

SPACEHAB INC \WA\
Form DEF 14A
October 30, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

Schedule 14A Information

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

SPACEHAB, Incorporated

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1. Title of each class of securities to which transaction applies:

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2. Aggregate number of securities to which transaction applies:

3. Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4. Proposed maximum aggregate value of transaction:

5. Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1. Amount Previously Paid:

2. Form, Schedule or Registration Statement No.:

3. Filing Party:

4. Date Filed:

October 30, 2006

Dear Shareholder:

You are cordially invited to attend the 2006 Annual Meeting of Shareholders for SPACEHAB, Incorporated (the "Company") to be held at the Company's Corporate Headquarters located at 12130 Highway 3, Building 1, Webster, Texas 77598 on December 12, 2006, at 10:00 a.m. Information about the meeting, the nominees for directors, and the proposals to be considered are presented in the Notice of Annual Meeting and the proxy statement on the following pages.

At the meeting you will be asked (i) to elect seven directors to the Company's Board of Directors, six of which shall be elected by the holders of the Company's Common Stock and one of which shall be elected by the holders of the Company's Series B Senior Convertible Preferred Stock (the "Preferred Stock"), each for a one-year term expiring at the 2007 Annual Meeting of Shareholders, and (ii) to ratify the appointment of Grant Thornton LLP as independent registered public accountants for the Company. The Board of Directors has approved these proposals and the Company urges you to vote in favor of these proposals and such other matters as may be submitted to you for a vote at the meeting.

Your participation in the Company's affairs is important regardless of the number of shares you hold. To ensure your representation at the meeting, the Company urges you to mark, sign, date and return the enclosed proxy card promptly even if you anticipate attending in person. If you attend, you will, of course, be entitled to vote in person.

Thank you for your assistance in returning your proxy card promptly.

Sincerely,

DR. SHELLEY A. HARRISON
Chairman of the Board

NOTICE OF 2006 ANNUAL MEETING OF SHAREHOLDERS

To the Shareholders of SPACEHAB, Incorporated:

The 2006 Annual Meeting of Shareholders (the Annual Meeting) for SPACEHAB, Incorporated (the Company) will be held at the Company s Corporate Headquarters located at 12130 Highway 3, Building 1, Webster, Texas 77598, on December 12, 2006, at 10:00 a.m., for the following purposes:

1. To elect seven directors to the Company s Board of Directors, each to hold office until the Company s next annual meeting of Shareholders and until their successors are elected at the 2007 Annual Meeting of Shareholders. Of such Directors, six shall be elected by the holders of the Company s Common Stock and one shall be elected by the holders of the Company s Preferred Stock;
2. To ratify the appointment of Grant Thornton LLP as independent registered public accountants for the Company; and
3. To transact such other business as may properly come before the meeting and any adjournment thereof.

A proxy statement with respect to the Annual Meeting accompanies and forms a part of this Notice. The Annual Report on Form 10-K of the Company for the fiscal year ended June 30, 2006 also accompanies this Notice.

The Board of Directors has fixed the close of business on October 27, 2006 as the record date for determining Shareholders entitled to notice of, and to vote at, the Annual Meeting.

By Order of the Board of Directors,

Brian K. Harrington
*Senior Vice President and
Chief Financial Officer
Secretary and Treasurer*

Houston, Texas

October 30, 2006

YOUR VOTE IS IMPORTANT

PLEASE MARK, SIGN AND DATE THE ENCLOSED PROXY CARD

AND RETURN IT PROMPTLY IN THE ENCLOSED ENVELOPE WHETHER OR NOT

YOU EXPECT TO ATTEND THE ANNUAL MEETING.

SPACEHAB, Incorporated

12130 Highway 3

Building 1

Webster, Texas 77598

SPACEHAB, Incorporated

12130 Highway 3, Building 1

Webster, Texas 77598

PROXY STATEMENT

GENERAL INFORMATION

This proxy statement is furnished in connection with the solicitation by the Board of Directors of SPACEHAB, Incorporated, (the Company or SPACEHAB) a Washington corporation, of proxies to be voted at the 2006 Annual Meeting of Shareholders on December 12, 2006 (the Annual Meeting). This proxy statement, the accompanying proxy card, and Annual Report on Form 10-K to Shareholders are first being mailed to Shareholders on or about November 6, 2006.

Voting Securities

The Board of Directors has fixed the close of business on October 27, 2006 as the record date for the determination of Shareholders entitled to notice of, and to vote at, the Annual Meeting. As of the record date, there were 13,036,389 shares of SPACEHAB s Common Stock, no par value per share, outstanding and 1,333,334 shares of SPACEHAB s Series B Senior Convertible Preferred Stock (the Preferred Stock) no par value per share, outstanding. Holders of Common Stock and Preferred Stock are entitled to notice of the Annual Meeting and to one vote per share of Common Stock or Preferred Stock owned as of the record date at the Annual Meeting. Holders of the Company s Common Stock and Preferred Stock generally vote together as a single class, except that the holders of Preferred Stock, voting separately as a class, are entitled to elect one director and the holders of the Company s Common Stock, voting separately as a class, are entitled to elect the remaining directors of the Company.

Proxies

Dr. Shelley A. Harrison and Mr. Michael E. Kearney, or each acting individually, are the persons named as proxies on the proxy card accompanying this proxy statement, who have been selected by the Board of Directors to serve in such capacity. Dr. Harrison is Chairman of the Board of Directors and Mr. Kearney is a member of the Board of Directors, Chief Executive Officer, and President. Each shareholder giving a proxy has the power to revoke it at any time before the shares represented by that proxy are voted. Revocation of a proxy is effective when the Secretary of the Company receives either (i) an instrument revoking the proxy or (ii) a duly executed proxy bearing a later date. Additionally, a shareholder may change or revoke a previously executed proxy by voting in person at the Annual Meeting.

Voting of Proxies

Because many SPACEHAB Shareholders are unable to attend the Annual Meeting, the Board of Directors solicits proxies to give each Shareholder an opportunity to vote on all matters scheduled to come before the meeting and set forth in this proxy statement. Shareholders are urged to read carefully the material in this proxy statement, specify their choice on each matter by marking the appropriate boxes on the enclosed proxy card, and sign, date, and return the card in the enclosed stamped envelope.

If no choice is specified and the card is properly signed and returned, the shares will be voted by the persons named as proxies in accordance with the recommendations of the Board of Directors contained in this proxy statement.

Quorum; Method of Tabulation

The holders of at least one-third of all issued and outstanding shares of Common Stock and Preferred Stock, determined separately, who are entitled to vote at the Annual Meeting, whether represented in person or by proxy, will constitute a quorum at that meeting. At the Annual Meeting, the election of the six directors to be elected by the holders of Common Stock requires the vote of a plurality of the shares of Common Stock represented at the meeting. The election of the director to be elected by Preferred Stockholders requires the vote of a plurality of the Preferred Stock represented at the meeting. No shareholder shall be allowed to cumulate votes.

At the Annual Meeting the vote of the majority of the outstanding shares of Common Stock and Preferred Stock present (in person or by proxy) and entitled to vote at the meeting voting together is required to ratify the appointment of Grant Thornton LLP as the independent registered public accountants of the Company s financial statements for the fiscal year ending June 30, 2007.

One or more inspectors of election appointed for the meeting will tabulate the votes cast in person or by proxy at the Annual Meeting and will determine whether or not a quorum is present. The inspectors of election will treat abstentions as shares that are present and entitled to vote for purposes of determining the presence of a quorum, but as unvoted for purposes of determining the approval of any matter submitted to the Shareholders for a vote. If a broker indicates on a proxy that it does not have discretionary authority as to certain shares to vote on a particular matter, those shares will not be considered as present and entitled to vote with respect to that matter.

Form 10-K

Shareholders may obtain, without charge, a copy of the Company's 2006 Annual Report on Form 10-K as filed with the Securities and Exchange Commission (SEC). For copies, please contact Investor Relations at the address of the Company's principal executive office: SPACEHAB, Inc., 12130 Highway 3, Building 1, Webster, Texas 77598. The Form 10-K is also available to the public through the SEC's website at www.sec.gov and through the Company's website at www.spacehab.com.

CORPORATE GOVERNANCE

The Company's Corporate Governance and Nominating Committee hold the responsibility for overseeing the development and implementation of corporate governance principles within the Company.

The following corporate governance documents are posted in the Investor Info section of the Company's website at www.spacehab.com:

Code of Ethics and Business Conduct

Code of Ethics for Senior Financial Professionals

Shareholder Communications Policy

Complaint and Reporting Procedures for Accounting and Auditing Matters

Audit Committee Charter

Compensation Committee Charter

Corporate Governance and Nominating Committee Charter

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.

Code of Ethics for Senior Financial Professionals

The Company's Code of Ethics for Senior Financial Professionals applies to the Company's Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer, and other designated senior financial professionals. The key principles of this Code include acting legally and ethically, promoting honest business conduct, and providing timely and meaningful financial disclosures to the Company's Shareholders. The Code of Ethics for Senior Financial Professionals 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 for Senior Financial Professionals meets the requirements of a Code of Ethics under SEC rules.

Shareholder Communications Policy

The Company's Shareholder Communications Policy provides a medium for shareholders to communicate with the Board of Directors. Under this policy shareholders may communicate with the Board of Directors or specific Board members by sending a letter to SPACEHAB, Inc., Shareholder Communications with the Board of Directors, Attn: Secretary, 12130 Highway 3, Building 1, Webster, Texas 77598.

Complaint and Reporting Procedures for Accounting and Auditing Matters

The Company's Complaint and Reporting Procedures for Accounting and Auditing Matters provide for the (i) receipt, retention, and treatment of complaints, reports, and concerns regarding accounting, internal accounting controls, or auditing matters and (ii) the confidential, anonymous submission of complaints, reports, and concerns by employees regarding questionable accounting or auditing matters, in each case relating to SPACEHAB. Complaints may be made through a toll-free independent Integrity Helpline telephone number and a dedicated e-mail address. Complaints received are logged by the Company's senior Ethics and Compliance Office executive, communicated to the Company's Compliance Committee and to the Company's Audit Committee, and investigated, under the direction of the Company's Audit Committee, by the Company's Ethics and Compliance Office. In accordance with Section 806 of the Sarbanes-Oxley Act of 2002, these procedures prohibit us from taking adverse action against any person submitting a good faith complaint, report, or concern.

Director Attendance at Annual Shareholders Meeting

Board members are expected to attend the Annual Shareholders Meeting. All of the members of the Board of Directors then in office attended last year's Annual Meeting of Shareholders held on December 1, 2005, with the exception of Dr. Stefan-Fritz Graul.

Affirmative Determinations Regarding Director Independence and Financial Experts

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

Dr. Edward E. David, Jr.
Myron J. Goins

Roscoe M. Moore, III
Thomas B. Pickens, III

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 has determined that Thomas B. Pickens, III meets the qualification guidelines as an audit committee financial expert as such term is defined in Item 401(h) of Regulation S-K promulgated by the SEC.

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.

A Board of seven directors will be elected at the Annual Meeting, comprised of (i) six directors, which directors are elected by the holders of the outstanding shares of Common Stock pursuant to the Company's Articles of Incorporation, and (ii) one director elected by the holders of the outstanding shares of the Company's Preferred Stock. The Company's Articles of Incorporation provide that, with respect to any vacancies or newly created directorships, other than the director to be elected by the holders of the outstanding shares of Preferred Stock, the Board will nominate such individuals as may be specified by a majority vote of the then sitting directors.

Regarding nominations for directors, other than the Preferred Stock director, the Corporate Governance and Nominating Committee identifies nominees in various ways. The committee considers the current directors that have expressed interest in, and that continue to satisfy, the criteria for serving on the Board as established by the committee. Other nominees may be proposed by current directors, members of management, or by Shareholders. From time to time, the committee may engage a professional firm to identify and evaluate potential director nominees. The Preferred Stock director nominee set forth in this proxy statement was selected by the holder of the Preferred Stock.

Six of the director nominees, including the Preferred Stock director, set forth in this proxy statement and the accompanying proxy card are current directors standing for re-election. One director nominee has been recommended by the Nominating Committee of the Board of Directors.

For purposes of the 2007 Annual Meeting, the committee will consider any nominations received by the Secretary from a shareholder of record on or before July 2, 2007 (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

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check. The nominating shareholder must also submit its 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.

PROPOSAL 1 - ELECTION OF DIRECTORS

A Board of seven directors will be elected at the Annual Meeting, six by the holders of Common Stock and one by the holder of the Preferred Stock. All directors shall hold office until the next Annual Meeting of Shareholders and until their successors are duly elected and qualified. 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 and until a successor is duly elected and qualified.

The nominees for whom the enclosed proxy is intended to be voted are set forth below. It is contemplated that all nominees will be available for election, but if one or more is not, the proxy will be voted in accordance with the best judgment of the proxy holder for such person or persons as may be designated by the Board of Directors unless the shareholder has directed otherwise. Dr. Shelley A. Harrison, currently Chairman of the Company's Board of Directors and James R. Thompson, a current member of the Company's Board of Directors have requested that they not be put up for re-election and as a result will retire from the Board of Directors as of the Annual Meeting of Shareholders. Additionally, the Board of Directors has nominated Myron J. Goins to stand for election at the Company's Annual Meeting of Shareholders. The Board of Directors has resolved to reduce the number of directors from eight to seven effective as of the Annual Meeting of Shareholders.

	Principal Occupation and Directorships	Age as of	
		October 31, 2006	Director Since
Directors and Nominees			
Current Directors Nominated for Re-election			
Michael E. Kearney	President and Chief Executive Officer of SPACEHAB, Inc.	62	2001
Dr. Edward E. David, Jr.	President of Edward E. David, Inc.; Chairman of the Science Committee of the NASA Advisory Council; Director of DeCorp, Medjet, Inc., and Reveo, Inc.; Affiliate of the Washington Advisory Group, LLC.	81	1993
Roscoe M. Moore, III	President and Founder of PeerSat; Director and Chairman of Washington Space Business Roundtable	35	2004
Thomas B. Pickens, III	Managing Partner and founder of Tactic Advisors, Inc.;	49	2004
	President and Founder of T.B. Pickens & Co.		
Barry A. Williamson	Attorney; Director of Wilson Holdings, Inc.; Executive Board Member of Austin Smiles	49	2004
Director Nominee:			
Myron J. Goins	President of TekHarbor, Ltd., Certified Public Accountant	46	Nominee
Series B Senior Convertible Preferred Stock Director			
Dr. Stefan-Fritz Graul	Executive Vice President for Astrium GmbH	57	2003

Current Directors Nominated for Re-election

Michael E. Kearney

Mr. Kearney, a member of the Board of Directors since 2001, was appointed SPACEHAB's Chief Executive Officer in April 2003 and has served as the Company's President since January 2001. Joining SPACEHAB in 1994, Mr. Kearney has served as Senior Vice President for Marketing and Sales and Vice President of Business Development. Prior to joining the Company, Mr. Kearney held leadership positions at McDonnell Douglas. He served for 26 years as a U.S. Navy Aeronautical Engineering Officer, as a Weapon Systems Acquisition Specialist and Program Manager, and flew Navy fighter aircraft both in combat and in a production acceptance role.

Dr. Edward E. David, Jr.

Dr. David has served as a director of the Company since 1993. He is the President of Edward E. David, Inc., advisors to industry, government, and academia on technology, research, and innovation, a company he founded in 1977. Dr. David is also Chairman of the Science Committee of the NASA Advisory Council. He was Science Advisor to President Nixon and Director of the White House Office of Science and Technology from 1970 to 1973. Dr. David has also served as President of Exxon Research and Engineering Company (NYSE: XOM) from 1977 to 1986, and as Executive Director of Bell Telephone Laboratories (NYSE: LU) from 1950 to 1970. Dr. David is a director of DeCorp, Medjet, Inc., (MDJT.OB) and Reveo, Inc., and affiliate of the Washington Advisory Group, LLC.

Roscoe M. Moore, III

Mr. Moore is currently 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 commercial 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 (COMSTAC) to assist in planning commercial space industry regulations, and he 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.

Thomas B. Pickens, III

Mr. Pickens is currently the President and Founder of T.B. Pickens & Co., a company that provides consulting services to corporations, public institutions, and start-up organizations. Throughout his professional career, Mr. Pickens has founded and served as the Chairman for several companies that owned and operated numerous water and sewer utilities in various states, including Kentucky, Georgia, and South Carolina. 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.

Barry A. Williamson

Mr. Williamson is an attorney practicing in Austin, Texas since. He 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.

Director Nominee

Myron J. Goins

Mr. Goins, CPA, currently serves as the President of TekHarbor, Ltd., a venture formation and turnaround management consultancy with technology license negotiation, strategic alliance structuring, merger and acquisition, bankruptcy, and capital formation assignments worldwide in aerospace, advanced materials, emerging technologies, and international trading companies, investment banks, and funds. In previous positions he was a general partner and co-founder of Seruus Telecom Fund, L.P., Chairman of the audit committee for publicly-traded IWL Communications, Chief Financial Officer for National Telemanagement Corporation, and Vice President of corporate development for Corporate Telemanagement Group, Inc.

Nominee for Election as Director by Holder of Series B Senior Convertible Preferred Stock

The Company's Articles of Incorporation provide that the holders of the Company's Preferred Stock, voting as a separate class, may elect one director to the Company's Board of Directors. Astrium GmbH, the holder of all of the Company's outstanding shares of Preferred Stock, has informed the Company of its intention to re-nominate and re-elect Dr. Stefan-Fritz Graul as a director of the Company at the Annual Meeting.

Dr. Stefan-Fritz Graul

Dr. Graul was appointed to SPACEHAB's Board of Directors in May 2003. Since October 2003 he has served as Executive Vice President for Business Development for Astrium, Europe's leading aerospace company. Prior to this position, Dr. Graul held the role of Director of Orbital Infrastructure and Operations and Reusable Systems. Beginning in 1986 he served in several key positions at Astrium when the company was doing business as Astrium GmbH and Daimler Benz Aerospace.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF EACH NOMINEE FOR DIRECTOR NAMED ABOVE.

The Board of Directors and its Committees

Board Meetings

In fiscal year 2006 there were ten meetings of the Board of Directors (including regularly scheduled and special meetings). During fiscal year 2006 one director of the Company, Dr. Graul participated in fewer than 75% of the aggregate number of meetings of the Board of Directors.

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. The Audit Committee consisted of Mr. Williamson (Chairman), Mr. Thompson, and Mr. Pickens. During fiscal year 2006, the Audit Committee met five times. Mr. Thompson is not seeking re-election to the Board.

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 also 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 consisted of Mr. Thompson (Chairman), Dr. David, and Mr. Moore. During fiscal year 2006, the Compensation Committee met three times. Mr. Thompson is not seeking re-election to the Board.

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. The Corporate Governance and Nominating Committee consisted of Mr. David (Chairman), Mr. Pickens, and Mr. Thompson. During fiscal year 2006, the Corporate Governance and Nominating Committee met one time. Mr. Thompson is not seeking re-election to the Board.

Director Compensation

General. The Company pays each non-employee director a \$20,000 annual retainer to serve on the Board of Directors and a fee of \$1,000 per day for each meeting of the Board of Directors and \$500 per day for each committee meeting attended. The Company pays an additional retainer of \$5,000 for the Audit Committee Chairperson, and a meeting fee of \$750 per day to each member of the Audit Committee for each meeting attended. In instances where a non-employee director attends both a meeting of the Board of Directors and a committee meeting on the same day, a single meeting fee of \$1,000 or \$500 is paid (as applicable.) In addition, all directors are reimbursed for expenses incurred in connection with their attendance at meetings. The Company also compensates its directors through the 1995 Directors' Stock Option Plan, as amended and restated, pursuant to which each director who is not an employee of the Company and who is elected or continues as a member of the Board of Directors is entitled to receive an initial grant of an option to purchase 10,000 shares of SPACEHAB's Common Stock and, thereafter, an annual grant of options to purchase 5,000 shares of SPACEHAB's Common Stock at an exercise price equal to its then fair market value. Dr. Stefan-Fritz Graul, a non-employee director elected as the Preferred Stock director, has elected to not accept compensation for his services during fiscal year 2006.

Dr. Shelley A. Harrison Agreement. Dr. Harrison served as the Company's Chairman and Chief Executive Officer until March 31, 2003. On October 24, 2002, the Company entered into an agreement with Dr. Harrison to serve as the non-executive Chairman of the Board of the Company at an annual compensation of \$120,000. The agreement provided for a term expiring on March 31, 2004 which on September 30, 2004 was amended to extend the term to March 31, 2006 subject to automatic annual renewal for one-year terms thereafter, unless notice is delivered, by Mr. Harrison or the Company, 90 days prior to the expiration of such term. The agreement also reduced the annual compensation after March 31, 2005 to \$60,000. Under this agreement, Dr. Harrison is entitled to any benefits that are or may be extended to Company directors during his term of service including options issued under the 1995 Director's Stock Option Plan, but excluding the annual Director retainer and meeting fees and retains all options granted in prior periods. Dr. Harrison is not seeking re-election to the board.

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
Michael E. Bain	50	Senior Vice President and Chief Operating Officer	1996
Brian K. Harrington	60	Senior Vice President, Chief Financial Officer, Secretary and Treasurer	2004
E. Michael Chewning	59	Senior Vice President, SPACEHAB Flight Services	1997
James D. Royston	43	Senior Vice President and General Manager, Astrotech Space Operations	2002
Nicholas G. Morgan	43	Vice President, Controller, and Chief Accounting Officer	1996

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.

Michael E. Bain

Mr. Bain serves as SPACEHAB's Chief Operating Officer, assuming the role in April 2005. Mr. Bain manages SPACEHAB Flight Services and SPACEHAB Government Services operations, guiding the Company in new pursuits and defining strategies to increase revenue and profitability. Since joining SPACEHAB in 1996, he served as program manager for SPACEHAB's module and cargo carrier programs on seven missions to space station Mir, four missions to International Space Station, and development of ISS payload accommodation hardware such as the External Stowage Platform, ESP2. He also led new business initiatives, including a successful bid to perform concept exploration and refinement for NASA's lunar exploration system. Prior to joining SPACEHAB, Mr. Bain spent 12 years with McDonnell Douglas in a variety of aerospace engineering management assignments, including International Space Station and Space Station Freedom programs.

Brian K. Harrington

Mr. Harrington joined SPACEHAB in January 2004 and serves as the Company's Senior Vice President, Finance and Chief Financial Officer. Prior to joining the Company, he was a financial consultant in private practice. 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. Mr. Harrington is a Certified Public Accountant.

E. Michael Chewning

Mr. Chewning assumed the role of Senior Vice President, SPACEHAB Flight Services in April 2005. Prior to his promotion, Mr. Chewning served as the Vice President, Carrier Development and Operations and Vice President, Program Manager for the Research and Logistics Mission Support (ReALMS) contract. Joining SPACEHAB in 1997 as Director of SPACEHAB's Huntsville, Alabama office, he came with exceptional experience in the aerospace arena including an 18-year career with McDonnell Douglas, primarily at the Huntsville, Alabama division.

James D. Royston

Since 2002 Mr. Royston has led Florida ground operations of SPACEHAB's Astrotech subsidiary, overseeing spacecraft processing and support services for civil, military and commercial customers. He oversees all mission preparation activities at the Company's satellite processing facilities in Florida and California. Prior to working at SPACEHAB's Astrotech subsidiary, Mr. Royston served as President and Chief Operating Officer of Space Media Inc.,

the Company's majority owned subsidiary from 2000 to 2002. Prior assignments included Senior Vice President of Merrimac Interactive Media, Director of the Information Management Project Office for United Space Alliance, KSC Operations Director for Orbital Sciences Corporation and e-Learning Director for RWD Technologies. He was also the Information Systems Manager for NASA's Hubble Space Telescope Program. Mr. Royston has owned and operated two companies involved in systems engineering and software development and holds seven patents.

Nicholas G. Morgan

Mr. Morgan holds the title of Vice President, Accounting and was appointed Controller of SPACEHAB in March 2004. A Certified Public Accountant, he has served as Assistant Controller of the Company from April 2001 through March 2004 and as Assistant Controller of Johnson Engineering, Inc. from February 1996 until the acquisition by SPACEHAB in July 1998. Mr. Morgan began his career with Loral Aerospace Corporation in San Jose, California; he held several positions in the accounting and finance area from 1990 to 1992. He transferred to Loral Space Information Systems, Houston, Texas in 1992 as a Job Cost Analyst until he joined Johnson Engineering in 1996.

PROPOSAL 2 - APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

General

The Audit Committee has appointed the firm of Grant Thornton LLP as independent registered public accountants for fiscal year 2007. The Board of Directors recommends that the Shareholders ratify that appointment. Ratification requires the affirmative vote of a majority of the combined shares of Common Stock and Series B Convertible Preferred Stock, voting together as a single class, represented at the Annual Meeting in person or by proxy and entitled to vote on the matter. The persons named in the accompanying proxy card intend to vote for ratification of such appointment unless instructed otherwise on the proxy card.

Although there is no requirement that the Company submit the appointment of independent registered public accountants to Shareholders for ratification or for the appointed auditors to be terminated if the ratification fails, the Audit Committee will consider the appointment of other independent registered public accountants if the Shareholders choose not to ratify the appointment of Grant Thornton LLP. The Audit Committee may terminate the appointment of Grant Thornton LLP as the Company's independent registered public accountants without the approval of the Shareholders whenever the Audit Committee deems such termination appropriate.

In making its recommendation to ratify the appointment of Grant Thornton LLP as the Company's independent registered public accountants for the fiscal year ending June 30, 2007, the Audit Committee has considered whether the provision of non-audit services by Grant Thornton LLP is compatible with maintaining the independence of Grant Thornton LLP.

Representatives of Grant Thornton LLP are expected to be present at the Annual Meeting and will have the opportunity to make such statements as they may desire. They are also expected to be available to respond to appropriate questions from the Shareholders present.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE RATIFICATION OF THE APPOINTMENT OF GRANT THORNTON LLP AS INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS OF THE COMPANY FOR THE FISCAL YEAR ENDING JUNE 30, 2007.

PRINCIPAL SHAREHOLDERS

The following table sets forth as of October 27, 2006, certain information regarding the beneficial ownership of the Company's outstanding Common Stock and Convertible Preferred Stock held by (i) each person known by the Company to be a beneficial owner of more than five percent of any outstanding class of the Company's capital stock, (ii) each of the Company's directors, (iii) the Company's Chief Executive Officer and four most highly compensated executive officers at the end of the Company's last completed fiscal year, and (iv) all directors and executive officers of the Company as a group. Unless otherwise described below, each of the persons listed in the table below has sole voting and investment power with respect to the shares indicated as beneficially owned by such party.

Name and Address of Beneficial Owners	Amount and Nature of Beneficial Ownership	Percentage of Class ⁽¹⁾
Series B Senior Convertible Preferred Stock		
Astrium GmbH	1,333,334 ⁽⁶⁾	100%
Common Stock		
SMH Capital Advisors, Inc.	26,910,667 ⁽²⁾	67.4%
Bruce & Co., Inc.	3,069,590 ⁽³⁾	23.5%
Oaktree Capital Mgmt., LLC	2,000,000 ⁽⁴⁾	13.3%
Austin W. Marx and David M. Greenhouse	1,816,600 ⁽⁵⁾	13.9%
Astrium GmbH	1,437,499 ⁽⁶⁾	10.0%
Ore Hill Hub Fund Ltd.	724,714 ⁽⁷⁾	5.5%
Non-Employee Directors and Nominees for Director:		
Dr. Shelley A. Harrison	388,250 ⁽⁸⁾	2.9%
Dr. Edward E. David, Jr.	22,000 ⁽⁹⁾	*
Dr. Stefan-Fritz Graul	0	*
Myron J. Goins	0	*
Roscoe M. Moore, III	20,000 ⁽¹⁰⁾	*
Thomas B. Pickens, III	15,000 ⁽¹¹⁾	*
James R. Thompson	40,000 ⁽¹²⁾	*
Barry A. Williamson	15,000 ⁽¹³⁾	*
Named Executive Officers:		
Michael E. Kearney	285,126 ⁽¹⁴⁾	2.1%
Michael E. Bain	159,115 ⁽¹⁵⁾	1.2%
Brian K. Harrington	45,244 ⁽¹⁶⁾	*
E. Michael Chewning	69,000 ⁽¹⁷⁾	*
James D. Royston	15,000 ⁽¹⁸⁾	*
All Directors and Executive Officers as a Group (12 persons)	1,003,985⁽¹⁹⁾	7.2%

* Indicates beneficial ownership of less than 1% of the outstanding shares of Common Stock.

- (1) Calculated pursuant to Rule 13d-3(d) of the Securities Exchange Act of 1934. Under Rule 13d-3(d), shares not outstanding which are subject to options, warrants, rights, or conversion privileges exercisable within 60 days are deemed outstanding for the purpose of calculating the number and percentage owned by a person, but not deemed outstanding for the purpose of calculating the number and percentage owned by any other person listed. As of October 27, 2006, the Company had 13,036,389 shares of Common Stock outstanding.

- (2) Represents \$40,366,000 principal amount of the Company's 5.5% Senior Convertible Notes due 2010 held by SMH Capital Advisors, Inc. in discretionary accounts for the benefit of its clients that may be converted into 26,910,667 shares of Common Stock. SMH Capital Advisors has shared voting power and sole investment power with respect to these shares. This holder disclaims beneficial ownership of all shares of Common Stock it holds. This holder's address is 600 Travis, Suite 3100, Houston, Texas 77002. The information provided in this table is based on Amendment No. 3 to a Schedule 13G filed with the Securities and Exchange Commission on July 22, 2005 by SMH Capital Advisors, Inc. and is based on the assumption that all SMH Capital notes reported in the 13G were converted.
- (3) Bruce & Co., Inc., is the investment manager for Bruce Fund, Inc., a Maryland registered investment Company with its principle business conducted at 20 North Wacker Dr., Suite 2414, Chicago, IL 60606. This percentage ownership of 23.9% represents \$4,509,000 principal amount of 5.5% Senior Convertible Notes due 2010 and \$940,000 principal amount of 8% Convertible Subordinated Notes due 2007, which are currently convertible into 3,000,600 and 68,990 shares of Common Stock respectively. The information provided in this table is based on a Schedule 13G filed with the Securities and Exchange Commission on July 25, 2006 by Bruce & Co., Inc. on behalf of Bruce Fund, Inc.
- (4) Oaktree Capital Management, LLC, a California Limited Liability Company and registered investment advisor, conducts its principal business at 333 South Grand Avenue, 28th Floor, Los Angeles, CA 90071. This percentage ownership of 15.6% represents different ownership percentages of various OCM Funds and Accounts collectively owning \$3,000,000 aggregate principal amount of 5.5% Senior Convertible Notes due 2010 which are currently convertible into 2,000,000 shares of Common Stock. The information provided in this table is based on the 13G filed by Oaktree Capital Management, LLC on July 20, 2006 for which Oaktree may be deemed to beneficially own the shares of Common Stock although Oaktree has no material pecuniary interest in any of such bonds.
- (5) Austin W. Marx and David M. Greenhouse share voting and investment power over 893,298 shares of Common Stock held by Special Situations Cayman Fund, L.P.; 467,920 shares of Common Stock held by Special Situations Technology Fund II, L.P.; 285,300 shares of Common Stock held by Special Situations Cayman Fund, L.P.; 91,780 shares of Common Stock held by Special Situations Technology Fund, L.P. and 78,302 shares of Common Stock held by Special Situations Fund III, L.P. Austin W. Marx and David M. Greenhouse are the controlling principals of AWM Investment Company, Inc., the general partner and investment adviser to Special Situations Cayman Fund, L.P. AWM Investment Company, Inc. also serves as general partner of MGP Advisors Limited Partnership, the general partner of and investment adviser to Special Situations Fund III, L.P. Mr. Marx and Mr. Greenhouse are also members of SST Advisers, L.L.C., the general partner and investment adviser to Special Situations Technology Fund, L.P. and Special Situations Technology Fund II, L.P. The principal business address for Mr. Marx and Mr. Greenhouse is 527 Madison Avenue, Suite 2600, New York, NY 10022. The information provided in this table is based on Amendment No. 5 to Schedule 13G filed with the Securities and Exchange Commission on February 2, 2006.
- (6) Astrium GmbH beneficially owns 1,333,334 shares of the Company's Convertible Preferred Stock that are convertible at the holder's option into Common Stock on the basis of one share of Convertible Preferred Stock for one share of Common Stock and 104,165 shares of Common Stock held directly. Astrium GmbH's address is Hünefeldstraße 1-5, Postfach 105909, D-28059 Bremen, Germany. The information provided in this table is based on Amendment No. 1 to a Schedule 13D filed with the Securities and Exchange Commission on October 27, 1999 by DaimlerChrysler Aerospace AG.
- (7) Ore Hill Partners LLC, a Delaware LLC, is the investment manager of Ore Hill Hub Fund Ltd. The two entities share voting and investment power with respect to all of the shares of Common Stock held by Ore Hill Hub Fund Ltd. with the two members of Ore Hill Partners, LLC, who are Benjamin Nickoll and Frederick Wahl. The address of Ore Hill Hub Fund Ltd. is c/o Bank of Butterfield International (Cayman) Ltd., P.O. Box 705 GT, Butterfield House, 68 Fort Street, Grand Cayman, Cayman Islands. The address of Ore Hill Partners LLC is 444 Madison Avenue, 12th Floor, New York, New York 10022. The information provided in this table is based on a Schedule 13G, Amendment 1 filed with the Securities and Exchange Commission on February 14, 2006 by Ore Hill Hub Fund Ltd., Ore Hill Partners LLC, Benjamin Nickoll and Frederick Wahl.
- (8) Includes options to purchase 387,250 shares of Common Stock.
- (9) Includes options to purchase 20,000 shares of Common Stock.
- (10) Includes options to purchase 15,000 shares of Common Stock
- (11) Includes options to purchase 15,000 shares of Common Stock
- (12) Includes options to purchase 35,000 shares of Common Stock
- (13) Includes options to purchase 15,000 shares of Common Stock
- (14) Includes 18,372 shares of Common Stock held in the Company's 1997 Employee Stock Purchase Plan, and options to purchase 235,004 shares of Common Stock. Mr. Kearney is also a Director of the Company.
- (15) Includes 100,115 shares of Common Stock held in the Company's 1997 Employee Stock Purchase Plan, and options to purchase 59,000 shares of Common Stock.
- (16) Includes 5,244 shares of Common Stock held in the Company's 1997 Employee Stock Purchase Plan, and options to purchase 25,000 shares of Common Stock.
- (17) Includes options to purchase 59,000 shares of Common Stock.
- (18) Includes options to purchase 15,000 shares of Common Stock.
- (19) Includes options to purchase 880,254 shares of Common Stock and 123,731 shares of Common Stock held in the Company's 1997 Employee Stock Purchase Plan.

EXECUTIVE COMPENSATION*Summary Compensation Table*

The following table summarizes the compensation paid by the Company for the last three fiscal years to Michael E. Kearney, who became the Company's Chief Executive Officer on April 1, 2003 and the four other most highly-compensated executive officers of the Company as of the end of the Company's fiscal year (June 30, 2006). These officers are referred to in this proxy statement as the Named Executive Officers.

	Fiscal Year	Annual Compensation		Awards Securities
		Salary	Bonus	Underlying Option/SARs
Michael E. Kearney President and Chief Executive Officer	2006	317,000	0	40,000
	2005	315,000	110,250	41,000
	2004	315,000	94,500	40,000
Michael E. Bain Senior Vice President and Chief Operating Officer	2006	200,000	0	12,000
	2005	165,019	34,178	12,000
	2004	155,000	28,524	12,000
Brian K. Harrington ⁽¹⁾ Senior Vice President Chief Financial Officer, Secretary and Treasurer	2006	223,000		
	2005	200,000		
	2004	100,000		