SPACEHAB INC \WA\
Form 10-K/A
December 03, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended June 30, 2007

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

Commission File No. 0-27206

SPACEHAB, Incorporated

(Exact name of registrant as specified in this charter)

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

12130 Highway 3, Building 1

Webster, Texas 77598-1504

(Address of principal executive offices) (Zip code)

(713) 558-5000

(Registrant s telephone number, including area code)

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES o NO x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES o NO x

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

YES x NO o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large accelerated filer o Accelerated filer o Non-accelerated filer x

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

YES o NO x

The aggregate market value of the registrants voting and non-voting common equity held by non-affiliates of the registrant, based upon the closing price of such stock on the NASDAQ National Market on such date of $0.65 was approximately $8,429,242 as of December 29, 2006.

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

DOCUMENTS INCORPORATED BY REFERENCE:

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

EXPLANATORY NOTE

SPACEHAB, Incorporated, referred to herein as the Company , is amending its Fiscal Year 2007 Form 10-K to add information required in PART III. The required PART III information was intended to be included in our definitive Proxy Statement for our 2007 Annual Meeting of Stockholders and was so referenced in Form 10-K. We have not yet filed our definitive Proxy Statement for our 2007 Annual Meeting of Stockholders.

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

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

A Board of seven directors was elected at the 2006 Annual Meeting. The Company s articles of incorporation authorize the Board of Directors from time to time to determine the number of its members. Vacancies in unexpired terms and any additional director positions created by Board action may be filled by action of the existing Board of Directors at that time, and any director who is appointed in this fashion will serve until the next Annual Meeting of Shareholders or until a successor is duly elected and qualified. On December 12, 2006, Michael E. Kearney resigned as a director and Chief Executive Officer of the Company and on April 4, 2007, Mark Adams was elected by the remaining members of the Board of Directors as a director of the Company.

On July 31, 2007, Dr. Edward David resigned as a director of the Company; on August 28, 2007, Dr. Stefan Graul, the former Series B Preferred Stock designated director resigned from the Board of Directors, and on October 16, 2007 Myron J. Goins resigned as a director of the Company.

The following table shows information as of November 15, 2007 regarding members of the Company s Board of Directors.

Directors	**Principal Occupation and Directorships**	**Age as of November 15, 2007**	**Director Since**
Thomas B. Pickens, III	Chief Executive Officer of SPACEHAB, Inc.; Managing Partner and founder of Tactic Advisors, Inc.; President and Founder of T.B. Pickens & Co.	50	2004
Mark Adams	Founder, President and CEO, Advocate MD Financial Group, Inc.	46	2007
Barry A. Williamson	Attorney; Director of Wilson Holdings, Inc.; Executive Board Member of Austin Smiles	50	2004
Roscoe M. Moore, III	Chief Strategic and Technical Officer of SPACEHAB, Inc.; President and Founder of PeerSat; Director and Chairman of Washington Space Business Roundtable	35	2004

Continuing Directors

Thomas B. Pickens, III

Since January 2007, Mr. Pickens has served as SPACEHAB s Chief Executive Officer. He is the President and Founder of T.B. Pickens & Co., a company that provides consulting services to corporations, public institutions, and start-up organizations, and he is also the Managing Partner and Founder of Tactic Advisors, Inc., a company specializing in corporate turnarounds on behalf of creditors and investors that have aggregated to over $20 billion in value. From 1991 to 2002, Mr. Pickens was the Founder and Chairman of U.S. Utilities, Inc., a company which operated 114 water and sewer utilities on behalf of various companies affiliated with Mr. Pickens. From 1995 to 1999, Mr. Pickens directed over 20 direct investments in various venture capital investments and was Founder and Chairman of the Code Corporation. From 1988 to 1993, Mr. Pickens was the Chairman of Catalyst Energy Corporation and was Chairman of United Thermal Corporation (NYSE). Mr. Pickens was also the President of Golden Bear Corporation, Slate Creek Corporation, Eury Dam Corporation, Century Power Corporation, and Vidilia Hydroelectric Corporation. From 1986 to 1988 Mr. Pickens founded Beta Computer Systems, Inc., Sumpter Partners and was the General Partner of Grace Pickens Acquisition L.P.

Mark Adams

Mr. Adams is the founder of Advocate, MD Financial Group, Inc., a leading Texas-based medical liability insurance holding company, and since its founding in July 2003, has served as its Chairman, President, and

Chief Executive Officer. Mr. Adams also serves as Chairman of the Board of Advocate, MD Insurance of the Southwest, Inc., a wholly-owned subsidiary of Advocate, MD Financial Group, Inc. He is also a founding partner in several other companies including the Endowment Development Group, a Houston-based life insurance company specializing in placing large multimillion dollar life insurance policies throughout the U.S. market, Cattlemen s Restaurant Group and Viva Chocolato!. Beginning his career with global public companies such as Xerox and Johnson & Johnson, Mr. Adams then spent the next 12 years at Bostik Adhesives where he served in senior management, sales and strategic business roles for their worldwide markets in North America, Latin America, Asia, and Europe. Mr. Adams then served as Global Sales Director for Bostik and General Manager of Nitta-Findley Company based in Osaka, Japan and in 2000 joined Ward Adhesives, Inc. as a minority owner, General Manager, and Vice President of Sales and Marketing where he led the company to unprecedented growth in sales and net income.

Barry A. Williamson

SPACEHAB s Chairman of the Board since 2006, Mr. Williamson is an attorney practicing in Austin, Texas and is a director of Wilson Holdings, Inc. Mr. Williamson is an Executive Board Member and past Chairman of the Board of Austin Smiles, a not-for-profit organization that provides reconstructive plastic surgery for children with complex birth defects. In 1988, he worked for the Reagan administration as the principal advisor to the U.S. Secretary of Energy in the formulation of a national energy policy. During the administration of former President George H.W. Bush, Mr. Williamson served as Director of the Minerals Management Service for the U.S. Department of Interior. In 1992, Mr. Williamson was elected to the Texas Railroad Commission and served as Chairman from 1994 to 1995.

Roscoe M. Moore, III

Mr. Moore joined the Board of Directors in December 2004. In 2007, he was named SPACEHAB s Executive Vice President and Chief Strategic and Technical Officer. He is also the President and Founder of PeerSat, a company which employs Internet technologies to deliver satellite-based multimedia content to end-users. From December 1998 to November 2002, he was a Venture Capital Associate with SpaceVest Venture Capital, in which he sourced and managed investments in entrepreneurial space and satellite companies. Mr. Moore is an Astronautical Engineer and an attorney with 17 years of private industry and federal government experience in commercializing space technologies for use by private and government end-users. As an Air Force Officer he evaluated foreign ballistic missile and space technology, and he worked as a Nuclear Missile Treaty Inspector in Votkinsk, Russia. Upon leaving U.S. Air Force active duty in 1998, he was appointed by the U.S. Secretary of Transportation to the Commercial Space Transportation Advisory Committee to assist in planning commercial space industry regulations, and was appointed by the U.S. Department of State to participate as a U.S. Delegate at the 2000 World Radio-communication Conference. For the past six years Mr. Moore has served on the Board of Directors of the Washington Space Business Roundtable, a not-for-profit organization, and was elected Chairman of the Board of Directors in 2004.

Executive Officers and Key Employees of the Company who are Not Nominees

Set forth below is a summary of the background and business experience of the executive officers of the Company who are not nominees for the Board of Directors.

Name	Age	Position(s)	With Company Since
James D. Royston	44	President	2000
Brian K. Harrington	61	Senior Vice President, Chief Financial Officer, Secretary and Treasurer	2004
Michael J. Bowker	47	Senior Vice President and Chief Operating Officer	2007

The executive officers and key employees named above will serve in such capacities until the next annual meeting of the Company s Board of Directors, or until their respective successors have been duly elected and have been qualified, or until their earlier death, resignation, disqualification, or removal from office.

James D. Royston

In June 2007, Mr. Royston was appointed to the position of President of SPACEHAB, Inc, responsible for advancing the company s global space commerce initiatives. Mr. Royston joined SPACEHAB in 2000 and most recently served as Senior Vice President and General Manager of Astrotech Space Operations. A former RWD Technologies Inc, executive (NASDAQ -RWDT), Mr. Royston served as the company s e-Learning Director, where he managed company operations, strategic planning, and growth strategies. Mr. Royston also served as the Director of the Information Management Project Office for United Space Alliance at NASA s Kennedy Space Center (KSC). His aerospace experience also includes acting as the KSC Operations Director for Orbital Sciences Corporation, overseeing all contract and business development activities, as well as managing the Information Systems for NASA s Hubble Space Telescope Program. He also served as a Program Manager at NASA Headquarters in Washington, D.C.

Brian K. Harrington

Mr. Harrington joined SPACEHAB in January 2004 and serves as the Company s Senior Vice President, Finance and Chief Financial Officer. Before joining the Company, he was a financial consultant in private practice for six years. Prior to working in private practice, he served from 1989 to 1998 as Chief Financial Officer and Senior Vice President of Kirby Corporation (NYSE:KEX). His corporate and consulting experience includes acquisitions, bank financings, public and private placement of debt, public equity transactions, divestures, and recapitalizations. A Certified Public Accountant, Mr. Harrington began his career in the U.S Army, First Armored Division, where he served as Deputy Division Finance Officer during the Viet Nam conflict.

Michael J. Bowker

Michael J. Bowker has been a principal in the aerospace industry for more than two decades. Former Vice President of Business Development for SPACEHAB, Mr. Bowker returned to the SPACEHAB team as its Chief Operating Officer in 2007. Mr. Bowker s in-depth knowledge of SPACEHAB and its subsidiaries began in 1998 when he oversaw the Company s marketing, sales and strategic partnership initiatives as Director of Business Development. He was later promoted to the Vice President role, further leading SPACEHAB to achieve alliances with Astrium in Germany, France, and Great Britain; Boeing; United Space Alliance; and, Embraer in Brazil. From July 2002 to January 2007, until rejoining SPACEHAB in June 2007, Mr. Bowker led Astrium North America as its President and CEO where he directed all major marketing and business development efforts including securing several multi-million dollar aerospace contracts. Mr. Bowker also worked for United Space Alliance as their Business Development Director, Rockwell International in their Space Systems Division and NASA s Kennedy Space Center in their Systems Engineering and Integration office.

The Board of Directors and its Committees

Director Nomination Process

SPACEHAB s director nominees are approved by the Board after considering the recommendation of the Corporate Governance and Nominating Committee. A copy of the Corporate Governance and Nominating Committee s charter is available in the Investor Info section of the Company s website at www.spacehab.com.

The Corporate Governance and Nominating Committee has established certain criteria it considers as guidelines in considering nominations for the Board of Directors. The criteria include

- the candidate s independence;
- the candidate s depth of business experience;
- the candidate s availability to serve;
- the candidates integrity and personal and professional ethics;
- the balance of the business experience on the Board as a whole; and
- the need for specific expertise on the Board.

The criteria are not exhaustive and the Corporate Governance and Nominating Committee and the Board of Directors may consider other qualifications and attributes which they believe are appropriate in evaluating the ability of an individual to serve as a member of the Board of Directors. The Corporate Governance and Nominating Committee s goal is to assemble a Board of Directors that brings to the Company a variety of perspectives and skills derived from high quality business and professional experience. In order to ensure that the Board consists of members with a variety of perspectives and skills, the Corporate Governance and Nominating Committee has not set any minimum qualifications and also considers candidates with appropriate non-business backgrounds. Other than ensuring that at least one member of the Board is a financial expert and a majority of the Board members meet all applicable independence requirements, the Corporate Governance and Nominating Committee does not have any specific skills that it believes are necessary for any individual director to possess. Instead, the Corporate Governance and Nominating Committee evaluates potential nominees based on the contribution such nominee s background and skills could have upon the overall functioning of the Board of Directors.

For purposes of the 2008 Annual Meeting, the Corporate Governance and Nominating Committee will consider any nominations received by the Secretary from a Shareholder of record on or before the 120th calendar day before the one-year anniversary date of the release of these proxy materials to Shareholders. Any such nomination must be accompanied in writing by all information relating to such person that is required under the federal securities laws, including such person s written consent to be named in the Proxy Statement as a nominee and to serving as a director, if elected, and to a background check. The nominating Shareholder must also submit their name and address, as well as that of the beneficial owner if applicable, and the class and number of shares of SPACEHAB Common Stock that are owned beneficially and of record by such Shareholder and such beneficial owner. Finally, the nominating Shareholder must discuss the nominee s qualifications to serve as a director.

Committees of the Board of Directors

The Committees of the Board of Directors consist of the Audit Committee, the Compensation Committee, and the Corporate Governance and Nominating Committee. Information concerning the committees is set forth below.

The Audit Committee, which is composed solely of independent directors that meet the requirements of NASD and SEC rules, operates under a written charter adopted by the Audit Committee and approved by the Board of Directors on May 13, 2004. The charter is available on the Company s website which is www.spacehab.com. The Audit Committee is responsible for appointing and compensating a firm of independent registered public accountants to audit the Company s financial statements, as well as oversight of the performance and review of the scope of the audit performed by the Company s independent registered public accountants. The Audit Committee also reviews audit plans and procedures, changes in accounting policies, and the use of the independent registered public accountants for non-audit services. As of the end of fiscal year 2007, the Audit Committee consisted of Mr. Goins (Chairman), Mr. Williamson, and Mr. Adams. During fiscal year 2007, the Audit Committee met seven times. Mr. Goins has since resigned from the Board of Directors.

Affirmative Determinations Regarding Director Independence and Financial Experts

The Board of Directors has determined each of the following directors to be an independent director as such term is defined by Rule 4200(a)(15) of the NASD:

Mark Adams	Barry A. Williamson

The Board of Directors has also determined that each member of the Audit Committee, the Compensation Committee, and the Corporate Governance and Nominating Committee during the past fiscal year and proposed for the upcoming fiscal year meets the independence requirements applicable to those committees prescribed by NASD and SEC rules.

The Board of Directors does not have an audit committee financial expert serving on its audit committee since the resignation of Myron J. Goins. The Company is conducting a search for a qualified replacement.

The Compensation Committee, which is composed solely of independent directors that meet the requirements of NASD and SEC rules, operates under a written charter adopted by the Compensation Committee and approved by the Board of Directors on May 13, 2004, and amended on May 12, 2005. The charter is available on the Company s website which is www.spacehab.com. The Compensation Committee is responsible for determining the compensation and benefits of the Chief Executive Officer and all executive officers of the Company and establishing general policies relating to compensation and benefits of employees of the Company. The Compensation Committee administers the Company s 1994 Stock Incentive Plan, the 1995 Directors Stock Option Plan, and the Employee Stock Purchase Plan in accordance with the terms and conditions set forth in those plans. The Compensation Committee also has the authority to retain, approve fees and other terms for, and terminate any compensation consultant, outside counsel, accountant or other advisor hired to assist the Compensation Committee in the discharge of its responsibilities. As of the end of fiscal year 2007, the Compensation Committee consisted of Mr. Williamson (Chairman), Dr. David, and Mr. Goins. During fiscal year 2007, the Compensation Committee met three times. Dr. David and Mr. Goins have since resigned from the Board of Directors.

The Corporate Governance and Nominating Committee was created by the Board of Directors on February 17, 2004. The Corporate Governance and Nominating Committee s charter was adopted by the committee and approved by the Board on May 13, 2004. The charter is available on the Company s website which is www.spacehab.com. The primary purpose of the Corporate Governance and Nominating Committee is to provide oversight on the broad range of issues surrounding the composition and operation of the Board of Directors, including identifying individuals qualified to become Board members and recommending to the Board director nominees for the next Annual Meeting of Shareholders. Directors who are members of the Corporate Governance and Nominating Committee are independent directors that meet the requirements of NASD and SEC rules. As of the end of fiscal year 2007 the Corporate Governance and Nominating Committee consisted of Mr. Adams (Chairman), Dr. David, and Mr. Goins. During fiscal year 2007, the Corporate Governance and Nominating Committee met three times. Dr. David and Mr. Goins have since resigned from the Board of Directors.

Code of Ethics and Business Conduct

The Company s Code of Ethics and Business Conduct applies to all directors, officers, and employees of SPACEHAB. The key principles of this code include acting legally and ethically, speaking up, getting advice, and dealing fairly with the Company s Shareholders. The Code of Ethics and Business Conduct is available on the Company s website at www.spacehab.com and is available to the Company s Shareholders upon request. The Code of Ethics and Business Conduct meets the requirements for a Code of Conduct under the National Association of Securities Dealers, Inc. (NASD) rules and the SEC rules for financial officers.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company s directors and executive officers and persons who beneficially own more than 10% of the Company s Common Stock to file reports of ownership and changes in ownership with the SEC. Such directors, executive officers, and greater than 10% Shareholders are required by SEC regulation to furnish to the Company copies of all Section 16(a) forms they file. Due dates for the reports are specified by those laws, and the Company is required to disclose in this document any failure in the past fiscal year to file by the required dates. Based solely on written representations of the Company s directors and executive officers and on copies of the reports that they have filed with the SEC, the Company s belief is that all of SPACEHAB s directors and executive officers complied with all filing requirements applicable to them with respect to transactions in the Company s equity securities during fiscal year 2006.

Item 11. Executive Compensation

Compensation Discussion and Analysis

Overview

SPACEHAB is a developer and operator of space flight hardware assets, a provider of manned and unmanned payload processing services, and an innovator in space commerce and developing space utilization applications. In anticipation of the planned 2010 space shuttle retirement, our Company began developing new products and services within our strategic focus on the commercial exploitations of space.

Achieving our Company s aspirations requires a highly skilled and highly motivated employee team. Thus, our compensation system is designed to be highly competitive with those of other companies that compete for highly skilled technical employees and executives. Our performance-based compensation system is intended to include incentives for innovation and entrepreneurial spirit.

Guiding Principles

The Compensation Committee strives to achieve our strategic objectives by designing our compensation program to offer competitive base compensation to attract and retain experienced, and highly qualified executive officers while offering incentives to foster the innovation and entrepreneurial spirit necessary for executing our business strategy and rewards for successful achievement of performance goals. In designing our executive compensation program, we are guided by five principles:

Establish target compensation levels that are competitive within the industries and the markets in which we compete for executive talent;

Structure executive compensation so that our executives share in SPACEHAB s successes and failures by correlating compensation with target levels based upon business performance;

Link pay to performance by making a substantial percentage of total executive compensation variable, or at risk , through an annual determination of performance-based incentive compensation;

Align a significant portion of executive pay with stockholder interests through equity awards; and

Maintain a company-wide entrepreneurial atmosphere by eliminating special executive only benefits or prerequisites.

Operation of the Compensation Committee

The Compensation Committee of the Board of Directors administers our executive compensation program. The Committee establishes and monitors the Company s overall compensation strategy to ensure that executive compensation supports the Company s business objectives. In carrying out its responsibilities, the Compensation Committee reviews and determines the compensation (including salary, annual incentives, short-term incentives, long-term incentives and other benefits) of the Company s Chief Executive Officer (CEO) and certain named executive officers (NEOs). References to CEO in the Compensation Discussion and Analysis are to Michael Kearney and Thomas B. Pickens, each of whom were the Company s Chief Executive Officer during part of our fiscal year 2007.

For a more complete discussion of the responsibilities of the Compensation Committee, see the Committees of the Board of Directors on page 6, and the charter for the Compensation Committee posted on our website at www.spacehab.com.

The Compensation Program

The key components of our current compensation program for SPACEHAB executive officers are:

- Base salary;
- Short-term (annual) cash incentives;
- Long-term performance-based and other equity awards; and
- Other benefits.

To remain competitive, the Committee periodically benchmarks our executive compensation program to determine how well actual compensation targets and levels compare to our overall philosophy and target markets. The primary focus of the benchmarking process is on public companies in the aerospace, defense and government contractor industries of similar or otherwise comparable size and complexity. Our benchmarking peer group consists of SpaceDev, Inc.; Integral Systems, Inc.; Axsys Technologies; Ceradyne Inc.; First Aviation Services; Herley Industries, Inc.; Allied Defense Group; Sypris Solutions, Inc.; and Orbital Sciences Corporation. This benchmarking considers information from proxy data for our CEO and NEOs and was last updated and presented to the Compensation Committee at its August 6, 2006 meeting. Given our size and recent changes in our business and revenue mix, the actual companies used in the benchmarking process may vary from year to year, but generally the comparisons consider practices of other comparable companies with revenues that generally, for Fiscal Year 2007, range from $10 million to $700 million.

The Compensation Committee retains an outside consultant, Strategic Compensation Research Associates (SCRA), to assist the Committee and to insure that the total compensation, not just base salaries, paid to its executive officers are fair and equitable and are determined in accordance with the Guiding Principles discussed above. The Compensation Committee met on August 6, 2006 to approve base salaries for Mr. Kearney, then CEO of the Company, and to review and approve salaries for the other NEOs at that time. The Board of Directors, with the advice of the Compensation Committee and its compensation consultant, met on March 22, 2007 to approve the base salary for Mr. Pickens who assumed the role of CEO on January 1, 2007 upon Mr. Kearney s retirement. The Board of Directors met on December 12, 2006, December 29, 2006, and June 7, 2007 to approve the appointment of other NEOs and to approve base salaries upon those appointments.

Other Considerations in Determining Executive Compensation

We believe that our Executive Compensation Program provides consistency and predictability among our senior management that focuses and compensates them on the overall goals of the Company. Each element of our Executive Compensation Program is structured towards specific objectives and accordingly, individual awards are not influenced by gains realized in prior years or awards in other components of Executive Compensation. In accordance with this philosophy, incentive objectives, once determined, are not adjusted for individual executives and stock options once granted, are not repriced except pursuant to the terms of the plan. Unique individual situations, when deemed appropriate by the Compensation Committee, are considered through terms of employment agreements, bonus payments other than bonus pursuant to the Short Term Cash Incentive Plan or individual grants of stock options.

Role of the Compensation Committee and CEO in Determining Executive Compensation

For fiscal year 2007, our CEO, Mr. Kearney provided to the Compensation Committee his recommendations with respect to potential compensation for the named executive officers who report to him. The Compensation Committee reviewed and gave considerable weight to these recommendations because of Mr. Kearney s direct knowledge of the other executives performance and contributions. The Compensation Committee ultimately used its collective judgment to determine the base salaries, the bonus formulae, financial performance goals and amounts of the resulting target bonuses under the Bonus Plan and the size of each stock option grant, in each case for the named executive officers. Mr. Pickens, who became our CEO in January 2007 was awarded his compensation based on the collective judgment of the Compensation Committee and upon the advice and consultation of SCRA, the Compensation Committee retained compensation consultant. Mr. Pickens was not present at any meeting of the Compensation Committee where his compensation was discussed or determined.

Base Salary

Base salary is designed to compensate our NEOs in part for their roles and responsibilities, and also to provide a stable and fixed level of compensation that serves as a retention tool throughout the executive s career. The Company has employment agreements with most, but not all, of its NEOs that provide for a minimum base salary. These initial base salaries were set considering each executive s roles and responsibilities at the time he or she joined the Company or the agreements were later negotiated, considering the skills and future potential of the NEO with the Company, along with salary levels for similar positions in our target market. Typically, the Compensation Committee reviews the base salaries of each NEO annually. Adjustments are made based on individual performance, changes in roles and responsibilities, and external market data for similar positions. Salaries are targeted at approximately the 50th percentile for similar positions within our market, based on the Compensation Committee s ongoing review of the benchmarking results.

In general, base salary has been the largest component of our overall compensation package. Short-term cash incentives, discussed below, are targeted at a fraction of base salary amounts and are scaled in accordance with the achievement of performance goals. Long-term equity incentives have had little value over recent years due to the decline in the Company s stock prices resulting from disruptions in the space shuttle program. Due to the impact of these industry disruptions on our short-term cash incentives and long-term equity incentives, base salary currently plays a more substantial role in our overall executive compensation structure than it is intended.

Short-term Cash Incentives

We provide annual incentive awards under our Key Employee Incentive Bonus Plan (the Bonus Plan) usually in cash. These short-term cash incentives are designed to reward the achievement of specific, preset financial results measured over the fiscal year in which that compensation is earned. Generally, we compute the Bonus Plan after the end of each fiscal year and make the cash awards during the first quarter of the next fiscal year. The Bonus Plan encompasses all employees of the Company based upon maximum award levels stated as a percentage of base salary (Payout Percentage). The maximum award levels are set within our salary-grade structure for each salary grade ranging from 2% for all employees below our Director Level (the salary-grade level just below Vice President) and range from 25% for Director Level to 50% for Chief Executive Officer.

The Bonus Plan generally encompasses four Bonus Objectives set by the Compensation Committee at the beginning of the fiscal year. Each Bonus Objective carries a weight, (generally 25%) of the total Payout Percentage of the Bonus Plan. The sum of the Payout Percentage for each of the Bonus Objectives, ranging from 0 to 100%, then is applied to the award levels, discussed in the preceding paragraph, for each employee to determine the Bonus Award. For fiscal year 2007, the Compensation Committee had established the following four Bonus Objectives:

<u>Positive Net Income</u> A Payout Percentage of 25% would be awarded if the Company achieved positive net income for fiscal year 2007.

<u>Operating Income Performance</u> A Payout Percentage of 5% would be awarded if adjusted operating income exceeded $235,000 and an additional 5% would be awarded for each additional increment of $235,000, up to a total Payout Percentage of 25%.

<u>Cash Flow Performance</u> A Payout Percentage of 5% would be awarded if adjusted cash flow from operations exceeded $242,000 and an additional 5% would be awarded for each additional increment of $242,000, up to a total Payout Percentage of 25%.

<u>Backlog</u> A Payout Percentage of 5% would be awarded if the Company s June 30, 2007 backlog exceeded $2,845,000 and an additional 5% would be awarded for each additional increment of $2,845,000, up to a total Payout Percentage of 25%.

Given the vagaries of the marketplace and the possibility of unforeseen developments, the Compensation Committee has discretionary authority to adjust such awards to reflect actual performance in light of such developments or to make other discretionary adjustments to the overall Payout Percentage or to individual employee bonuses. Bonus maximum award levels range from 30% to 50% of base salaries for our NEOs. On average, we target our short term cash incentives to comprise approximately 15% of the total compensation package of our NEOs.

For fiscal year 2007, the Company reported negative net income and failed to achieve the required threshold in each of the other three Bonus Objectives and, accordingly, no payments were made under the Bonus Plan. Since there were no payouts under the Bonus Plan, short-term cash incentives were not a component of executive compensation for fiscal year 2007.

Long-term Non-cash Incentive Awards

Our long-term incentive awards are used to link Company performance and increases in Shareholder value to the total compensation for our NEOs. These awards are also key components of our ability to attract and retain our NEOs. The annualized value of the awards to our NEOs is intended to be the largest component of our overall compensation package. On average, and assuming performance is on target, these awards currently represent over 10% of the total compensation package, consistent with our emphasis on linking executive pay to Shareholder value.

Our Shareholder-approved incentive plans allow for the granting of stock options based upon SPACEHAB s stock prices in the public markets. Stock options are granted with an exercise price not less than the market price of our common stock on the grant date. Options generally vest over a period of four years with 25% becoming exercisable on each anniversary of the grant date as long as the recipient is still employed by the Company on the date of vesting, and generally expire after ten years. Stock options only have value if the Company s stock price appreciates after the options are granted.

Stock options are generally granted annually at about the same time as awards of the Key Employee Incentive Bonus Plan. Awards are made to all employees, including NEOs, at the Director Level or higher. The target awards are set for NEOs and other employees of the Company based upon salary-grade levels within our compensation system and range from 4,000 shares for Director Level to 41,000 shares for the

Chief Executive Officer. The Company s NEOs, other than the Chief Executive Officer receive 12,000 to 20,000 shares. Stock option awards were made in August 2006 in amounts for our NEOs as set forth in the table labeled Fiscal Year 2007 Grants of Plan-Based Awards on page 13.

Benefits

Our benefit programs are established based upon an assessment of competitive market factors and a determination of what is needed to attract and retain high caliber executives. SPACEHAB s primary benefits for executives include participation in the Company s broad-based plans: the 401(k) Plan, the employee stock purchase plan, the Company s health, dental and vision plans and term life and disability insurance plans. The Company also provides certain executives, including some NEOs, with supplemental disability insurance. This plan offers additional income protection to Senior Vice Presidents and above and is provided to supplement the monthly benefit amounts that are capped in the general disability policy. The Company provides 1.5 times the NEO s annual base salary to a maximum of $300,000 in term life insurance and pays the premium for such insurance. The fair value of premiums paid in excess of IRS limitations are included as other income reported for the NEO.

Indemnification Agreements

The Company has entered into indemnification agreements with each of its NEOs. The agreements provide that the Company shall indemnify and hold harmless each indemnitee from liabilities incurred as a result of such indemnitee s status as an officer, or employee of the Company, subject to certain limitations.

Post-Termination Compensation

The Compensation Committee believes that severance benefits and change of control benefits are necessary in order to attract and retain the caliber and quality of executive that the Company needs in its most senior positions. These benefits are particularly important in an industry subject to rapid technical change and influenced by changes in political priorities, providing for continuity of senior management and helping executives focus on results and strategic initiatives.

Each of our NEOs, with the exception of our Chief Executive Officer and our Chief Technology Officer, have employment agreements that provide for severance payments and benefits if termination occurs without cause or if the executive leaves for good reason . There is also additional compensation provided for our Chief Financial Officer in circumstances following such termination after a Change in Control, as defined in the employment agreement. Our Chief Financial Officer s employment agreement terminates on December 31, 2007 and has not been renewed. Additional information regarding the severance and change in control payments, including a definition of key terms and a quantification of benefits that would have been received by our NEOs had termination occurred on June 30, 2007, is found under Potential Payments upon Termination or Change in Control beginning on page 15.

During fiscal year 2007 several of our executive officers were terminated as defined in their employment agreements. A summary of their termination benefits is provided on page 16.

Stock Ownership Guidelines

The Company has not established stock ownership guidelines.

Tax Deductibility Policy

The Compensation Committee considers the deductibility of compensation for federal income tax purposes in the design of the Company s compensation programs. We believe that all of the incentive compensation paid to our NEOs for fiscal year 2007 qualifies as performance-based compensation and thus, is fully deductible by the Company for federal income tax purposes. While we generally seek to ensure the deductibility of the incentive compensation paid to our NEOs, the Compensation Committee intends to retain the flexibility necessary to provide cash and equity compensation in line with competitive practice, our compensation philosophy, and the best interest of our Shareholders even if these amounts are not fully tax deductible.

Compensation Committee Interlocks and Insider Participation

The Company s Compensation Committee consists of Barry A. Williamson (Chairman) and Mark Adams. Mr. Adams is President and Chief Executive Officer of Advocate MD Financial Group, Inc. (Advocate).

Mr. Pickens serves on the Board of Directors of Advocate; however, Mr. Pickens is not a member of the Compensation Committee of Advocate.

Tejas, Inc., a company related to the Company by Mr. Williamson as a member of the Board of Directors, has owned significant common stock holdings of the Company from time to time. Tejas, Inc. does not currently have beneficial ownership of five percent or more of the Company s common stock. PMB Helin Donovan LLP, the Company s independent auditor also audits Tejas, Inc.

PMB Helin Donovan LLP is the independent auditor for Wilson Holding, Inc., a company with Mr. Williamson as a common board member with the Company.

Compensation Committee Report

The Compensation Committee of the Board of Directors of SPACEHAB, Incorporated oversees the Company s compensation program on behalf of the Board of Directors. In fulfilling its oversight responsibilities, the Compensation Committee reviewed and discussed with management the Compensation Discussion and Analysis set forth herein and in the Proxy Statement.