value of approximately \$7.9 million relative to an equitable adjustment due to a two-year slip in the launch date of the Space Shuttle flight STS-107.

Flight Crew Systems Development Contract ("FCSD")

JE primarily operates under the Flight Crew Systems Development contract ("FCSD" Contract) which is currently a \$366.6 million multitask cost-plus-award and incentive-fee contract. The contract commenced in May 1993 and was scheduled to conclude in April 2001. NASA has exercised its option to extend certain tasks for an additional year through April 2002. JE performs several critical services for NASA including flight crew support services, operations, training and fabrication of mockups at NASA's Neutral Buoyancy Laboratory and at NASA's Space Vehicle Mockup Facility, where astronauts train for both Space Shuttle and ISS missions. JE also provides stowage integration services and is also responsible for configuration management of the ISS.

During the years ended June 30, 2001, 2000 and 1999, the Company recognized \$50.7 million, \$57.9 million, \$57.7 million of revenue, respectively, under this contract.

(11) Stockholder Rights Plan

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On March 26, 1999, the Board of Directors adopted a Stockholder Rights Plan designed to deter coercive takeover tactics and to prevent a potential acquirer from gaining control of the Company without offering a fair price to all of the Company's stockholders. A dividend of one preferred share purchase right (a "Right") was declared on every share of Common Stock outstanding on April 9, 1999. Each Right under the Plan entitles the holder to buy one one-thousandth of a share of a new series of junior participating preferred stock for \$35. If any person or group becomes the beneficial owner of 15 percent or more of common stock (with certain limited exceptions), then each Right (not owned by the 15 percent stockholder) will then entitle its holder to purchase, at the Right's then current exercise price, common shares having a market value of twice the exercise price. In addition, if after any person has become a 15 percent stockholder, and is involved in a merger or other business combination transaction with another person, each Right will entitle its holder (other than the 15 percent stockholder) to purchase, at the Right's then current exercise price, common shares of the acquiring company having a value of twice the Right's then current exercise price. The rights were granted to each shareholder of record on April 9, 1999. At any time before a person or group acquires a 15% position, the Company generally will be entitled to redeem the Rights at a redemption price of \$0.01 per Right. The Rights will expire on April 9, 2009.

### (12) Common Stock Option and Stock Purchase Plans

As of June 30, 2001, approximately 1,538,798 shares of common stock were reserved for future grants of stock options under the Company's three stock option plans.

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#### Non-qualified Options

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

#### The 1994 Plan

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

#### The Directors' Stock Option Plan

Prior to an amendment on October 21, 1997, each non-employee member of the Board of Directors was annually granted options to purchase 5,000 shares of common stock at exercise prices equal to the fair market value on the date of grant. Subsequent to the amendment, each non-employee member of the Board of Directors received a one-time grant of an option to purchase 10,000 shares of common stock. Further,

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

1997 Employee Stock Purchase Plan

During the year ended June 30, 1998, the Company adopted an employee stock purchase plan that permits eligible employees to purchase shares of common stock of the Company at prices no less than 85 percent of the current market price. Eligible employees may elect to participate in the plan by authorizing payroll deductions from one percent to ten percent of gross compensation for each payroll period. On the last day of each quarter, each participant's contribution account is used to purchase the maximum number of whole and fractional shares of common stock determined by dividing the contribution account's balance by the lesser of 85 percent of the price of a share of common stock on the first day of the quarter or the last day of a quarter. The number of shares of common stock that may be purchased under the plan is 1,500,000. Through June 30, 2001, employees have purchased approximately 372,000 shares under the plan.

Space Media, Inc. Stock Option Plan

During the year ended June 30, 2000, Space Media, Inc., a majority owned subsidiary of the Company, adopted an option plan ("SMI Plan") for employees, officers, directors and consultants of Space Media, Inc. Under the terms of the SMI Plan, 1,500,000 shares have been reserved for future grants for which the number and price of the options granted is determined by the Board of Directors and such options vest, in most cases, incrementally over a period of four years and expire no more than ten years after the date of grant. At June 30, 2001, there were 611,250 options issued and outstanding under the SMI Plan at a weighted average exercise price of \$1.23. The options vest equally over a four-year period and have a life of 10 years. There were 148,734 options exercisable as of June 30, 2001.

Stock Option Activity Summary

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

| Non-qualified Options |                           | 1994 Plan |                           | Dir   |
|-----------------------|---------------------------|-----------|---------------------------|-------|
| Shares                | Weighted Average Exercise | Shares    | Weighted Average Exercise | Share |

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|   | outstanding | Price    | Outstanding | Price   | Outstan |
|---|-------------|----------|-------------|---------|---------|
| Outstanding at June 30, 1998  | 300,045     | \$ 12.33 | 1,478,253   | \$ 8.62 | 190,0   |
| Granted   | 300,000     | 14.00    | 572,713     | 11.69   | 50,0    |
| Exercised   | -           | -        | 1,070       | 9.69    |         |
| Forfeited   | 106,241     | 12.00    | 140,670     | 9.16    |         |
|   | 493,804     | \$ 13.42 | 1,909,226   | \$ 9.50 | 240,0   |
| Outstanding at June 30, 1999  |             |          |             |         |         |
| Granted   | -           | -        | 1,034,674   | 5.10    | 35,0    |
| Exercised   | -           | -        | -           | -       |         |
| Forfeited   | 95,831      | 12.39    | 360,287     | 7.06    |         |
|   | 397,973     | \$ 13.66 | 2,583,613   | \$ 8.05 | 275,0   |
| Outstanding at June 30, 2000  |             |          |             |         |         |
| Granted   | -           | -        | 1,036,040   | 4.44    | 40,0    |
| Exercised   | -           | -        | -           | -       |         |
| Forfeited   | 67,707      | 12.55    | 967,539     | 8.11    |         |
|   | 330,266     | \$ 13.89 | 2,652,114   | \$ 6.62 | 315,0   |
| Outstanding at June 30, 2001  |             |          |             |         |         |
| Options exercisable at:   |             |          |             |         |         |
| June 30, 1999   | 191,770     | \$ 12.39 | 1,072,121   | \$ 8.56 | 190,0   |
| June 30, 2000   | 397,973     | 13.66    | 1,423,660   | 8.58    | 240,0   |
| June 30, 2001   | 330,266     | 13.89    | 1,272,238   | 7.89    | 275,0   |
| Weighted-average fair value at date of grant during the fiscal period ended |             |          |             |         |         |
| June 30, 1999   | 300,000     | \$ 3.12  | 572,713     | \$ 4.50 | 50,0    |
| June 30, 2000   | -           | -        | 1,034,674   | 3.02    | 35,0    |
| June 30, 2001   | -           | -        | 1,036,040   | 2.06    | 40,0    |

The following table summarizes information about the Company's stock options outstanding at June 30, 2001:

| Range of exercise prices | Options outstanding |   |                                 | Options exercisable |                                 |
|--------------------------|---------------------|---|---------------------------------|---------------------|---------------------------------|
|                          | Number Outstanding  | Weighted-Average Remaining Contractual life (years) | Weighted-Average Exercise price | Number exercisable  | Weighted-Average Exercise Price |
| \$ 2.81 - 4.75           | 552,000             | 9.16  | \$ 3.69                         | 53,750              | \$ 4.34                         |
| 4.88 - 5.75              | 1,036,310           | 7.64  | 5.06                            | 305,586             | 5.21                            |
| 6.63 - 10.13             | 693,889             | 2.10  | 7.02                            | 691,889             | 7.01                            |
| 10.63 - 14.50            | 1,009,081           | 4.63  | 12.28                           | 820,179             | 12.42                           |
| 24.00                    | 6,100               | 1.25  | 24.00                           | 6,100               | 24.00                           |

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\$ 2.81 - \$24.00    3,297,380                  5.79                  \$        7.49        \$ 1,877,504    9.06

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The Company applies APB Opinion 25 and related interpretations in accounting for its plans. Accordingly, as all options have been granted at exercise prices equal to the fair market value as of the date of grant, no compensation cost has been recognized under these plans in the accompanying consolidated financial statements. Had compensation cost been determined

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consistent with SFAS 123, the Company's net income (loss) and earnings (loss) per common share would have been reduced (increased) to the pro forma amounts indicated below (in thousands, except per share data):

|                                      | Year Ended<br>June 30, 2001 | Year Ended<br>June 30, 2000 | Year<br>June 30, 1999 |
|--------------------------------------|-----------------------------|-----------------------------|-----------------------|
| -----                                |                             |                             |                       |
| Net income (loss):                   |                             |                             |                       |
| As reported                          | \$ (12,785)                 | \$ (3,844)                  | \$ (3,844)            |
| Pro forma                            | \$ (13,982)                 | (4,996)                     |                       |
| -----                                |                             |                             |                       |
| Net income (loss) per share - basic: |                             |                             |                       |
| As reported                          | \$ (1.12)                   | \$ (0.34)                   | \$ (0.34)             |
| Pro forma                            | \$ (1.23)                   | (0.44)                      |                       |
| -----                                |                             |                             |                       |

The fair value of each option granted and each employee stock purchase right is estimated using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in fiscal years 2001, 2000 and 1999, respectively: 0.0 percent dividend growth; expected volatility ranging from 35 percent to 50 percent; risk-free interest rates ranging from 5.68 percent to 7.875 percent; and expected lives ranging from three months to seven years.

The effects of compensation cost as determined under SFAS 123 on pro forma net income (loss) in years ended June 30, 2001, 2000 and 1999 may not be representative of the effects on pro forma net income (loss) in future periods.

Warrants

The Company also has 53,000 currently exercisable warrants outstanding to purchase the Company's common stock at \$9.00 per share, with an expiration date of June 2002. The fair market value of these warrants was recognized at issuance. All such warrants were issued at exercise prices equivalent to, or in excess of, the determined fair market value of the Company's common stock at the date of issuance.

(13) Income Taxes

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

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

|                              | Years Ended June 30, |            |
|------------------------------|----------------------|------------|
|                              | 2001                 | 2000       |
| Current:                     |                      |            |
| Federal                      | \$ -                 | \$ -       |
| State                        | 127                  | -          |
| Foreign                      | 70                   | -          |
|                              | 197                  | -          |
| Deferred:                    |                      |            |
| Federal                      | (685)                | (1,477)    |
| State and Local              | (398)                | (285)      |
| Foreign                      |                      |            |
|                              | (1,083)              | (1,762)    |
| Income Tax Expense (Benefit) | \$ (886)             | \$ (1,762) |

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A reconciliation of the reported income tax expense to the amount that would result by applying the U.S. federal statutory rate of 34 percent to the income (loss) before income taxes to the actual amount of income tax expense (benefit) recognized follows (in thousands):

|  | Years Ended June 30, |      |
|--|----------------------|------|
|  | 2001                 | 2000 |
|  |                      |      |



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|  |            |            |
|--|------------|------------|
| Expected expense (benefit)             | \$ (4,648) | \$ (1,906) |
| Change in valuation allowance          | 3,948      | 43         |
| State income taxes                     | (491)      | (188)      |
| Other, primarily goodwill amortization | 305        | 289        |
| Total                                  | \$ (886)   | \$ (1,762) |

The Company's deferred tax asset as of June 30, 2001 and 2000 consists of the following (in thousands):

|  | 2001      |    |
|--|-----------|----|
| -----  |           |    |
| Deferred Tax Assets:   |           |    |
| Net Operating Loss Carryforwards                                       | \$ 15,818 | \$ |
| General business Credit Carryforwards                                  | 2,170     |    |
| Alternative Minimum Tax Credit Carryforwards                           | 3,292     |    |
| Accrued Expenses   | 1,636     |    |
| Capitalized Start-up and Organization Costs                            | 1,602     |    |
| Other  | 190       |    |
| -----  |           |    |
| Total Gross Deferred Tax Assets  | 24,708    |    |
| Less - Valuation Allowance   | (4,160)   |    |
| -----  |           |    |
| Net Deferred Tax Assets  | 20,548    |    |
| -----  |           |    |
| Deferred Tax Liabilities:  |           |    |
| Property and Equipment, principally due to differences in depreciation | 20,493    |    |
| Other  | 55        |    |
| -----  |           |    |
| Total Gross Deferred Tax Liabilities                                   | 20,548    |    |
| -----  |           |    |
| Net Deferred Tax Assets/(Liabilities)                                  | 0         | \$ |
| -----  |           |    |

As of June 30, 2000, current deferred tax assets of \$997,000 are included in prepaid expenses and other current assets in the accompanying balance sheet.

The net changes in the total valuation allowance for the years ended June 30, 2001, 2000, and 1999 were increases of approximately \$3.9 million, \$43,000 and \$169,000, respectively.

At June 30, 2001, the Company had accumulated net operating losses of approximately \$41.7 million for Federal income tax purposes, which are available to offset future regular taxable income. These operating loss carryforwards expire between the years 2007 and 2021. Utilization of these net operating losses may be subject to limitations in the event of significant changes in stock ownership of the Company.

Additionally, the Company has approximately \$2.2 million and \$3.3 million of research and experimentation and alternative minimum

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tax credit carryforwards, respectively, available to offset future regular tax liabilities. The research and experimentation credits expire between the years 2002 and 2008; the alternative minimum tax credits carry-forward indefinitely.

In assessing the realizability of its net deferred tax assets, management considers whether it is more likely than not that some portion or all of the net deferred tax assets are realizable. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. As of June 30, 2001, the Company provided a full valuation allowance of approximately \$4.2 million against its net deferred tax assets.

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(14) Net Income (Loss) Per Share

The following are reconciliation's of the numerators and denominators of the basic and diluted earnings (loss) per share computations for the years ended June 30, 2001, 2000 and 1999 (in thousands, except share data):

|  | Per common<br>share |            |
|--|---------------------|------------|
| -----                                      |                     |            |
| Year Ended June 30, 2001                   |                     |            |
| Net loss                                   | \$                  | (12,785)   |
| Net loss, as adjusted                      | \$                  | (12,785)   |
| -----                                      |                     |            |
| Weighted average outstanding common shares |                     | 11,400,482 |
| Adjusted shares                            |                     | 11,400,482 |
| -----                                      |                     |            |
| Year Ended June 30, 2000                   |                     |            |
| Net loss                                   | \$                  | (3,844)    |
| Net loss, as adjusted                      | \$                  | (3,844)    |
| -----                                      |                     |            |
| Weighted average outstanding common shares |                     | 11,272,767 |
| Adjusted shares                            |                     | 11,272,767 |
| -----                                      |                     |            |
| Year Ended June 30, 1999                   |                     |            |
| Net loss                                   | \$                  | (2,589)    |
| Net loss, as adjusted                      | \$                  | (2,589)    |
| -----                                      |                     |            |
| Weighted average outstanding common shares |                     | 11,184,742 |
| Adjusted shares                            |                     | 11,184,742 |
| -----                                      |                     |            |

All options and warrants to purchase shares of common stock were excluded from the computations of diluted earnings (loss) per share for the years ended June 30, 2001, 2000 and 1999, because the impact of such options and warrants is anti-dilutive.

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(15) Employee Benefit Plan

The Company has a defined contribution retirement plan, which covers all employees and officers. For the years ended June 30, 2001, 2000 and 1999, the Company contributed \$1.8 million, \$1.5 million and \$0.8 million, respectively, to the plan. The Company has the right, but not the obligation, to make contributions to the plan in future years at the discretion of the Company's Board of Directors.

(16) Commitments

Integration and Operations Contracts

On August 13, 1997, the Company initiated a letter agreement with The Boeing Company ("Boeing"), a major subcontractor and shareholder, for standard integration and operation services to the Company for future missions that were not already provided for under its contract for missions to the Mir Space Station. In August 1998, this letter agreement became a cost plus incentive fee contract whereby Boeing will provide integration and operations services required to successfully complete four research missions (one single module mission and three double module missions) and seven logistics double module missions. Additionally, there are several tasks that are separately priced to yield a contract value of up to \$139.5 million. As of June 30, 2001, \$75.1 million has been incurred under this commitment.

Module Construction Contracts

During the year ended June 30, 1997, the Company entered into a \$43.1 million cost-plus-fee contract with Boeing to construct a new research module with associated double module hardware. The Company has taken initial delivery of the module and has completed its construction. The Company has incurred approximately \$43.0 million in construction costs through June 30, 2001.

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During the year ended June 30, 1999, the Company entered into a \$4.6 million letter agreement with Boeing to initiate activities to support the fabrication of an adaptable double module. The letter contract period of performance is through November 2000. The Company has incurred \$3.9 million in costs through June 30, 2001.

Leases

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

|                      |                   |
|----------------------|-------------------|
| Year ending June 30, | Capital<br>Leases |
| -----                |                   |

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|   |    |       |
|---|----|-------|
| 2002  | \$ | 40    |
| 2003  |    | 28    |
| 2004  |    | 22    |
| 2005  |    | 1     |
| 2006 and thereafter                                   |    | -     |
|   |    | ----- |
|   |    | 91    |
| Less: amount representing interest between 9% and 12% |    | (8)   |
|   |    | ----- |
| Present value of net minimum capital lease payments   | \$ | 83    |
|   |    | ----- |

Rent expense for the years ended June 30, 2001, 2000 and 1999 was approximately \$2.9 million, \$2.1 million and \$2.2 million respectively.

For the year ended June 30, 2001, the capitalized lease assets are recorded at \$365,424 and the annual amortization is \$44,000.

(17) Segment information

Based on its organization, the Company operates in four business segments: SPACEHAB, now designated Flight Services for Company management reporting, JE, Astrotech and SMI. SPACEHAB was founded to commercially develop space habitat modules to operate in the cargo bay of the Space Shuttles. Flight Services provides access to the modules and integration and operations support services for both NASA and commercial customers. JE is primarily engaged in providing engineering services and products to the Federal Government and NASA, primarily under the FCSD Contract. Astrotech provides payload-processing facilities to serve the satellite manufacturing and launch services industry. Astrotech currently provides launch site preparation of flight ready satellites to major U.S. space launch companies and satellite manufacturers. 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 before taxes, including allocated interest based on the investment in the segment, in assessing performance and making overall operating decisions and resource allocations. As such, other income/expense items including taxes and corporate overhead have not been allocated from Flight Services to the various segments.

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

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| Year Ended June 30, 2001: | (in thousands) |                          |                        |                           |
|---------------------------|----------------|--------------------------|------------------------|---------------------------|
|                           | Revenue        | Pre-Tax<br>Income (loss) | Net<br>Fixed<br>Assets | Depreci<br>And<br>Amortiz |
| Flight Services           | \$44,997       | \$ (7,868)               | \$135,055              | \$7,                      |
| Johnson Engineering       | 53,526         | (887)                    | 2,806                  | 1,                        |
| Astrotech                 | 6,230          | 18                       | 36,135                 |                           |
| SMI                       | 501            | (4,934)                  | 58                     |                           |
|                           | \$105,254      | \$ (13,671)              | \$174,054              | \$9,                      |
| Year Ended June 30, 2000: |                |                          |                        |                           |
|                           | Revenue        | Pre-Tax<br>Income (loss) | Net<br>Fixed<br>Assets | Depreci<br>And<br>Amortiz |
| Flight Services           | \$39,871       | \$ (928)                 | \$129,709              | \$5,                      |
| Johnson Engineering       | 58,254         | 108                      | 3,000                  | 1,                        |
| Astrotech                 | 7,583          | (2,944)                  | 25,975                 |                           |
| SMI                       | -              | (1,842)                  | -                      |                           |
|                           | \$105,708      | \$ (5,606)               | \$158,684              | \$8,                      |
| Year ended June 30, 1999: |                |                          |                        |                           |
|                           | Revenue        | Pre-Tax<br>Income        | Net<br>Fixed<br>Assets | Depreci<br>And<br>Amortiz |
| Flight Services           | \$39,477       | \$ (2,925)               | \$109,912              | \$4,                      |
| Johnson Engineering       | 58,398         | 342                      | 1,647                  | 1,                        |
| Astrotech                 | 9,845          | (505)                    | 20,625                 | 1,                        |
| SMI                       | -              | -                        | -                      |                           |
|                           | \$107,720      | \$ (3,088)               | \$132,184              | \$7,                      |

Foreign revenue for the years ended June 30, 2001, 2000 and 1999 was approximately \$6.6 million, \$1.7 million and \$10.9 million respectively. Domestic revenue for the years ended June 30, 2001, 2000 and 1999 was approximately \$98.7 million, \$104.0 million and \$96.8 million respectively.

(18) Convertible Preferred Stock

On August 2, 1999, Astrium, a related party, a shareholder, purchased an additional \$12.0 million equity stake in SPACEHAB representing 1,333,334 shares of Series B Senior Convertible Preferred Stock. Under the agreement, Astrium, a related party, purchased all of SPACEHAB's 975,000 authorized and uninsured shares of preferred stock. At the annual stockholders meeting held on October 14, 1999, the shareholders approved the proposal to increase the number of authorized shares of preferred stock to 2,500,000, in order to complete the transaction with Astrium, a related party, allowing them to purchase the additional 358,334 preferred shares. The preferred stock purchase increased Astrium's, a related party, voting interest in SPACEHAB to approximately 11.5 percent. The Series B Senior Convertible Preferred Stock is: convertible at the holders' option on the basis of one share

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of preferred stock for one share of common stock, entitled to vote on an "as converted" basis the equivalent number of shares of common stock and has preference in liquidation, dissolution or winding up of \$9.00 per preferred share. No dividends are payable on the convertible preferred shares.

Astrium, a related party, provides unpressurized payload and integration efforts to SPACEHAB on a fixed price basis in addition to providing engineering services as required. For the years ended June 30, 2001, 2000 and 1999, Astrium's, a related party, payload and integration services included in cost of revenue was approximately \$4.3 million, \$3.6 million and \$2.1 million respectively.

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### (19) Investment in Guigne

During June 1998, the Company entered into a joint venture agreement with Guigne Technologies Limited ("GTL"), a Canadian company, for the purpose of developing, fabricating, marketing and selling of SpaceDRUMS services, a containerless processing facility intended to be deployed on the ISS. In accordance with the joint venture agreement, the Company had contributed, in exchange for a 50 percent interest in the joint venture, an aggregate of \$2.0 million of working capital to the joint venture through December 1999. The Company's contributions were made in the form of an unsecured non-interest bearing note. The joint venture has entered into contracts with an aggregate value of \$6.9 million for the lease of the SpaceDRUMS facility with an unrelated party.

The joint venture agreement contained an option whereby the Company could exchange its interest in the joint venture and the \$2.0 million note for a common equity interest in Guigne Inc. ("GI"), the ultimate parent of GTL. In accordance with the terms of the joint venture agreement, in December 1999 the Company notified GI of its intention to exercise its option. Under the option, the equity interest obtained in GI was determined by dividing the \$2.0 million contributed by the Company by the fair market value of GI, as determined by independent appraisal, at the date of exchange. However, such equity interest could not exceed 19% of the outstanding equity of GI. The independent appraisal and conversion were finalized subsequent to June 30, 2000, with an effective date of January 1, 2000, and resulted in the Company obtaining a 15% common equity interest in GI. The Company accounts for its investment in GI on the cost method. Upon the exchange, the joint venture was dissolved and all property, rights, assets and liabilities of the joint venture became the property, rights, assets and liabilities of GI.

The Company did not have the ability to exclusively control the operational and financial policies of the joint venture, although the Company did exert significant influence and as such recognized its investment in the joint venture prior to the exchange using the modified equity method of accounting. During the year ended December 31, 1999, no revenues and no expenses were recognized by the joint venture. During the quarter ended December 31, 1999, at the time of the Company's exercise of its option, the Company recognized a \$0.2 million valuation allowance against its investment in GI based on the Company's

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estimate of the fair value of GI.

### (20) Asset Sale

On November 30, 2000, Astrium, a related party, entered into an agreement with the Company to purchase the Company's Integrated Cargo Carrier ("ICC") and Vertical Cargo Carrier ("VCC") flight assets. The total purchase price of \$15.4 million is comprised of both cash and services payments. The transaction will occur in two phases. The first phase is for the purchase of the ICC assets and the second phase is for the purchase of the VCC assets. Phase one of the transactions was completed in the three months ended March 31, 2001. The sale was approximately at book value and the Company recognized a minimal loss. SPACEHAB has entered into an agreement with Astrium, a related party, to lease these assets for a period of four years with two additional four-year options.

### (21) Subsequent Events

On August 2, 2001, SPACEHAB'S Astrotech subsidiary sold the assets of its Oriole sounding rocket program and related property for approximately \$1.2 million to DTI Associates, of Arlington, Virginia. The sale, effective July 26, 2001, turns over all physical and intellectual property assets of Astrotech's sounding rocket program, including the design of the Oriole Rocket, except for those assets required for Astrotech to fulfill the terms of an agreement with an existing customer. The terms of the sale are as follows; an initial cash payment at closing, five equal monthly payments beginning September 2001 and a promissory interest bearing note, secured by the Astrotech Sounding Rocket Program intellectual property, due July 26, 2002. Astrotech is expected to record a gain on the sale.

On August 9, 2001, SPACEHAB's Johnson Engineering (JE) Subsidiary sold its Filter Housing Machining operations assets and technology for approximately \$850,000 to Clear Lake Industries Holdings LLC (CLI), a company recently formed by W.T (Tom) Short, Retired SPACEHAB Senior Vice President for JE. The sale was effective July 1, 2001. The terms of the

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sale are as follows: an initial cash payment at closing and an interest bearing note due June 29, 2006. The sale was recorded at book value.

On September 10, 2001, SPACEHAB's Astrotech subsidiary completed a \$20 million financing of its satellite processing facility expansion project in Titusville, Florida with a financial institution. The proceeds of this financing are to be used to complete the construction of the payload process facility and supporting infra-structure. The loan is collateralized primarily by the multi year payload processing contracts with Boeing and Lockheed Martin. Interest accrues on the outstanding principal balance at a LIBOR-based rate, adjustable quarterly. The loan is payable on January 15, 2011. In conjunction with this financing, a swap agreement was entered into to provide for a fixed rate of interest under the loan commitment beginning January 2002.

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On October 1, 2001, SPACEHAB received a \$750,000 equity investment in Space Media, Inc. from EscottVentures II, LLC, of Melbourne, Florida. EscottVentures II has assumed a seat on SMI's board of directors along with its equity stake. SPACEHAB's ownership in Space Media, Inc. has been reduced to approximately 51% as a result of EscottVentures II equity investment.

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

The following is a summary of selected quarterly financial data for the previous three fiscal years (in thousands, except per share data):

|                                       | Three months ended |             |          |
|---------------------------------------|--------------------|-------------|----------|
|                                       | September 30       | December 31 | March 31 |
| <hr/>                                 |                    |             |          |
| Year ended June 30, 2001              |                    |             |          |
| Revenue                               | \$26,966           | \$23,975    | \$24,453 |
| Income (loss) from operations         | (1,602)            | (3,066)     | (3,089)  |
| Net income (loss)                     | (1,480)            | (2,738)     | (2,973)  |
| Net income (loss) per share - basic   | (0.13)             | (0.24)      | (0.26)   |
| Net income (loss) per share - diluted | (0.13)             | (0.24)      | (0.26)   |
| <hr/>                                 |                    |             |          |
| Year ended June 30, 2000              |                    |             |          |
| Revenue                               | \$25,978           | \$26,011    | \$25,057 |
| Income (loss) from operations         | (2,087)            | (1,239)     | 111      |
| Net income (loss)                     | (1,959)            | (1,272)     | (635)    |
| Net income (loss) per share - basic   | (0.17)             | (0.11)      | (0.06)   |
| Net income (loss) per share - diluted | (0.17)             | (0.11)      | (0.06)   |
| <hr/>                                 |                    |             |          |
| Year ended June 30, 1999              |                    |             |          |
| Revenue                               | \$28,273           | \$23,634    | \$26,693 |
| Income (loss) from operations         | 2,151              | (2,007)     | 338      |
| Net income (loss)                     | 413                | (1,851)     | (541)    |
| Net income (loss) per share - basic   | 0.04               | (0.17)      | (0.05)   |
| Net income (loss) per share - diluted | 0.04               | (0.17)      | (0.05)   |
| <hr/>                                 |                    |             |          |

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

None



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Item 10. Directors and Executive Officers of the Registrant.

The information required by this item will be contained in the Company's definitive Proxy Statement for its 2001 Annual Meeting of Stockholders and is hereby incorporated by reference thereto.

Item 11. Executive Compensation.

The information required by this item will be contained in the Company's definitive Proxy Statement for its 2001 Annual Meeting of Stockholders and is hereby incorporated by reference thereto.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

The information required by this item will be contained in the Company's definitive Proxy Statement for its 2001 Annual Meeting of Stockholders and is hereby incorporated by reference thereto.

Item 13. Certain Relationships and Related Transactions.

The information required by this item will be contained in the Company's definitive Proxy Statement for its 2001 Annual Meeting of Stockholders and is hereby incorporated by reference thereto.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K. (As Amended October 17, 2001, to include Consent of Independent Auditors, Exhibit 23.1)

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

1. Financial Statements.

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

|   | Page |
|---|------|
|   | ---- |
| Report of Ernst & Young LLP, Independent Auditors ..... | 1    |
| Report of KPMG LLP, Independent Auditors.....           | 2    |
| Consolidated Balance Sheets .....                       | 3    |
| Consolidated Statements of Operations .....             | 4    |
| Consolidated Statements of Stockholders' Equity .....   | 5    |
| Consolidated Statements of Cash Flows .....             | 6    |
| Notes to Consolidated Financial Statements .....        | 7    |

2. Financial Statement Schedules.

All financial statement schedules required to be filed in Part IV, Item 14 (a) have been omitted because they are not applicable, not required, or because the required information is included in the financial statements or notes thereto.

3. Exhibits.

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| Exhibit No. | Description of Exhibit  |
|-------------|---|
| 3.1*        | Amended and Restated Articles of Incorporation of the Company.  |
| 3.2         | Designation of Rights, Terms and Preferences of Series A Junior Preferred Stock (see Exhibit 4.4 of this Report on Form 10-K).  |
| 3.3++       | Designation of Rights, Terms and Preferences of Series B Senior Convertible Preferred Stock of SPACEHAB, Incorporated.  |
| 3.4*        | Articles of Amendment of SPACEHAB, Incorporated, including the Designation of Rights, Terms and Preferences of Additional Shares of Series B Senior Convertible Preferred Stock of SPACEHAB, Incorporated.  |
| 3.5*        | Amended and Restated By-Laws of the Company.  |
| 4.1++       | Designation of Rights, Terms and Preferences of Series B Senior Convertible Preferred Stock of the Registrant.  |
| 4.2++       | Preferred Stock Purchase Agreement between the Registrant and DaimlerChrysler Aerospace AG dated as of August 2, 1999.  |
| 4.3++       | Registration Rights Agreement between the Registrant and DaimlerChrysler Aerospace AG dated as of August 5, 1999.   |
| 4.4+        | Rights Agreement, dated as of March 26, 1999, between the Registrant and American Stock Transfer & Trust Company. The Rights Agreement includes the Designation of Rights, Terms and Preferences of Series A Junior Preferred Stock as Exhibit A, the form of Rights Certificate as Exhibit B and the Summary of Rights as Exhibit C. |
| 10.3*       | Cost Plus Incentive Fee Contract (Number SHB 1009), dated November 23, 1994, between the Registrant and McDonnell Douglas (including the amendments thereto) (the "Mir Contract").  |
| 10.6*       | Amended and Restated Representation Agreement, dated August 15, 1995, by and between the Registrant and Mitsubishi Corporation.   |
| 10.7*       | Letter Agreement dated August 15, 1995, by and between the Registrant and Mitsubishi Corporation.   |
| 10.12***    | Amended and Restated Credit Agreement, dated August 20, 1996 among the Registrant, the Insurers listed therein and the Chase Manhattan Bank (National Association), as agent.   |
| 10.13*///// | SPACEHAB, Incorporated 1995 Directors' Stock Option Plan (as amended and restated effective October 21, 1997).  |
| 10.27**     | Indemnification Agreement, dated December 27, 1995, between the Company and Dr. Shelley A. Harrison.  |
| 10.28**     | Indemnification Agreement, dated December 27, 1995, between the Company and Dr. Edward E. David, Jr.  |
| 10.32**     | Indemnification Agreement, dated December 27, 1995, between the   |

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Company and James R. Thompson.

- 10.36\*\* Indemnification Agreement, dated December 27, 1995, between the Company and David A. Rossi.
- 10.37\*\* Indemnification Agreement, dated December 27, 1995, between the Company and Dr. Shi H. Huang.
- 10.38\*\* Indemnification Agreement, dated December 27, 1995, between the Company and Nelda J. Wilbanks.
- 10.39\*\* Indemnification Agreement, dated December 27, 1995, between the Company and M. Dale Steffey.
- 10.43\*\* Indemnification Agreement, dated December 27, 1995, between the Company and Hironori Aihara.

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- 10.49\*// Cost Plus Fee Contract (Number SHB 1013), dated July 31, 1997, between the Registrant and McDonnell Douglas Corporation, McDonnell Douglas Aerospace Huntsville Division (the "Research Double Module Contract").
- 10.52\*// Office Building Lease Agreement, dated October 6, 1993, between Astrotech and the Secretary of the Air Force (Lease number SPCVAN - 2-94-001).
- 10.54\*// Loan and Security Agreement, dated June 16, 1997, between the Registrant, Astrotech and First Union National Bank (formerly known as Signet Bank) (the "Revolving Credit Agreement").
- 10.55\*// Loan and Security Agreement, dated July 14, 1997, between Astrotech and the CIT Group/Equipment Financing, Inc. (the "Term Loan Agreement").
- 10.57\*// Employment and Non-Interference Agreement, dated April 10, 1997, between the Company and John M. Lounge.
- 10.58\*// Indemnification Agreement, dated October 22, 1996, between the Company and John M. Lounge.
- 10.69\*/// ESA Contract, Dated October 10, 1997, between the Registrant and Intospace GmbH (the "ESA Contract").
- 10.70\*//// NAS 9-97199, dated December 21, 1997, between the Registrant and NASA (the "REALMS Contract").
- 10.73\*//// Employment Agreement and Non-Interference Agreement dated January 15, 1998, between the Company and David A. Rossi.
- 10.74\*//// Amendment number 1 to Loan and Security Agreement dated December 31, 1997, between the Company and First Union National Bank.
- 10.80\*///// CSA Contract, dated May 21, 1998, between the Registrant and the Canadian Space Agency.
- 10.81\*///// Gemini Office Building Lease Agreement, dated January 14, 1998, between the Registrant and Puget of Texas

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10.82\*///// SHB98006, dated July 8, 1998, between the Registrant and Benz Aerospace AG, Raumfahrt-Infrastruktur

10.84\*///// Capital Office Park Lease as amended, dated April 23, 1998, between Astrotech and Eleventh Springhill Lake Associates L.L.P.

10.85+++ Letter Agreement between the Company and Alenia Aerospazio.

10.86+++ Employment and Non-Interference Agreement dated July 1, 1998 between the Company and William A. Jackson

10.87+++ Employment and Non-Interference Agreement dated July 1, 1998 between the Company and Eugene A. Cernan

10.88+++ Employment and Non-Interference Agreement dated July 1, 1998 between the Company and W.T. Short

10.89+++ Modification S/A 14 to NAS9-97199 dated November 25, 1998, between the Company and NASA.

10.90++++ SPACEHAB, Incorporated 1994 Stock Incentive Plan (as amended and restated effective October 14, 1999).

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10.92++++ Employment and Non-Interference Agreement, dated March 1, 1999, between the Company and Michael Kearney.

10.93++++ Contract No. NAS 9-18800 between NASA and Johnson Engineering dated April 28, 1993.

10.94++++ Cost Plus Incentive Fee Contract No. SHB 1014 dated August 14, 1997 between the Boeing Company and the Registrant.

10.95++++ Amended and Restated Employment and Non-Interference Agreement, dated April 1, 1997, between the Company and Dr. Shelly A. Harrison, amended and restated as of January 15, 1999.

10.97++++ Lease for property at 555 Forge River Dr. Suite #150, Webster, TX between Johnson Engineering and CD UP LP a wholly owned subsidiary of Carey Diversified LLC, successor in interest to J.A. Billip Development Corporation dated April 30, 1993, as amended.

10.98++++ Lease for property at 18100 Upper Bay Road, Suite #208, Houston, TX between Johnson Engineering Corporation and Nassau Development Company, dated February 19, 1998.

10.99++++ Lease for property at 920, 926 and 928 Gemini Ave., Houston, TX under Standard Commercial Lease between Johnson Engineering Corporation and Lakeland Development dated February 1, 1998.

10.100++++ Lease for property at 300 D Street, SW, Suite #814, Washington, DC, between the Registrant and The Washington Design Center, LLC dated December 16, 1998.

10.101++++ Lease for property at 16850 Titan, Houston, TX between Johnson Engineering Corporation and Computer Extension Systems, Inc.

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dated August 1, 1999.

- 10.102++++ Agreement of Sale and Purchase of Leasehold Interest between Eastern American Technologies Corporation and SPACEHAB, Incorporated dated August 1997.
  - 10.103\*///// SPACEHAB, Incorporated 1997 Employee Stock Purchase Plan.
  - 10.104 Secured Promissory Note, dated March 30, 1999, between the Company and The CIT Group/Equipment Financing, Inc.
  - 10.105 Amendment No 2 to Loan and Security Agreement, dated October 15, 1999 between the Company, First Union National Bank and certain other parties.
  - 10.106+++++ Agreement between Astrotech Space Operations, Inc. and McDonnell Douglas Corporation, dated January 7, 2000.
  - 10.107+++++ Agreement between Astrotech Space Operations, Inc. and Lockheed Martin Commercial Launch Services, Inc. dated January 24, 2000.
  - 10.108 Amendment No. 3 to Loan and Security Agreement, dated January 31, 2000 between the Company, First Union National Bank and certain other parties.
  - 10.109 Employment and Non-Interference Agreement, dated February 14, 2000, between the Company and Julia A. Pulzone.
  - 10.110 Amendment No. 4 to Loan and Security Agreement, dated May 18, 2000 between the Company, First Union National Bank and certain other parties.
  - 10.111 Third Amendment and Assignment of Industrial Real Estate Lease, and Consent to Assignment of Industrial Real Estate Lease, dated July 24, 2000, between the Company, American National Insurance Company and Pall Corporation.
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- 10.112 Financing and Security Agreement, dated August 9, 2000, by and among Bank of America, N.A. and the Company, Johnson Engineering Corporation, Astrotech Space Operations, Inc. and Space Media, Inc.
  - 10.113\*++++ Employment and Non-Interference Agreement, dated as of January 1, 2001, between the Company and Michael Kearney.
  - 16.\*++ Changes in Registrant's Certifying Accountant.
  - 21.\*// Subsidiary of the Registrant.
  - 23.1 Consent of Ernst & Young LLP, Independent Auditors
  - 23.2 Consent of KPMG LLP.
  - \* Incorporated by reference to the Registrant's Registration Statement on Form S-1 (File No. 33-97812) and all amendments thereto, originally filed with the Securities and Exchange Commission on October 5, 1995.

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- \*\* Incorporated by reference to the Registrant's Report on Form 10-Q for the quarter ended December 31, 1995, filed February 14, 1996.
- \*\*\* Incorporated by reference to the Registrant's Report on Form 10-K for the fiscal year ended June 30, 1996, filed with the Securities and Exchange Commission on September 17, 1996.
- \*\*\*\* Incorporated by reference to the Registrant's Annual Report on Form 10-K/A for the year ended June 30, 1996, filed with the Securities and Exchange Commission on December 20, 1996.
- \*\*\*\*\* Incorporated by reference to the Registrant's Report on Form 10-Q/A for the quarter ended September 30, 1996, filed with the Securities and Exchange Commission on December 20, 1996.
- \*/ Incorporated by reference to the Registrant's Report on Form 8-K filed with the Securities and Exchange Commission on February 27, 1997.
- \*/ Incorporated by reference to the Registrant's Report on Form 10-K for the fiscal year ended June 30, 1997, filed with the Securities and Exchange Commission on September 12, 1997.
- \*/ Incorporated by reference to the Registrant's Report on Form 10-Q for the quarter ended September 30, 2000, filed November 14, 2000.
- \*/ Incorporated by reference to the Registrant's Report on Form 10-Q for the quarter ended December 31, 1997, filed February 5, 1998.
- \*/ Incorporated by reference to the Registrant's Report on Form 10-K for the fiscal year ended June 30, 1998, filed with the Securities and Exchange Commission on September 17, 1998.
- \*/ Incorporated by reference to the Registrant's Definitive Proxy Statement, filed with the Securities and Exchange Commission on September 12, 1997.
- + Incorporated by reference to the Registrant's Report on Form 8-K filed with the Securities and Exchange Commission on April 1, 1999.
  
- ++ Incorporated by reference to the Registrant's Report on Form 8-K filed with the Securities and Exchange Commission on August 19, 1999.
- +++ Incorporated by reference to the Registrant's Report on Form 10-Q for the quarter ended December 31, 1998.
- ++++ Incorporated by reference to the Registrant's Report on Form 10-K for the fiscal year ended June 30, 1999, filed with the Securities and Exchange Commission on September 17, 1999.

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- +++++ Incorporated by reference to the Registrant's Report on Form 10-Q for the quarter ended March 31, 2000, filed with the Securities and Exchange Commission on May 12, 2000.
- \*+ Incorporated by reference to the Registrant's Report on Form 10-K for the fiscal year ended June 30, 2000, filed with the Securities and Exchange Commission on September 12, 2000.
- \*++ Incorporated by reference to the Registrant's Report on Form 8-K filed with the Securities and Exchange Commission on September 13, 2000.
- \*+++ Incorporated by reference to the Registrant's Report on Form 10-Q for the quarter ended September 30, 2000.
- +++++ Incorporated by reference to the Registrant's Report on Form 10-Q for the quarter ended March 31, 2001.

The following Reports on Form 8-K were filed by the Registrant during the period covered by this report.

(a) Reports on Form 8-K.

A report on Form 8-K was filed September 13, 2000 announcing the dismissal of KPMG LLP as the independent public accountants of the Company and the appointment of Ernst & Young LLP as its new independent accountants for the fiscal year ended June 30, 2001, subject to stockholder ratification. Stockholder ratification was obtained at the Annual Meeting of Stockholders on October 12, 2000.

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SIGNATURES

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

SPACEHAB, Incorporated

By: /s/ Dr. Shelley A. Harrison  
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Dr. Shelley A. Harrison  
Chairman of the Board and  
Chief Executive Officer

Date:

By: /s/ Julia A. Pulzone  
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Julia A. Pulzone  
Senior Vice President, Finance  
and Chief Financial Officer

Date:

Pursuant to the requirements of the Securities and Exchange Act of 1934, this

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report has been signed below by the following persons on behalf of this registrant in the capacities and on the dates indicated.

/s/ Hironori Aihara Director October 15, 2001

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Hironori Aihara

/s/ Melvin D. Booth Director October 15, 2001

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Melvin D. Booth

/s/ Dr. Edward E. David, Jr. Director October 15, 2001

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Dr. Edward E. David, Jr.

/s/ Richard Fairbanks.III Director October 15, 2001

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Richard Fairbanks

/s/ Michael E. Kearney Director October 15, 2001

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Michael Kearney

/s/ Josef Kind. Director October 15, 2001

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Josef Kind

/s/ Gordon S. Macklin Director October 15, 2001

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Gordon S. Macklin

/s/ Yury P. Semenov Director October 15, 2001

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Dr. Yury P. Semenov

/s/ James R. Thompson Director October 15, 2001

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James R. Thompson