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SPACEDEV INC  
Form PRE 14A  
June 29, 2005

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(A) OF THE SECURITIES  
EXCHANGE ACT OF 1934 (AMENDMENT NO. )

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 Sec.240.14a-11(c) or Sec.240.14a-12

SPACEDEV, INC.  
(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:  
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- (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):  
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- (4) Proposed maximum aggregate value of transaction:  
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- (5) Total fee paid:  
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- 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:  
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- (2) Form, Schedule or Registration Statement No. :  
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- (3) Filing Party:  
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(4) Date Filed:

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SpaceDev, Inc.  
13855 Stowe Drive  
Poway, California 92064

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD AUGUST 12, 2005

TO THE STOCKHOLDERS OF SPACEDEV, INC.:

The annual meeting of the stockholders of SpaceDev, Inc. (the "Company") will be held at 13855 Stowe Drive, Poway, California 92064, on August 12, 2005, at approximately 9:00 A.M. for the following purpose:

1. To elect a Board of Directors for the Company.
2. To ratify the appointment of PKF, Certified Public Accountants, A Professional Corporation, as the Company's independent public accountants for the fiscal year ending December 31, 2005.
3. To approve an amendment to the Company's 2004 Equity Incentive Plan.
4. To transact such other business as may properly come before the meeting or any adjournment thereof.

THE BOARD OF DIRECTORS OF THE COMPANY RECOMMENDS THAT YOU VOTE FOR EACH OF THE NOMINEES TO THE BOARD OF DIRECTORS AND RECOMMENDS THAT YOU VOTE "FOR" APPROVAL OF EACH OTHER ITEM LISTED ON THIS NOTICE OF ANNUAL MEETING OF STOCKHOLDERS.

Stockholders of record at the close of business on June 23, 2005, are the only persons entitled to notice of and to vote at the meeting.

Your attention is directed to the attached Proxy Statement. WHETHER OR NOT YOU EXPECT TO BE PRESENT AT THE ANNUAL MEETING, PLEASE FILL IN THE INFORMATION COMPLETELY. PLEASE SIGN, DATE AND MAIL THE ENCLOSED PROXY AS PROMPTLY AS POSSIBLE (AND ENCLOSE YOUR E-MAIL ADDRESS) IN ORDER TO SAVE THE COMPANY FURTHER SOLICITATION EXPENSE. If you are present at the meeting, you may then revoke your proxy and vote in person, as explained in the Proxy Statement in the section entitled "ANNUAL MEETING OF STOCKHOLDERS - AUGUST 12, 2005." A return envelope is enclosed for your convenience.

/s/ Richard B. Slansky

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Richard B. Slansky  
Corporate Secretary

Dated: July 18, 2005

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PROXY STATEMENT

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SPACEDEV, INC.  
13855 Stowe Drive  
Poway, California 92064

ANNUAL MEETING OF STOCKHOLDERS - AUGUST 12, 2005

The enclosed Proxy is solicited by the Board of Directors of SpaceDev, Inc. (the "Board") in connection with the annual meeting of stockholders of SpaceDev, Inc. (the "Company") to be held on August 12, 2005 at 9:00 A.M. at 13855 Stowe Drive, Poway, California 92064, and at any adjournments thereof. The Company will pay the cost of solicitation, including the cost of preparing and mailing the Notice of Stockholders' Meeting and this Proxy Statement. Such mailing took place on approximately July 18, 2005. Representatives of the Company may, without cost to the Company, solicit Proxies for the management of the Company by means of mail, telephone or personal calls.

A Proxy may be revoked before the meeting by giving written notice of revocation to the Secretary of the Company, or may be revoked at the meeting prior to voting. Unless revoked, properly executed Proxies with respect to the Company will be voted as indicated on the Proxy. Should any other matters come before the meeting, it is the intention of the persons named as Proxies in the enclosed Proxy to act upon them according to their best judgment. In instances where choices are specified by the stockholders in the Proxy, those Proxies will be voted or the vote will be withheld in accordance with each stockholder's choice. An "abstention" on any proposal will be counted as present for purposes of determining whether a quorum of shares is present at the meeting with respect to the proposal on which the abstention is noted, but will be counted as a vote "against" such proposal.

Only stockholders of record at the close of business on June 23, 2005 may vote at the meeting or any adjournments thereof. As of that date there were issued and outstanding approximately 22,176,446 common shares of all classes, \$0.0001 par value, of the Company. Each stockholder is entitled to one vote for each common share held. Voting for the election of directors is not cumulative, which means that the holders of a majority of the Company's outstanding shares have the power to elect the entire Board of Directors. None of the matters to be presented at the meeting will entitle any stockholder to appraisal rights. In the event that Proxies, which are sufficient in number to constitute a quorum, are not received by August 12, 2005, we may propose one or more adjournments of the meeting to permit further solicitation of Proxies. Such adjournments will require the affirmative vote of the holders of a majority of the shares present in person or by Proxy at the meeting. The persons named as Proxies will vote in favor of such adjournment. At the annual meeting, the stockholders will be asked to re-elect the current members of our Board of Directors, to ratify the selection of the independent public accountant for the Company and to approve the amendment to the Company's 2004 Equity Incentive Plan.

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ANNUAL REPORT OF THE COMPANY

The annual report of the Company containing audited financial statements for the twelve-months ending December 31, 2004 and 2003 was mailed to the stockholders on or about July 18, 2005.

PROPOSAL 1

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ELECTION OF DIRECTORS

It is intended that the enclosed Proxy will be voted for the election of the nine (9) persons named below as directors for the Company unless such authority has been withheld in the respective Proxy. The term of office of each person elected to our Board of Directors will be until the next regular or annual meeting of the stockholders at which election of directors is an agenda item and until his or her successor is duly elected and shall qualify. Each of our current directors is a nominee for director. Pertinent information regarding each nominee for the past five years is set forth following his or her name below.

NAME AND AGE	POSITION WITH THE COMPANY AND PRINCIPAL OCCUPATIONS	ADDRESS
James W. Benson (60)	Mr. Benson is the founder and has served as our Chief Executive Officer and Chairman of the Board since inception, and started the trend of successful computer entrepreneurs moving into the entrepreneurial space arena. In 1984, Mr. Benson founded Compusearch Corporation (later renamed Compusearch Software Systems) in McLean, Virginia. The company was based on the first development of software algorithms and applications for personal computers and networked servers to create full text indexes of massive government procurement regulations and to provide instant full text searches for any word or phrase; the first instance of large scale, commercial implementation of PC-based full text searching, which later grew to encompass such systems as worldwide web search engines. Seeing related opportunities in document and image management, Mr. Benson started the award-winning ImageFast Software Systems in 1989, which later merged with Compusearch. In 1995, Mr. Benson sold Compusearch and ImageFast, and retired at age fifty. After months of research, Mr. Benson started SpaceDev, Inc., a Nevada corporation, which was acquired by us in October 1997. Mr. Benson holds a Bachelor of Science degree in Geology from the University of Missouri. He founded the non-profit Space Development Institute, and introduced the \$5,000 Benson Prize for Amateur Discovery of Near Earth Objects. He is also Vice-Chairman and private sector representative on NASA's national Space Grant Review Panel, and is a member of the American Society of Civil Engineers subcommittee on Near Earth Object Impact Prevention and Mitigation. Mr. Benson currently sits on the Board of Directors of Space Development Institute, a non-profit organization founded by Susan C. Benson and Mr. Benson.	1385 Powa
Richard B. Slansky (48)	Richard B. Slansky is currently our President, Chief Financial Officer, Director and Corporate Secretary. He joined us on February 10, 2003 as Chief Financial Officer and Corporate Secretary.	1385 Powa

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In November 2004, he was appointed as President and Director. Mr. Slansky served as interim Chief Executive Officer, interim Chief Financial Officer, and Director for Quick Strike Resources, Inc., an IT training, services and consulting firm, from July 2002 to February 2003. Previously, Mr. Slansky served as Chief Financial Officer, Vice President of Finance, Administration and

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Operations and Corporate Secretary for Path 1 Network Technologies, Inc., a public company focused on merging broadcast and cable quality video transport with IP networks from May 2000 to July 2002. Before his tenure at Path 1, Mr. Slansky served as President, Chief Financial Officer and member of the Board of Directors of Nautronix, Inc., a marine electronics/engineering services company, from January 1999 to May 2000. Prior to Nautronix, Mr. Slansky served as Chief Financial Officer of Alexis Corporation, an international pharmaceutical research products technology company, from August 1995 to January 1999. He also served as President and Chief Financial Officer of C-N Biosciences, formerly Calbiochem, from July 1989 to July 1995. Mr. Slansky is currently serving on the Board of Directors of two privately held high technology companies, including Sicomment, Inc., one closely held, private real estate company and the Girl Scouts of San Diego and Imperial Counties. Mr. Slansky earned a bachelor's degree in economics and science from the University of Pennsylvania's Wharton School of Business and a master's degree in business administration in finance and accounting from the University of Arizona.

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Scott McClendon (66)

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Mr. McClendon was appointed to our Board of Directors as an independent director on July 19, 2002. He currently sits on our Audit Committee and Chairs our Compensation Committee. McClendon currently sits on the Board of Directors for Overland Storage, Inc., a public company, where he acts as chairman of the Board. He became the chairman after serving as president and chief executive officer from October 1991 to March 2001. Prior to joining Overland Storage, Inc., Mr. McClendon was employed by Hewlett-Packard Company for over 32 years in various positions of engineering, manufacturing, sales and marketing. In addition to SpaceDev and Overland Storage, Mr. McClendon is currently serving on the Board of Directors of Procera Networks, Inc., a public company, and Sicommet, Inc., privately held high technology company. Mr. McClendon received a Bachelor of Science degree in electrical engineering in June 1960, and a Master of Science degree in electrical engineering in June 1962 from Stanford University School of Engineering.

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Curt Dean Blake (47)

Mr. Blake was appointed to our Board of Directors as an independent director on September 5, 2000. He serves as our Audit Committee Chair and is a member of our Compensation Committee. Mr. Blake is CEO of GotVoice, Inc., a startup company in the voicemail consolidation and messaging business. From 1999 to 2002, Mr. Blake provided consulting services to various technology companies, including Apex Digital, Inc. and SceneIt.com. Mr. Blake acted as the Chief Operating Officer of the Starwave Corporation from 1993 until 1999, where he managed business development, finance, legal and business affairs, and operations for the world's most successful collection of content sites on the Internet. During that time, he developed business strategies, financial models, and structured and negotiated venture agreements for Starwave's flagship site, ESPN Sportszone, at that time the highest traffic destination site on the Internet. He also developed and negotiated venture agreements with the NBA, NFL, Outside Magazine and NASCAR to create sites around these brands. Mr. Blake negotiated the sale of a controlling interest in Starwave Corporation to Disney/ABC. Prior to Starwave, Mr. Blake worked at Corbis from 1992 to 1993, where he led the

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acquisitions and licensing effort to fulfill Bill Gates' vision of creating the largest taxonomic database of digital images in the world. Mr. Blake acted as General Counsel to Aldus Corporation from 1989 to 1992, where he was responsible for all legal matters of the \$125 million public corporation and its subsidiaries. Prior to that, Mr. Blake was an attorney at Shidler, McBroom, Gates and Lucas, during which time he was assigned as onsite counsel to the Microsoft Corporation, where he was primarily responsible for the domestic OEM/Product Support and Systems Software divisions. Mr. Blake has an MBA and JD from the University of Washington.

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Howell M. Estes, III (63)

General Estes (USAF Retired) was appointed to our Board of Directors as an independent director on April 2, 2001, is Chair of our Nominating/Corporate Governance Committee and is a member of our Compensation Committee. General Estes retired from the United States Air Force in 1998 after serving for 33 years. At that time he was the Commander-in-Chief of the North American Aerospace Defense Command ("CINCNORAD") and the United States Space Command ("CINCSPACE"), and the Commander of the Air Force Space Command ("COMAFSPC") headquartered at Peterson AFB, Colorado. In addition to a Bachelor of Science Degree from the Air Force Academy, he holds a Master of Arts Degree in Public Administration from Auburn University and is a graduate of the Program for Senior Managers in Government at

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Harvard's JFK School of Government. Gen. Howell Estes is the President of Howell Estes & Associates, Inc., a wholly owned consulting firm to CEOs, Presidents and General Managers of aerospace and telecommunications companies worldwide. He serves as Vice Chairman of the Board of Trustees at The Aerospace Corporation. He served as a consultant to the Defense Science Board Task Force on SPACE SUPERIORITY and more recently as a commissioner on the U.S. Congressional Commission to Assess United States National Security Space Management and Organization (the "Rumsfeld Commission").

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Robert S. Walker (62)

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Mr. Walker was appointed to our Board of Directors as an independent director on April 2, 2001. He currently sits on our Nominating/ Corporate Governance Committee. Mr. Walker has acted as Chairman of Wexler & Walker Public Policy Associates in Washington, D.C. since January 1997. As a former Congressman (1977-1997), Chairman of the House Science Committee, Vice Chairman of the Budget Committee, and a long-time member of the House Republican leadership, Walker became a leader in advancing the nation's space program, especially the arena of commercial space, for which he was the first sitting House Member to be awarded NASA's highest honor, the Distinguished Service Medal. Bob Walker is a frequent speaker at conferences and forums. His main issues include the breadth and scope of space regulation today, and how deregulation could unleash the telecommunications, space tourism, broadcast and Internet industries. Mr. Walker currently sits on the board of directors of Aerospace Corporation, a position he has held since March 1997. Wexler & Walker is a Washington-based, full-service government relations firm founded in 1981. Wexler & Walker principals have served in Congress, in the White House and federal agencies, as congressional staff, in state and local governments and in political campaigns. Wexler & Walker is a leader on the technology issues of the twenty-first century. During 2002, we incurred consulting fees with Hill and Knowlton, Inc., an affiliate of Wexler & Walker, in an aggregate amount of approximately \$56,000. No fees have been paid to Hill and Knowlton since 2002.

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Wesley T. Huntress (63)

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Dr. Huntress was elected to our Board of Directors as an independent director at our annual stockholder meeting held June 30, 1999, and is a member of our Audit Committee and Nominating/Corporate Governance Committee. Dr. Huntress is currently Director of the Geophysical Laboratory at the Carnegie Institution of Washington in Washington, DC, where he leads an interdisciplinary group of scientists in the

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fields of high-pressure science, astrobiology, petrology and biogeochemistry. Prior to his appointment at Carnegie, Dr. Huntress served the Nation's space program as the Associate Administrator for Space Science at NASA from October 1993 through September 1998 where he was responsible for NASA's programs in astrophysics, planetary exploration, and space physics. During his tenure, NASA space science produced numerous major discoveries, and greatly increased the launch rate of missions. These discoveries include the discovery of possible ancient microbial life in a Mars meteorite; a possible subsurface ocean on Jupiter's moon Europa; the finding that gamma ray bursts originate at vast distances from the Milky Way and are extraordinarily powerful; discovery of massive rivers of plasma inside the Sun; and a wealth of announcements and images from the Hubble Space Telescope, which have revolutionized astronomy as well as increased public interest in the cosmos. Dr. Huntress also served as a Director of NASA's Solar System Exploration Division from 1990 to 1993, and as special assistant to NASA's Director of the Earth Science and Applications from 1988 to 1990. Dr. Huntress came to NASA Headquarters from Caltech's Jet Propulsion Laboratory ("JPL"). Dr. Huntress joined JPL as a National Research Council resident associate after receiving his B.S. in Chemistry from Brown University in 1964 and his Ph.D. in Chemical Physics from Stanford in 1968. He became a permanent research scientist at JPL in 1969. He and his JPL team gained an international reputation for their pioneering studies of chemical evolution in interstellar clouds, comets and planetary atmospheres. At JPL Dr. Huntress served as co-investigator for the ion mass spectrometer experiment in the Giotto Halley's Comet mission, and as an interdisciplinary scientist for the Upper Atmosphere Research Satellite and Cassini missions. He also assumed a number of line and research program management assignments while at JPL, and spent a year as a visiting professor in the Department of Planetary Science and Geophysics at Caltech.

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Susan C. Benson (60)

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Ms. Benson was appointed to our Board of Directors on April 12, 2005. Ms. Benson joined SpaceDev in 1997, serving as corporate secretary until 2003. From approximately 1998 to 2004, Ms. Benson was, in part, responsible for our investor relations and public relations activities, managing our strategic messaging to build industry and media awareness as well as strengthening shareholder relations. Prior to joining SpaceDev, Ms. Benson was the customer support manager for CompuSearch Software Systems in McLean, Virginia from 1986 through 1995. Ms. Benson also served as secretary/treasurer of the CompuSearch Software Systems Board of Directors. Ms. Benson currently sits on the Board of Directors of Space Development Institute, a non-profit organization

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founded by James W. Benson and Ms. Benson.

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Stuart E. Schaffer (45)

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Mr. Schaffer was appointed to our Board of Directors on May 17, 2002. Mr. Schaffer is currently the president of vendor affairs for Sicomment, Inc., an internet marketplace company, where both Messrs. McClendon and Slansky are members of the Sicomment Board of Directors. From August 2003 to January 2005, Mr. Schaffer was the vice president of marketing for Overture Performance Marketing -- a business unit of Yahoo! Overture Services, which is a subsidiary of Yahoo! Mr. Schaffer was our vice president of product development/marketing from May 2002 to August 2003. From 1998 to 2001, Mr. Schaffer acted as vice president of marketing for Infocus Corporation, a fully reporting company, where he managed all aspects of the marketing mix for market-share leading digital projection business throughout the Americas region. In that position, Mr. Schaffer revitalized the Proxima brand, managed a multi-million dollar annual advertising, communications and program budget, directed multiple outside and in-house agencies, led product marketing teams in defining and delivering both mobile and conference room digital projector product lines, developed channel strategies and programs for both value-added and volume channels, served as primary press spokesperson for the company, established a market intelligence structure focused on developing customer and industry knowledge and spearheaded merger teams to ensure the smooth transition of the merger between the Infocus and Proxima marketing organizations. Prior to Infocus, Mr. Schaffer worked for the Hewlett-Packard Company from 1985 to 1998, where he held various positions in Business Development, Marketing and Business Planning. Mr. Schaffer has worked with the Leukemia & Lymphoma Society, on a volunteer basis, as an Assistant Coach and Mentor. Mr. Schaffer has an MBA from Harvard and a BS in physics from Harvey Mudd College.  
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One of our independent directors currently sits on the board of directors of two other Reporting Companies. "Reporting Companies" include companies with a class of securities registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended (the "1934 Act") or subject to the requirements of Section 15(d) of the 1934 Act, or any company registered as an investment company under the Investment Company Act of 1940, as amended (the "1940 Act").

STOCK OWNERSHIP

The following table provides information as of June 23, 2005 concerning the beneficial ownership of our common stock by (i) each director, (ii) each named executive officer, (iii) each shareholder known by us to be the beneficial owner

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of more than 5% of our outstanding Common Stock, and (iv) the directors and officers as a group. Except as otherwise indicated, the persons named in the table have sole voting and investing power with respect to all shares of Common Stock owned by them.

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Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership (1)	Percent Class (1)
.0001 par value common stock	James W. Benson, CEO and Chairman 13855 Stowe Drive Poway, California 92064	6,699,707 (2)	29
.0001 par value common stock	Susan C. Benson 13855 Stowe Drive Poway, California 92064	6,699,707 (3)	29
.0001 par value common stock	Richard B. Slansky President and CFO 13855 Stowe Drive Poway, California 92064	415,544 (4)	1
.0001 par value common stock	Frank Macklin 13855 Stowe Drive Poway, California 92064	243,073 (5)	1
.0001 par value common stock	Randall K. Simpson 13855 Stowe Drive Poway, California 92064	135,866 (6)	0
.0001 par value common stock	J. Mark Grosvenor 13855 Stowe Drive Poway, California 92064	1,330,376 (7)	6
.0001 par value common stock	Wesley T. Huntress Jr. Director 13855 Stowe Drive Poway, California 92064	140,515 (8)	0
.0001 par value common stock	Curt Dean Blake Director 13855 Stowe Drive Poway, California 92064	180,430 (9)	0
.0001 par value common stock	General Howell M. Estes III, Director 13855 Stowe Drive	99,167 (10)	0

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stock	Poway, California 92064		
.0001 par value common stock	Robert S. Walker Director 13855 Stowe Drive Poway, California 92064	85,667 (11)	0
.0001 par value common stock	Stuart Schaffer, Director 13855 Stowe Drive Poway, California 92064	218,206 (12)	0
.0001 par value common stock	Scott McClendon Director 13855 Stowe Drive Poway, California 92064	72,960 (13)	0
----- .0001 par value common stock ----- -----	Officers and Directors as a group (11 Persons) ----- -----	11,291,135 (14) ----- -----	34 ----- -----

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- (1) Where persons listed on this table have the right to obtain additional shares of Common Stock through the exercise of outstanding options or warrants or the conversion of convertible securities within 60 days from June 23, 2005, these additional shares are deemed to be outstanding for the purpose of computing the percentage of Common Stock owned by such persons, but are not deemed outstanding for the purpose of computing the percentage owned by any other person. Percentages are based on total outstanding shares of 22,176,446 on June 23, 2005.
- (2) Represents 3,000,000 shares held directly by Mr. James W. Benson as a result of a stipulated order entered May 24, 2005 identifying the shares as a separate property asset of Mr. Benson, plus beneficial ownership in 2,692,294 shares held jointly with Susan C. Benson, indirect beneficial ownership interest in 497,413 shares held in Space Development Institute (where Mr. Benson is a member of the Board of Directors along with Susan C. Benson) and beneficial ownership in vested options on 510,000 shares (which may constitute community property with Susan C. Benson). In addition, Mr. Benson has an undivided beneficial ownership interest in unvested options on 2,000,000 shares which may constitute community property with Susan C. Benson. The unvested options are not expected to vest within the next 60 days and will expire on July 16, 2005 if not vested prior to that date. Mr. Benson disclaims ownership of shares held by children.
- (3) Represents 3,000,000 shares held directly by Ms. Susan Benson as a result of a stipulated order entered May 24, 2005 identifying the shares as a separate property asset of Mrs. Benson, plus beneficial ownership in 2,692,294 shares held jointly with James W. Benson, indirect beneficial ownership interest in 497,413 shares held in Space Development Institute (where Ms. Benson is a member of the Board of Directors along with James W. Benson) and beneficial ownership in vested options issued in the name of James W. Benson on 510,000 shares (which may constitute community property with James W. Benson). In addition, Ms. Benson has an undivided beneficial ownership interest in unvested options issued in the name of James W.

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Benson on 2,000,000 shares which may constitute community property with James W. Benson. The unvested options are not expected to vest within the next 60 days and will expire on July 16, 2005 if not vested prior to that date. Ms. Benson disclaim ownership of shares held by their children.

- (4) Mr. Slansky owns 83,544 shares of which 38,462 shares he purchased for cash in a private transaction with Mr. Skarupa, the Company's former Vice President of Operations and an additional 38,462 shares Mr. Slansky bought by exercising his warrant rights which were also purchased from Mr. Skarupa. In addition, Mr. Slansky holds vested options on 332,000 shares. Mr. Slansky also holds unvested options on 418,000 common shares which are not expected to vest within the next 60 days.
- (5) Mr. Macklin owns 230,073 shares and vested options on 13,000 shares. Mr. Macklin also holds unvested options on 40,000 common shares which will not vest within the next 60 days.
- (6) Mr. Simpson owns 3,366 shares of our common stock, and holds vested options on 132,500 shares of our common stock and unvested options on 117,500 common shares which will not vest within the next 60 days.
- (7) Mr. Grosvenor owns 1,330,376 shares of our common stock of which 665,188 were bought by exercising warrants that he purchased in our private placement. On May 6, 2003, Mr. Grosvenor was granted options on 19,615 shares, which he forfeited upon his resignation from the Board on September 15, 2003.
- (8) Mr. Huntress owns 8,868 shares of our common stock. Mr. Huntress also holds vested options on 131,647 common shares, which he received as compensation for his participation on our Board of Directors. In addition, Mr. Huntress holds unvested options on 94,500 shares which will not vest within the next 60 days.
- (9) Mr. Blake owns 30,612 shares of our common stock and holds vested warrants for 30,612 common shares that he purchased in our private placement. Mr. Blake also holds vested options on 119,206 common shares, which he received as compensation for his participation on our Board of Directors. In addition, Mr. Blake has unvested options on 93,000 shares which will not vest within the next 60 days.

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- (10) General Estes III holds vested options on 99,167 common shares, which he received as compensation for his participation on our Board of Directors. In addition, General Estes III holds unvested options on 64,500 shares which will not vest within the next 60 days.
- (11) Mr. Walker holds vested options on 85,667 common shares, which he received as compensation for his participation on our Board of Directors. In addition, Mr. Walker holds unvested options on 52,500 common shares which will not vest within the next 60 days.
- (12) Mr. Schaffer owns 128,206 shares of which 64,103 were converted from warrants. In 2003, as part of the Company's convertible debt repayment, Mr. Schaffer forgave warrants for 64,103 common shares and converted \$25,000 of his debt to the Company into 64,103 shares. Mr. Schaffer also holds vested options on 90,000 common shares, which he received as part of his compensation package as Vice President of Product Development and Marketing. In addition, Mr. Schaffer holds unvested options on 36,000 common shares, which he received as compensation for his participation on our Board of Directors, which will not vest within the next 60 days.

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- (13) Mr. McClendon holds vested options on 72,960 common shares, which he received as compensation for his participation on our Board of Directors. In addition, Mr. McClendon holds unvested options on 90,000 common shares which will not vest within the next 60 days.
- (14) Officers and directors as a group include our nine Board members, two of whom are also officers of the Company, and Messrs. Simpson, and Macklin, who are officers of the Company. For purposes of calculating total shares and percentage held by all officers and directors as a group, shares held by James W. Benson and Susan C. Benson were calculated as follows: 3,000,000 shares held as separate property of Mr. Benson, 3,000,000 shares held as separate property by Ms. Benson, 2,692,294 shares held jointly by Mr. and Ms. Benson, 497,413 shares held by Space Development Institute and fully vested options on 510,000 shares currently held in the name of Mr. Benson but which may constitute a community property asset of Mr. Benson and Ms. Benson.

### BOARD OF DIRECTORS AND ITS COMMITTEES

Meetings of the Board and its Committees. Our Board of Directors took action five (5) times during the last fiscal year: all five (5) times at regular or special meetings attended by a majority of the members of the Board either personally or telephonically. Our Audit Committee took separate action four (4) times during the last fiscal year, each time at a regular or special meeting attended by a majority of the members of the committee either personally or telephonically. Neither our Nominating and Corporate Governance Committee nor our Compensation Committee met during the fiscal year ended December 31, 2004.

Audit Committee. We have a standing audit committee comprised of Messrs. Blake (Chairman) and McClendon and Dr. Huntress, all of whom are independent within the meaning of Exchange Act Rule 10A-3. On April 19, 2002, the Board of Directors adopted and approved a charter for the Audit Committee, which is attached as Appendix B to the Company's Definitive Proxy Statement filed July 7, 2004. The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities by reviewing the financial information that will be provided to the stockholders and others, the preparation of the Company's internal financial statements, and the Company's audit and financial reporting process. In addition, our Audit Committee is responsible for maintaining free and open lines of communication among the committee, the independent auditors and management. Our Audit Committee consults

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with the Company's management and independent auditors prior to the presentation of financial statements to stockholders and, as appropriate, initiates inquiries into various aspects of the Company's financial affairs. The committee is also responsible for considering and recommending the appointment of and reviewing fee arrangements with our independent auditors. It is not responsible for preparing the Company's financial statements or for planning or conducting the audits. Our Audit Committee took separate action four (4) times during the last fiscal year, each time at a regular or special meeting attended by a majority of the members of the committee either personally or telephonically.

Compensation Committee. Our Compensation Committee, established on March 25, 2004, is comprised of Messrs. McClendon (Chair) and Blake and General Estes. Each member of the Compensation Committee is independent within the meaning of the listing standards for The Nasdaq Stock Market and SEC rules. The Committee is required to maintain a minimum of three (3) members. The Compensation Committee is responsible for: (a) determining or recommending to our Board of Directors for determination the compensation and benefits of all of our

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executive officers; (b) reviewing our compensation and benefit plans to ensure that they meet corporate objectives; (c) administering our equity compensation plans; and (d) such other matters as are specifically delegated to the Compensation Committee by our Board of Directors from time to time or which are otherwise included in the Committee's charter, which is available via our website at [www.spacedev.com](http://www.spacedev.com). The Compensation Committee did not meet during the fiscal year ended December 31, 2004. It has met one time during fiscal 2005.

Nominating and Corporate Governance Committee. Our Nominating and Corporate Governance Committee, established March 25, 2004, is comprised of General Estes (Chair), Dr. Huntress and Mr. Walker. Each member of the Nominating and Corporate Governance Committee is independent within the meaning of the listing standards for The Nasdaq Stock Market and SEC rules. The Committee is required to maintain a minimum of three (3) members.

The Nominating and Corporate Governance Committee has the responsibility to identify, evaluate, recruit and recommend qualified candidates to the Board of Directors for nomination or election. Each of the director nominees included in this Proxy Statement were recommended by the Nominating and Corporate Governance Committee. In addition, it is the responsibility of the Committee to make recommendations to the Board of Directors regarding the size and composition of the Board of Directors, committee structures and makeup, monitor our performance in meeting our obligations of fairness in internal and external matters and our principles of corporate governance, and such other matters that are specifically delegated to the Committee by our Board of Directors from time to time or which are otherwise included in the Committee's charter, which is available via our website at [www.spacedev.com](http://www.spacedev.com). The Nominating and Corporate Governance Committee did not meet during the fiscal year ended December 31, 2004. It has met one time during fiscal 2005.

The Board of Directors has as an objective that its membership be composed of experienced and dedicated individuals with diversity of backgrounds, perspectives and skills. The Nominating and Corporate Governance Committee will select candidates for director based on their character, judgment, diversity of experience, business acumen, and ability to act on behalf of all stockholders based on standards outlined in its written charter. Each of the director nominees set forth on the Proxy were selected by the Nominating and Corporate Governance Committee based on his or her experience in management or accounting and finance, or industry and technology knowledge, personal and professional ethics, and the willingness and ability to devote sufficient time to effectively carry out his duties as a director.

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Any shareholder who desires to recommend a nominee for director must submit a letter, addressed to the Secretary, SpaceDev, Inc., 13855 Stowe Drive, Poway, California 92064, which is clearly identified as a "Director Nominee Recommendation." All recommendation letters must identify the author as a shareholder and provide a brief summary of the candidate's qualifications, as well as contact information for both the candidate and the shareholder, to enable the Committee to contact the nominee for additional information to evaluate the person's qualifications against established criteria. Any shareholder nominee will be required to meet the criteria established by the Committee and will be interviewed by at least one member of the Committee. If the nominee is found to be eligible during the initial interview, the nominee will then be invited to meet with the full Committee or the Board of Directors for further evaluation. The Committee will consider all proposed nominees whose names are submitted in accordance with the above-stated requirements.

Shareholder Communication With The Board of Directors. Shareholders may communicate with the Board of Directors, including the non-management directors,

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by sending a letter to our Board of Directors, c/o Secretary, SpaceDev, Inc., 13855 Stowe Drive, Poway, California 92064 for submission to the Board or Committee or to any specific director to whom the correspondence is directed. Stockholders communicating through this means should include with the correspondence evidence, such as documentation from a brokerage firm, that the sender is a current stockholder of the Company. Our Secretary will direct the correspondence to the Chair of the Board, the appropriate committee or the specific director, as applicable.

Company Code of Conduct And Ethics. The Board has adopted a Code of Conduct and Ethics that applies to the Company's directors, officers and employees, A copy of this policy is available via our website at [www.spacedev.com](http://www.spacedev.com). We have also filed a copy of the Code of Conduct and Ethics with the SEC as an exhibit to our Annual Report on Form 10-KSB for fiscal year ended 2002, filed on March 28, 2003.

### DIRECTOR COMPENSATION

At our annual meeting on July 16, 2000, our Board of Directors adopted a compensation plan for independent directors whereby they received options for attending meetings of the Board as follows: each such director received an option to purchase 5,000 shares for each of two telephonic meetings attended per year, and an option to purchase 10,000 shares for each of two meetings attended in person per year. These directors did not receive additional compensation for attending meetings in excess of those described above. In addition to the above, independent directors received \$5,000 in options on the date of election or appointment. All such options were issued pursuant to our 1999 Incentive Stock Option Plan at fair market value as of the date of the meeting attended, were set up to vest 50% on the first anniversary date of the date of grant and 50% on the second anniversary date of the date of grant and expire on the five-year anniversary of the grant date.

On March 25, 2004, our Board of Directors modified our compensation plan for independent directors. Under the modified plan, independent directors receive options for attending meetings of the Board as follows: each director shall receive an option to purchase 6,000 shares for each telephonic meeting attended and an option to purchase 12,000 shares for each meeting attended in person, with a cap of options on 36,000 shares per year. Our directors will also receive compensation for attending committee meetings as follows: each director shall receive an option to purchase 5,000 shares for each Audit Committee meeting attended, each director shall receive an option to purchase 2,500 shares for each Compensation Committee meeting attended and each director shall receive an option to purchase 2,500 shares for each Nominating/Governance Committee meeting attended, which options shall not be subject to a cap. In addition to the above, independent directors will receive 5,000 options on the date of

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election or appointment. All such options will be issued pursuant to the Plan at fair market value as of the date of the meeting attended, will vest 50% on the first anniversary date of the date of grant and 50% on the second anniversary date of the date of grant and will expire on the three-year anniversary of the grant date. The following table sets forth the remuneration paid to our directors during the fiscal year ended December 31, 2004 under this compensation plan. We do not pay directors, who are also our officers, additional compensation for their service as directors.

Cash Compensation

Security Grants

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Name	Annual Retainer Fees	Meeting Fees	Consulting Fees/Other Fees	Number of Shares	Number of Securities Underlying Options/SARs
James W. Benson . . . . .	-	-	-	-	-
Richard B. Slansky. . . . .	-	-	-	-	-
Stuart Schaffer . . . . .	-	-	-	-	-
Wesley T. Huntress. . . . .	-	-	-	-	75,000
Curt Dean Blake . . . . .	-	-	-	-	74,000
General Howell M. Estes, III.	-	-	-	-	30,000
Robert S. Walker. . . . .	-	-	-	-	18,000
Scott McClendon . . . . .	-	-	-	-	75,000

The Company does not maintain any pension, retirement or other arrangements other than as disclosed in the following table for compensating its Directors.

EXECUTIVE OFFICERS

Certain information about the current executive officers of the Company is set forth below. Each executive officer of the Company may be removed from office at any time by a majority of the Company's Board of Directors with or without cause.

James W. Benson, age 60, is our founder and has served as our Chief Executive Officer and Chairman of the Board since inception. Mr. Benson started the trend of successful computer entrepreneurs moving into the entrepreneurial space arena. In 1984, Mr. Benson founded Compusearch Corporation (later renamed Compusearch Software Systems) in McLean, Virginia. The company was based on the first development of software algorithms and applications for personal computers and networked servers to create full text indexes of massive government procurement regulations and to provide instant full text searches for any word or phrase; the first instance of large scale, commercial implementation of PC-based full text searching, which later grew to encompass such systems as worldwide web search engines. Seeing related opportunities in document and image management, Mr. Benson started the award-winning ImageFast Software Systems in 1989, which later merged with Compusearch. In 1995, Mr. Benson sold Compusearch and ImageFast, and retired at age fifty. After months of research, Mr. Benson started SpaceDev, Inc., a Nevada corporation, which was acquired by us in October 1997. Mr. Benson holds a Bachelor of Science degree in Geology from the University of Missouri. He founded the non-profit Space Development Institute, and introduced the \$5,000 Benson Prize for Amateur Discovery of Near Earth Objects. He is also Vice-Chairman and private sector representative on NASA's national Space Grant Review Panel, and is a member of the American Society of Civil Engineers subcommittee on Near Earth Object Impact Prevention and Mitigation. Mr. Benson currently sits on the Board of Directors of Space Development Institute, a non-profit organization founded by Susan C. Benson and himself.



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Richard B. Slansky, age 48, is currently our President, Chief Financial Officer, Director and Corporate Secretary. He joined us on February 10, 2003 as Chief Financial Officer and Corporate Secretary. In November 2004, he was appointed as President and Director. Mr. Slansky served as interim Chief Executive Officer, interim Chief Financial Officer, and Director for Quick Strike Resources, Inc., an IT training, services and consulting firm, from July 2002 to February 2003. Previously, Mr. Slansky served as Chief Financial Officer, Vice President of Finance, Administration and Operations and Corporate Secretary for Path 1 Network Technologies, Inc., a public company focused on merging broadcast and cable quality video transport with IP networks from May 2000 to July 2002. Before his tenure at Path 1, Mr. Slansky served as President, Chief Financial Officer and member of the Board of Directors of Nautronix, Inc., a marine electronics/engineering services company, from January 1999 to May 2000. Prior to Nautronix, Mr. Slansky served as Chief Financial Officer of Alexis Corporation, an international pharmaceutical research products technology company, from August 1995 to January 1999. He also served as President and Chief Financial Officer of C-N Biosciences, formerly Calbiochem, from July 1989 to July 1995. Mr. Slansky is currently serving on the Board of Directors of two privately held high technology companies, including Sicomment, Inc., one closely held, private real estate company and the Girl Scouts of San Diego and Imperial Counties. Mr. Slansky earned a bachelor's degree in economics and science from the University of Pennsylvania's Wharton School of Business and a master's degree in business administration in finance and accounting from the University of Arizona.

Frank Macklin, age 48, was appointed as our Vice President of Engineering in 2004. Mr. Macklin has been our chief engineer of hybrid propulsion systems and the technical leader for our National Reconnaissance Office funded SPOTV Hybrid System Definition study, and is acting chief engineer for our Maneuvering and orbital Transfer Vehicle Hybrid Technology Development and X-Motor Development. Mr. Macklin was a founder of Integrated Space Systems, Inc., which was acquired by SpaceDev in 1998. Prior to his work at Integrated Space Systems, Mr. Macklin worked at the General Dynamics Space Systems Division in San Diego from January 1987 to December 1994. During his tenure at General Dynamics, Mr. Macklin integrated a new guidance system onto the new generation of Atlas launch vehicles and became intimately familiar with all aspects of vehicle flight software and hardware. He also designed and implemented diverse ground guidance performance and analysis software systems, became a complete end-to-end systems expert, and served as the guidance system expert on the elite "tiger team" sent to support all launches. Prior to General Dynamics, Mr. Macklin served as a member of the Peacekeeper developmental launch team at Vandenberg Air Force Base from March 1984 to December 1986, where he was responsible for the \$30M guidance and control system, led a group of 30 industry engineers and gave the final guidance system go/no-go for launch. Mr. Macklin is a California State registered professional electrical engineer with more than 20 years of experience with launch vehicles, ground launch control systems, launch sites and launch teams. Mr. Macklin received his BSEE from San Diego State University and is a California Board Certified Professional Engineer.

Randall K. Simpson, age 58, is our Vice President of New Business Development and Project Management and joined us in January 2004. Mr. Simpson has over 30 years of diversified experience in business development, product definition, engineering development and support for aerospace, commercial and international customers. From October 2000 to January 2004, Mr. Simpson served as Assistant Vice President of Program Management for Alvarion, Inc., a high technology commercial communications firm. From March 1997 to September 2000, Mr. Simpson was Vice President of Engineering for Cubic Defense Systems, an engineering and production company providing military training ranges, laser

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instrumentation products, space avionics and battlefield communications equipment. From November 1992 to February 1997, Mr. Simpson was Program Director for Advanced Test Systems and Engineering Director for GDE Systems, which develops, integrates and produces test equipment for advanced electronic aircraft, munitions, space launch, satellite and telecommunications systems. Mr. Simpson began his career at General Dynamics/Convair where he held various positions. Mr. Simpson received both his BSEE and MSEE from San Diego State University.

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Biographical information for each of the Company's non-executive officer directors is set forth across from such person's name on the table of "nominees" listed above. Each nominee is a current member of the Company's Board of Directors.

EXECUTIVE OFFICER COMPENSATION

During the fiscal years ended December 31, 2002, 2003 and 2004, the Company granted options to certain of its officers as compensation for their services pursuant to the Company's stock option plan. Total compensation paid to officers of the Company for its past three fiscal years is set forth below:

SUMMARY COMPENSATION TABLE

Name and Principal Position(1)	Year	Annual Compensation			Long Term Compensation	
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Awards	Securities Underlying Options/ SARs #
James W. Benson, CEO (2)	2002	141,325	-	-	-	10,000 (2)
	2003	150,000	-	-	-	-
	2004	177,923	40,000	3,894	-	-
Richard B. Slansky, President, CFO.	2002	-	-	-	-	-
	2003	94,625	-	-	-	355,000 (3)
	2004	150,000	-	-	-	395,000 (3)
Randall K. Simpson, V.P. New Business Development.	2002	-	-	-	-	-
	2003	-	-	-	-	-
	2004	114,231	-	-	-	250,000 (4)
Frank Macklin, V.P. Engineering.	2002	-	-	-	-	-
	2003	-	-	-	-	-
	2004	109,110	-	-	-	50,000 (5)

(1) The table includes information as to the Chief Executive Officer and highest paid officers of the Company for the last fiscal year, including

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persons whose information would have been required but for the fact that they were not serving as officers of the Company at its fiscal year end. For purposes of the table, only persons whose total annual salary and bonus exceeded \$100,000 have been included.

- (2) Mr. Benson was awarded options on 10,000 shares in 2001 as a part of an annual award of options to our employees. The options are incentive stock options and were granted with an exercise price equal to 110% of the fair market value of our common stock on the date of grant. The options are fully vested.
- (3) Mr. Slansky was awarded options on up to 385,000 shares in 2003 as part of his employment agreement, with 25,000 vested immediately, 180,000 vesting in six-month increments over five years and the remaining based on performance criteria established by the CEO. The timeframe for certain performance criteria lapsed in 2003 and options on 30,000 shares not earned were forfeited; thereby, reducing Mr. Slansky's potential securities underlying options to a maximum of 355,000, as illustrated above. Mr. Slansky was awarded options on up to 395,000 shares in 2004 as part of an overall option normalization and based on positions held; and these options vest based on the following: options on 197,500 shares vesting in six-month

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increments over five years and the remaining vest based on performance criteria established by the CEO, as approved by the Board. Mr. Slansky received additional compensation of \$27,672 in 2004 and \$1,183 in 2003 for raising additional capital for the Company. As part of Mr. Slansky's employment agreement, Mr. Slansky receives a one percent (1%) fee on funds raised below \$1.00 per share and a four percent (4%) fee on funds raised above \$1.00 per share.

- (4) Mr. Simpson was awarded options on up to 250,000 shares in 2004 as part of his employment agreement, with 125,000 vesting in six-month increments over five years and the remaining vest based on performance criteria established by the CEO or President, as approved by the Board.
- (5) Mr. Macklin was awarded options on up to 50,000 shares in 2004 as part of an overall option normalization and based on positions held; and these options vest based on six-month increments over five years. Mr. Macklin received additional compensation of \$4,067 in 2004 for additional work done on various programs.

During the last fiscal year and as of December 31, 2004, the Company granted stock options to executive officers as set forth in the following table:

OPTION/SAR GRANTS IN LAST FISCAL YEAR

Individual Grants

Name . . . . .	Number of Securities Underlying Options/SARs Granted (#)	% of Total Options/SARs Granted to Employees in Fiscal Year	Exercise of Base Price (\$/Sh)	Expiration Date
James W. Benson	0	0	0	

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Richard B. Slansky	395,000	18%	0.92	3/25/2
Randall K. Simpson	250,000	11%	1.19	1/26/2
Frank Macklin	50,000	2%	0.92	3/25/2

As of December 31, 2004, the Company had vested and unvested securities underlying stock options to executive officers as set forth in the following table:

AGGREGATE OPTION/SAR EXERCISES IN LAST FISCAL YEAR AND FY-END OPTION/SAR VALUES

Name . . . . .	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options/SARs at FY-End (#)	
			Exercisable/	Unexercisable
James W. Benson . .	0	0	255,000/	1,000,000
Richard B. Slansky	0	0	276,250/	473,750
Randall Simpson	0	0	12,500/	237,500
Frank Macklin	0	0	8,000/	45,000

(1) For purposes of determining whether options are "in-the-money," we defined fair market value as the five-day weighted average of the closing price of our common stock on the Over-The-Counter Bulletin Board as of June 23, 2005, or \$1.56 per share. All the options listed on the table are "in-the-money," except unvested options on 750,000 of Mr. Benson's shares.

PERQUISITES

We provide our Chief Executive Officer, Mr. Benson, with a few perquisites, including a cell phone with basic coverage and charges, an annual membership to

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alpha trader.com, annual air travel club memberships and a monthly hosting on web site works. Although the value of these perks is not substantial, we believe these perks are an important component of chief executive officer compensation.

### EMPLOYMENT AGREEMENTS

On November 21, 1997, we entered into a five-year employment agreement with our CEO, Mr. Benson. This agreement provides for compensation of salary and stock as well as stock options. This agreement also prohibits Mr. Benson from competing with us, disclosing any confidential information, or soliciting any of our employees or customers for one year after termination of employment. Our Board of Directors revised Mr. Benson's employment agreement at its meeting on July 16, 2000. This employment contract supersedes the previous agreement. The term of this revised employment contract is for a period of five (5) years from July 16, 2000. The revised agreement provides for the grant of options to purchase up to 4,000,000 shares of our common stock upon the occurrence of certain events, of which options for 2,500,000 have been granted, 500,000 of which are currently vested. All granted but unvested options will expire on July 16, 2005.

On May 17, 2002, we entered into an "at-will" employment agreement with Mr. Schaffer. The agreement provided for Mr. Schaffer's compensation of salary, benefits and options to purchase up to 450,000 shares of our common stock. On July 2, 2003, we entered into a Confidential Separation Agreement and General Release with Mr. Schaffer. The agreement provided for Mr. Schaffer to receive salary and benefits until August 8, 2003 and for the resignation of Mr. Schaffer as an officer, but not as a director. In exchange for a release of claims and other promises set forth in the agreement, Mr. Schaffer retained certain exercise rights on his vested options of 90,000 shares until the earlier of (i) eighteen (18) months from his resignation as a member of our Board of Directors or other subsequent consulting relationship with us, or (ii) July 19, 2008. After August 8, 2004, Mr. Schaffer was eligible for stock options related to attending Board Meetings pursuant to a separation agreement that Mr. Schaffer signed with us, even though he is not considered an independent director due to his recent employment with us. No options have been issued to Mr. Schaffer for attendance at Board meetings as of the date of this Proxy Statement.

On February 14, 2003, we entered into an "at-will" employment agreement with Mr. Slansky. The agreement provided for Mr. Slansky's compensation of salary, benefits, performance bonuses and options to purchase up to 385,000 shares of our common stock, (which was subsequently reduced to 355,000 due to a missed vesting incentive for options on 30,000 shares). The agreement also provided for severance under certain termination provisions and prohibits Mr. Slansky from soliciting our employees or competing with us if he were to leave the Company. Mr. Slansky received additional compensation of \$27,672 in 2004 and \$1,183 in 2003 for raising additional capital for the Company. As part of Mr. Slansky's employment agreement, Mr. Slansky receives a one percent (1%) fee on funds raised below \$1.00 per share and a four percent (4%) fee on funds raised above \$1.00 per share.

On November 17, 2003, we entered into an "at-will" employment relationship with Mr. Dario ("Dan") DaPra to become our Vice President of Engineering. Our offer letter provided for Mr. DaPra's compensation of salary, benefits and options to purchase up to 250,000 shares of our common stock. The offer letter also provided for severance under certain termination provisions and prohibits Mr. DaPra from soliciting our employees or competing with us. Mr. DaPra resigned on March 5, 2004 and subsequently entered into a Confidential

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Separation Agreement and General Release with us. The Agreement provided for Mr. DaPra to receive one-half pay through April 30, 2004 in lieu of severance, and to retain options on 40,000 shares of our stock with the ability to exercise those options until October 31, 2004.

### EMPLOYEE BENEFITS

At our 1999 Annual Stockholder Meeting, the shareholders adopted an Incentive Employee Stock Option Plan under which the Board of Directors had the ability to grant our employees, directors and affiliates Incentive Stock Options, non-statutory stock options and other forms of stock-based compensation, including bonuses or stock purchase rights. Incentive Stock Options, which provide for preferential tax treatment, are only available to employees, including officers and affiliates, and may not be issued to non-employee directors. The exercise price of the Incentive Stock Options must be 100% of the fair market value of the stock (110% for stockholders holding 10% or more of our outstanding voting stock) on the date the option is granted. Pursuant to our plan, the exercise price for the non-statutory stock options may not be less than 85% of the fair market value of the stock on the date the option is granted. We are required to reserve an amount of common shares equal to the number of shares which may be purchased as a result of awards made under the Plan at any time.

At the 2000 Annual Stockholder Meeting, the shareholders approved an amendment to the Stock Option Plan of 1999, increasing the number of shares eligible for issuance under the Plan to 30% of the then outstanding common stock and allowing the Board of Directors to make annual adjustments to the Plan to maintain a 30% ratio to outstanding common stock at each annual meeting of the Board of Directors. The Board, at its annual meetings in 2001 and 2002, made no adjustment, as a determination was made that the number of shares then available under the Plan was sufficient to meet the Company's then current needs. All shares issuable under the 1999 Incentive Stock Option Plan have been issued or are in reserve subject to outstanding awards under the plan. The plan is, therefore, no longer in use except as necessary for the exercise of those outstanding options.

At our 2004 Annual Stockholder Meeting, held on August 5, 2004, the stockholders adopted a 2004 Equity Incentive Plan. The 2004 Equity Incentive Plan authorized and reserved for issuance under the Plan 2,000,000 shares of our common stock. The 2004 Equity Incentive Plan is an important part of our total compensation program because competitive benefit programs are a critical component of our efforts to attract and retain qualified employees, directors and consultants. Options granted under the plan may be Incentive Stock Options or non-statutory stock options, as determined by the Board of Directors or a committee appointed by the Board of Directors at the time of grant. Limited rights and stock awards may also be granted under the Plan. As of December 31, 2004, 6,184,698 shares were authorized for issuance under the 1999 Stock Option Plan and the 2004 Equity Incentive Plan, 3,878,766 of which are currently subject to outstanding options and awards and options on 1,005,035 shares were exercised in 2004. Of the outstanding and vested options, 12,500 will expire if not exercised within 60 days of June 23, 2005. During 2004, we issued non-statutory options to purchase 272,000 shares to our independent directors for attendance at our 2004 Board of Directors meetings.

The 1999 Stock Option Plan was registered with the U.S. Securities & Exchange Commission on Form S-8 on October 5, 2000. Shares issuable under the 2004 Equity Incentive Plan were registered on Form S-8 on March 28, 2005.

In addition to the 1999 Stock Option Plan and the 2004 Equity Incentive Plan, our shareholders adopted the 1999 Employee Stock Purchase Plan, which

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authorized our Board of Directors to make twelve consecutive offerings of our common stock to our employees. The 1999 Employee Stock Purchase Plan has been instituted and the first employees enrolled in the plan in August 2003. The first shares of common stock were issued under the Plan in February 2004 and every six-month anniversary thereafter. The 1999 Employee Stock Purchase Plan expired in June 2005; however, the Board authorized a one-year extension of the plan at their meeting in November 2004, while the Compensation Committee reviews the value of the plan to employees and the desire for its continuance.

We also offer a variety of health, dental, vision, 401(k) and life insurance benefits to our employees in conjunction with our co-employment partner, Administaff.

EQUITY COMPENSATION PLAN INFORMATION

	(a)	(b)	(c)
Plan category . . .	Number of securities to be issued upon exercise of outstanding issuance options, warrants and rights reflected in column (a)	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities
Equity compensation plans approved by security holders	3,878,766	\$ 1.05	1,263,897
Equity . . . . . compensation plans not approved by security holders	2,500,000	\$ 2.00	0
Total . . . . .	6,378,766	\$ 1.50	1,263,897

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

James W. Benson, our Chief Executive Officer and Chairman of the Board of Directors, and Susan Benson, our former Corporate Secretary, are married but separated. Mr. Benson has personally guaranteed the building lease on our facility and has placed his home in Poway as collateral.

One of our independent directors, Robert S. Walker, is a principal of Wexler & Walker Public Policy Associates, a Washington-based, full-service government relations firm founded in 1981. Wexler & Walker principals have served in Congress, in the White House and federal agencies, as congressional staff, in state and local governments and in political campaigns. Wexler &

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Walker is a leader on the technology issues of the twenty-first century. During 2002, the Company paid consulting fees to Hill and Knowlton, Inc., an affiliate of Wexler & Walker, in an approximate amount of \$56,000. We did not incur consulting fees with Hill and Knowlton, Inc. in 2003 or 2004, nor do we expect to in the future.

In December 2001, we entered into a consulting agreement with one of our independent directors, Curt D. Blake, pursuant to which Mr. Blake agreed to perform certain services for us and identify and qualify significant investors and potential acquisition targets for us. Under the agreement, Mr. Blake was to receive compensation, in cash and non-statutory stock options, for his services. In addition, Mr. Blake was to receive a cash finder's fee plus a common stock grant for all monies raised as a result of introductions made by him. However, as a result of the independence rules imposed by the Sarbanes-Oxley Act of 2002,

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Mr. Blake voluntarily terminated his agreement with us on November 25, 2002. We made no payments to Mr. Blake in 2004 and 2003, other than reimbursement of Board-related travel expenses.

From October 14, 2002 through November 14, 2002, we sold an aggregate of \$475,000 of 2.03% convertible debentures to three of our then directors and officers. The total funding was completed on November 14, 2002. The convertible debentures entitled the holder to convert the principal and unpaid accrued interest into our common stock when the note matured. The notes originally were set to mature six (6) months from issue date and were subsequently extended to twelve (12) months from issue date on March 19, 2003. The convertible debentures were exercisable into a number of our common shares at a conversion price that equaled the 20-day average asking price less 10%, which was established when the note was issued. Concurrent with the issuance of the convertible debentures, we issued to the subscribers, warrants to purchase up to 1,229,705 shares of our common stock. These warrants were exercisable for three (3) years from the date of issuance at the initial exercise price. The warrants were valued using the Black-Scholes pricing model based on the expected fair value at issuance and the estimated fair value was recorded as debt discount. See Note 8(c) to our Consolidated Financial Statements for discussion of the terms of the warrants. The debt discount was amortized as additional interest expense over the term of the convertible debentures. On September 5, 2003, we repaid one-half of the convertible notes, with the condition that the note holders would convert the other half. Also, as a condition of the partial repayment, the note holders were required to relinquish one-half of the previously issued warrants. Finally, as additional consideration for the transaction, the note holders were offered 5% interest on their notes, rather than the stated 2.03% for a total of \$18,161 of interest expense. All the note holders accepted the offer and the convertible notes were retired. As of December 31, 2003, we recorded a credit of \$88,408, as debt discount recovery; therefore, for the year ending December 31, 2003, the debt discount expense was \$112,500. The Company also expensed \$131,411 for non-cash loan fee expense related to the convertible note. Fair market value of the stock was determined by discounting the closing market price on the date of the transaction by 20%, based on the nature of the restricted securities. Of the 614,852 remaining warrants, all were exercised in 2004 and none remained outstanding at December 31, 2004.

In April 2005, Mr. Schaffer accepted a position as president of vendor affairs for a small private company, Sicommnet, Inc. Messrs. McClendon and Slansky currently sit on the board of directors for Sicommnet, Inc. Although no conflict of interest is apparent, Messrs. Schaffer, McClendon and Slansky have disclosed the relationship to us.



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On February 14, 2003, we entered into an "at-will" employment agreement with Mr. Slansky. The agreement provided for Mr. Slansky's compensation of salary, benefits, performance bonuses and options to purchase up to 385,000 shares of our common stock, (which was subsequently reduced to 355,000 due to a missed vesting incentive for options on 30,000 shares). The agreement also provided for severance under certain termination provisions and prohibits Mr. Slansky from soliciting our employees or competing with us if he were to leave the Company. Mr. Slansky received additional compensation of \$27,672 in 2004 and \$1,183 in 2003 for raising additional capital for the Company and is expected to receive in excess of \$100,000 in such fees in 2005. As part of Mr. Slansky's employment agreement, Mr. Slansky receives a one percent (1%) fee on funds raised below \$1.00 per share and a four percent (4%) fee on funds raised above \$1.00 per share.

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### SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Based upon a review on the Forms 3 and 4 furnished to us with respect to our most recent fiscal year, each of the Directors and/or Executive Officers timely filed his initial Form 3 and Form 4 under Section 16(a) of the Securities and Exchange Act of 1934 during 2003 with the following exceptions: Mr. Benson filed a Form 4 a few days late after transferring his indirect ownership of 1.2 million shares to his children in February 2004. The shares were held by SD Holdings LLC which was dissolved on November 6, 2003. Mr. Schaffer filed a Form 4 a few days late after exercising a warrant in September 2004, which he received as part of a convertible debt offering. Mr. Slansky filed a Form 4 a few months late after receiving a small amount of stock from under our 1999 Employee Stock Purchase Plan.

### REQUIRED VOTE

In voting for directors, you must vote all of your shares noncumulatively. This means that the owners of a majority of the Company's outstanding common shares have the power to elect the entire Board of Directors. The vote of a majority of shares of the Company represented at the meeting, provided at least a quorum (a majority of the outstanding shares) is represented in person or by proxy, is sufficient for the election of the above nominees. By completing the Proxy, you give the named Proxies the right to vote for the persons named in the table above. If you elect to withhold authority for any individual nominee or nominees, you may do so by making an "X" in the box marked "VOTE FOR NOMINEE(S) NOT LINED OUT," and by striking a line through the nominees' name or names on the Proxy that you do not vote for. Any vacancy left on the Board of Directors due to an insufficient number of votes being cast for any one or more nominees may be filled by the affirmative vote of the remaining directors.

Each of the nominees for director has agreed to serve as a director of the Company until his or her replacement is elected and qualified. If any unforeseen event prevents one or more of the nominees from serving as a director, your votes will be cast for the election of a substitute or substitutes selected by the Board. In no event, however, can the Proxies be voted for a greater number of persons than the number of nominees named. Unless otherwise instructed, the Proxies will vote for the election of each nominee to serve as a director of the Company.

OUR BOARD UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE ELECTION OF EACH OF THE NOMINEES TO THE BOARD OF DIRECTORS OF THE COMPANY.

PROPOSAL 2

RATIFICATION OF

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## INDEPENDENT PUBLIC ACCOUNTANTS

The Sarbanes-Oxley Act of 2002 ("Act") established the Public Company Accounting Oversight Board ("PCAOB") and charged it with the responsibility of overseeing the audits of public companies that are subject to the federal securities laws. Under the Act, the PCAOB's duties include the establishment of a registration system for public accounting firms. The PCAOB proposed rules for the registration process, which required approval of the U.S. Securities Commission ("SEC") prior to enforcement. All public accounting firms were required to register with the PCAOB in order to prepare or issue audit reports on U.S. public companies, or to play a substantial role in the preparation or issuance of such reports. Public accounting firms are required to file periodic reports with the PCAOB. In 2003, the cost of compliance with these rules had not been determined, and, as a result of the legislation, it appeared that the cost of professional liability insurance for public accounting firms would be dramatically increased. We were informed by our prior independent auditor, Nation Smith Hermes Diamond, Accountants and Consultants, P.C. ("Nation Smith"), that they did not intend to register with the PCAOB at that time and, as a result, would not be able to continue to act as our independent auditors.

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Our Board of Directors selected PKF, Certified Public Accountants A Professional Corporation, ("PKF") as the Company's independent accountants for the fiscal years ended December 31, 2003 and 2004, and has directed us to submit PKF again, as our selection of independent accountants to the stockholders for ratification at the Annual Meeting for the fiscal year ending December 31, 2005. A representative of PKF is expected to be present at the Annual Meeting.

Stockholders are not required to ratify the selection of PKF, as the Company's independent accountants. However, our Board of Directors is submitting the selection of PKF to the stockholders for ratification as a matter of good corporate governance. If the stockholders fail to ratify the selection, our Board of Directors will reconsider whether or not to retain that firm. Even if the selection is ratified, the Board, in its discretion, may direct the appointment of a different independent accounting firm at any time during the year if it determines that such a change would be in the best interests of the Company and its stockholders.

### AUDIT FEES

The following are the fees billed us by our auditors, PKF and Nation Smith Hermes Diamond, for services rendered thereby during 2004 and 2003:

	2004	2003
Audit Fees . . . .	\$44,000	\$55,025
Audit Related Fees	\$ -	\$ -
Tax Fees . . . . .	\$ 7,800	\$ 7,850
All Other Fees . .	\$28,522	\$ 5,093
Total . . . . .	\$80,322	\$67,968

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In the above table for 2003 the total fees were \$67,968, of which \$12,275 was for services rendered by PKF, and the remaining \$55,693 was for services rendered by Nation Smith Hermes Diamond.

Audit Fees consist of the aggregate fees billed for professional services rendered for the audit of our annual financial statements and the reviews of the financial statements included in our Forms 10-QSB and for any other services that are normally provided by PKF and Nation Smith Hermes Diamond in connection with our statutory and regulatory filings or engagements.

Audit Related Fees consist of the aggregate fees billed for professional services rendered for assurance and related services that were reasonably related to the performance of the audit or review of our financial statements and were not otherwise included in Audit Fees.

Tax Fees consist of the aggregate fees billed for professional services rendered for tax compliance, tax advice and tax planning. Included in such Tax Fees were fees for preparation of our tax returns and consultancy and advice on other tax planning matters.

All Other Fees consist of the aggregate fees billed for products and services provided by PKF and Nation Smith Hermes Diamond and not otherwise included in Audit Fees, Audit Related Fees or Tax Fees. Included in such Other Fees were fees for services rendered by PKF and Nation Smith Hermes Diamond in connection with our private and public offerings conducted during such periods.

Our Audit Committee has considered whether the provision of the non-audit services described above is compatible with maintaining PKF's independence and determined that such services are appropriate.

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Before the auditors are engaged to provide us audit or non-audit services, such engagement is approved by the Audit Committee of our Board of Directors.

The affirmative vote of the holders of a majority of the common shares represented and voting at the meeting will be required to ratify the selection of PKF.

OUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE PROPOSAL TO RATIFY SELECTION OF THE COMPANY'S INDEPENDENT AUDITORS FOR THE FISCAL YEAR ENDING DECEMBER 31, 2005.

### PROPOSAL 3

#### APPROVAL OF AMENDMENT TO THE COMPANY'S 2004 EQUITY INCENTIVE PLAN

On August 5, 2004, the Board of Directors asked stockholders to approve the proposed 2004 Equity Incentive Plan and reserve for issuance under the Plan 2,000,000 shares of the Company's common stock. We have used our 2004 Equity Incentive Plan to provide employees, directors and consultants an incentive for continued and future services. The 2004 Equity Incentive Plan is an important part of the Company's total compensation program because competitive benefit programs are a critical component of our efforts to attract and retain qualified employees, directors and consultants. We are asking for the approval of an additional 2,000,000 shares of the Company's common stock under this plan to continue providing this benefit to new and current employees, directors and consultants.

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The 2004 Equity Incentive Plan is described below.

### DESCRIPTION OF THE PLAN

The purpose of the Company's 2004 Equity Incentive Plan (the "Plan") is to provide selected eligible employees, directors and certain types of consultants of and to the Company, its subsidiaries, and affiliates an opportunity to participate in the Company's future by offering them an opportunity to acquire stock in the Company so as to retain, attract and motivate them. Options granted under the Plan may be Incentive Stock Options or Non-statutory Stock Options, as determined by the Board of Directors or a committee appointed by the Board of Directors at the time of grant. Limited rights and stock awards may also be granted under the Plan. The options, limited rights and awards are collectively referred to in this discussion as "Awards."

A stock option is the right to purchase a certain number of shares of stock, at a certain exercise price, in the future. The exercise price of Incentive Stock Options may not be less than 100% of the fair market value of the common stock as of the date of grant (110% of the fair market value if the grant is to an employee who owns more than 10% of the total combined voting power of all classes of our capital stock). U.S. Internal Revenue Code of 1986, as amended (the "Code") currently limits to \$100,000 the aggregate value of common stock for which incentive stock options may first become exercisable in any calendar year under the Plan or any other option plan adopted by the Company. Non-statutory Stock Options may be granted under the Plan at an exercise price of not less than 85% of the fair market value of the common stock on the date of grant. Non-Statutory Stock Options also may be granted without regard to any restriction on the amount of common stock to which the option may first become exercisable in any calendar year. We currently issue options at 100% of the fair market value, as determined by the Board of Directors. [Note: We are currently investigating the impact FAS 123R may have on our financial statements and may revise this practice going forward.] Regardless of which type of option is granted to an employee of the Company, the option will expire ninety (90) days after termination of employment for any reason other than

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death, disability or retirement; provided, however, that all rights under any options expire immediately upon termination of an employee for cause.

A limited right is the right to receive the net of the market price of a share of stock and the exercise price of the right, either in cash or in stock, in the future. In no event may a limited right issued under the Plan be exercisable in whole or in part before the expiration of six (6) months from the date of grant, and the right may only be exercise in the event of a change in control of the Company. In addition, limited rights issued under our plan may be exercised only when the underlying option is exercisable and the fair market value of the shares on the date of exercise is greater than the exercise price of the underlying option. The limited right and the option terminate simultaneously upon exercise of one or the other. Limited rights issued under the plan may be for no more than 100% of the difference between the purchase price and the fair market value of the stock subject to the underlying option.

The Compensation Committee may issue restricted stock awards under the Plan to employees and independent directors. The Committee has discretion to determine the dates on which stock awards will vest and any specific conditions or performance goals which must be satisfied prior to vesting of any portion of the Award. Stock awards which are not fully vested at the time of termination of the employee for any reason other than death, disability or retirement or as a result of termination for cause, the unvested portion of the award will be

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forfeit as of the date of termination.

The Committee has discretion to accelerate the vesting of any award issued under the Plan.

The Committee may award Incentive Stock Options only to full-time employees (including officers) of the Company and its affiliates under the Plan. A non-employee director, as well as part-time employees and certain consultants, of the Company are not eligible to receive Incentive Stock Options, but may receive Non-Statutory Stock Options under the Plan.

### ADMINISTRATION

The Plan is administered by the Compensation Committee. Subject to the provisions of the Plan and the Compensation Committee Charter, and subject to the approval of any relevant authorities, the Compensation Committee shall have the authority in its discretion:

- (i) to determine the fair market value;
- (ii) to select the employees, directors and consultants to whom Awards may from time to time be granted;
- (iii) to approve forms of agreement for use under the Plan;
- (iv) to determine the terms and conditions of any Award granted under the Plan, including, but not limited to, the exercise price, the time or times when Awards may be exercised (which may be based on performance criteria), any vesting and any restriction or limitation regarding any Award or the common stock relating thereto;
- (v) to reduce the exercise price of any Option to the then current Fair Market Value if the Fair Market Value of the common stock covered by the Option has declined since the grant date;

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(vi) to prescribe, amend and rescind rules and regulations relating to the Plan, including rules and regulations relating to sub-plans established for the purpose of qualifying for preferred tax treatment under foreign tax laws;

(vii) to allow participants in the Plan to satisfy withholding tax obligations on options by electing to have the Company withhold from the common stock to be issued upon exercise of an option that number of shares having a fair market value equal to the amount required to be withheld. The fair market value to be withheld will be determined on the date that the amount of tax to be withheld is to be determined; and

(viii) to construe and interpret the terms of the Plan and Awards granted pursuant to the Plan.

Because option grants and other Awards under the Plan are subject to the discretion of the Committee, awards under the Plan for the current year are indeterminable. Future option exercise prices under the Plan are also indeterminable because they will be based upon the fair market value of the common stock on the date of grant.

SHARES SUBJECT TO THE PLAN

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Subject to adjustment, the maximum number of shares of common stock reserved for Awards under the Plan is 2,000,000 shares, currently, and would be 4,000,000 shares if this proposal is approved by stockholders. There are currently options outstanding on 919,500 of the shares eligible for issuance under the Plan. These shares of common stock may be either authorized but unissued shares or authorized shares previously issued and reacquired by the Company. To the extent that options and stock awards are granted under the Plan, the shares underlying such Awards will be unavailable for any other use including future grants under the Plan except that, to the extent that stock awards or options terminate, expire, or are forfeited without having been exercised (or in cases where a limited right has been granted in connection with an option, the amount of such limited right received in lieu of the exercise of such option), new Awards may be made with respect to those shares underlying such terminated, expired or forfeited options or stock awards.

The following table outlines the current options that are issued under the plan:

New Plan Benefits

Name and Position. . . . .	Dollar Value (\$)	Number of Units
-----	-----	-----
All non-executive officers and directors as a group . . . . .	\$ 569,500	342,000
-----	-----	-----
All employees, including all current officers who are not executive officers, as a group	\$ 1,063,754	577,500
-----	-----	-----

Future awards under the Plan are subject to approval of the Committee and we are unable to state at this time what Awards, if any, will be made to our executive officers and other employees. Awards will continue to be made to our non-executive officer directors as provided in our independent director compensation plan depending on each director's attendance at board and applicable committee meetings.

ADJUSTMENTS

The Committee will make adjustments to the number of shares subject to any award based on any change in the outstanding shares of common stock of the Company resulting from any stock dividend or split, recapitalization, merger, consolidation, spin-off, reorganization, combination or exchange of shares, or any similar corporate change, or other increase or decrease in such shares without receipt or payment of consideration by the Company.

AMENDMENT OR TERMINATION

The Board of Directors may amend or modify the Plan in any or all respects whatsoever. However, certain amendments may require shareholder approval pursuant to applicable laws and regulations. In order for the Plan to become effective for the purpose of obtaining preferential tax treatment for Incentive

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Stock Options, we require approval of the stockholders of the Company. The Plan will terminate on August 5, 2014.

### CERTAIN FEDERAL INCOME TAX CONSEQUENCES

The following is a brief description of the federal income tax consequences generally arising with respect to the grant of Awards pursuant to the 2004 Equity Incentive Plan. This summary is based on the Internal Revenue Code, regulations, rulings and decisions now in effect, all of which are subject to change by legislation, administrative action or judicial decision. This discussion is intended for the information of stockholders considering how to vote at the Annual Stockholders' Meeting and not as tax guidance to individuals participating in the 2004 Equity Incentive Plan.

Incentive stock options granted under the Plan will be afforded favorable federal income tax treatment under Code. If an option is treated as an Incentive Stock Option, the recipient will recognize no income upon grant or exercise of the option unless the alternative minimum tax rules apply. Upon an recipient's sale of the shares (assuming that the sale occurs more than two years after grant of the option and more than one year after exercise of the option), any gain will be taxed to the recipient as long-term capital gain. If the recipient disposes of the shares prior to the expiration of either of the above holding periods, then the recipient will recognize ordinary income in an amount generally measured as the difference between the exercise price and the lower of the fair market value of the shares at the exercise date or the sale price of the shares. Any gain recognized on such a premature sale of the shares in excess of the amount treated as ordinary income will be characterized as capital gain.

All other options granted under the Plan will be Non-Statutory Stock Options and will not qualify for any special tax benefits to the recipient. A recipient will not recognize any taxable income at the time he or she is granted a Non-Statutory Stock Option. However, upon exercise of the Non-Statutory Stock Option, the recipient will recognize ordinary income for federal income tax purposes in an amount generally measured as the excess of the then fair market value of each share over its exercise price. Upon a recipient's resale of such shares, any difference between the sale price and the fair market value of such shares on the date of exercise will be treated as capital gain or loss and will generally qualify for long term capital gain or loss treatment if the shares have been held for more than one year. The Code provides for reduced tax rates for long-term capital gains based on the taxpayer's income and the length of the taxpayer's holding period.

The recipient of a restricted stock award will generally recognize ordinary compensation income when such shares are no longer subject to a substantial risk of forfeiture, based on the excess of the value of the shares at that time over the price, if any, paid for such shares. However, if the recipient makes a timely election under the Code to be subject to tax upon the

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receipt of the shares, the recipient will recognize ordinary compensation income at that time equal to the fair market value of the shares over the price paid, if any, and no further ordinary compensation income will be recognized when the shares vest.

No taxable income is recognized upon the receipt of a limited right. The recipient will recognize ordinary income, in the year in which the right is exercised, equal to the excess of the fair market value of the underlying shares of common stock on the exercise date over the base price in effect for the exercised right, and the recipient will be required to satisfy the tax withholding requirements applicable to such income. The Company will be entitled

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to an income tax deduction equal to the amount of ordinary income recognized by the recipient in connection with the exercise of the limited right. The deduction will be allowed for the taxable year of the Company in which such ordinary income is recognized.

We are generally entitled to a deduction for federal income tax purposes equal to the amount of ordinary compensation income recognized by the recipient of an award at the time such income is recognized. However, Section 162(m) of the Internal Revenue Code generally disallows a public company's tax deduction for compensation paid to the Chief Executive Officer, or to the other four most highly compensated officers, in excess of \$1,000,000 in any tax year. Compensation that qualifies as performance-based compensation" is excluded from the \$1,000,000 deductibility cap, if various requirements are satisfied.

Awards granted under the 2004 Equity Incentive Plan that are considered to be deferred compensation must satisfy the requirements of Section 409A of the Internal Revenue Code to avoid adverse tax consequences to participating employees. These requirements include limitations on election timing, acceleration of payments and distributions. The Company intends to structure any Awards under the 2004 Equity Incentive Plan to meet the applicable tax law requirements.

The Company has the right to deduct from all Awards paid in cash or from other wages paid to an employee of the Company, any federal, state or local taxes required by law to be withheld with respect to Awards, and the employee or other person receiving shares under the 2004 Equity Incentive Plan will be required to pay to the Company the amount of any such taxes which the Company is required to withhold with respect to such shares.

The foregoing does not purport to be a complete summary of the federal income tax considerations that may be relevant to holders of options or restricted shares, or to us. It also does not reflect provisions of the income tax laws of any municipality, state or foreign country in which a recipient may reside, nor does it reflect the tax consequences of a recipient's death.

### REQUIRED VOTE

Approval of the Plan requires the affirmative vote of a majority of the shares present and entitled to vote on this Proposal 3, and such affirmative vote must also constitute at least a majority of the required quorum for the meeting. In determining whether this Proposal 3 has been approved, abstentions and broker non-votes are not counted as votes for or against this proposal.

### RECOMMENDATION

OUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE PROPOSAL TO APPROVE THE AMENDMENT TO THE COMPANY'S 2004 EQUITY INCENTIVE PLAN.

### OTHER MATTERS

We do not intend to present any business at the meeting not mentioned in this Proxy Statement, and currently know of no other business to be presented. If any other matters are brought before the meeting, the appointed Proxies will

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vote on all such matters in accordance with their judgment of the best interests of the Company.

### AUDIT COMMITTEE REPORT



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Following is the report of the Audit Committee with respect to the Company's audited consolidated financial statements for the fiscal year ended December 31, 2004, which include the consolidated balance sheets of the Company as of December 31, 2004 and 2003 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the fiscal years ended December 31, 2004 and 2003, and the notes thereto.

The Audit Committee of the Company's Board of Directors currently consists of three directors, none of which are employees of the Company or any of its subsidiaries. Pursuant to an Audit Committee Charter adopted on April 19, 2002, the Audit Committee is required to be comprised of at least three directors. The Board believes that the current members of the committee, Mr. Blake, Mr. McClendon and Dr. Huntress, are "independent" directors within the meaning of Exchange Act Rule 10A-3.

The primary responsibility of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities related to corporate accounting, financial reporting practices, and the quality and integrity of the Company's financial reports. In that respect, the Audit Committee has reviewed and discussed the audited financial statements and the footnotes thereto with management and the independent auditors. The Audit Committee has not been apprised of any misstatements or omissions in the financial statements. In addition, the Audit Committee discussed with the independent auditors the matters required to be discussed by Statement of Auditing Standard No. 61, Communication with Audit Committees, including, among other items, matters related to the conduct of the audit of the Company's financial statements. Management has the primary responsibility for the Company's financial statements and internal control over financial reporting, as well as disclosure controls and procedures.

The Audit Committee has received from the independent accountants, as required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committee, (i) a written disclosure, indicating all relationships, if any, between the independent auditor and its related entities and the Company and its related entities which, in the auditor's professional judgment, reasonably may be thought to bear on the auditor's independence, and (ii) a letter from the independent auditor confirming that, in its professional judgment, it is independent of the Company; and the Audit Committee has discussed with the auditor the auditor's independence from the Company.

Based on the reviews and discussions referred to above, we recommended to the Board of Directors that the audited consolidated financial statements be included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2004.

Submitted by the Audit Committee of the Company's Board of Directors:

Curt Dean Blake  
Scott McClendon  
Wesley T. Huntress

### COMPENSATION COMMITTEE REPORT

The Compensation Committee administers SpaceDev's executive compensation program. In this regard, the role of the Compensation Committee is to oversee our compensation plans and policies, annually review and approve all executive officers' compensation decisions, and administer our stock option plans

(including reviewing and approving stock option grants to executive officers).

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The Compensation Committee's charter, adopted on August 5, 2004, reflects these various responsibilities, and the Compensation Committee and the Board periodically review and revise the charter. The Compensation Committee's membership is determined by the Board and is composed entirely of independent directors based on the applicable listing standards of The Nasdaq Stock Market and SEC rules. The Compensation Committee meets at scheduled times during the year, and it also may consider and take action by written consent. The Compensation Committee Chairman reports on Compensation Committee actions and recommendations at Board meetings. SpaceDev's Human Resources Department supports the Compensation Committee in its work and in some cases acts pursuant to delegated authority to fulfill various functions in administering SpaceDev's compensation programs. In addition, the Compensation Committee has the authority to engage the services of outside advisers, experts and others to assist the committee. To date, the Compensation Committee has not directly engaged an outside compensation consulting firm to assist the committee.

GENERAL COMPENSATION PHILOSOPHY

Our general compensation philosophy is that total cash compensation should vary with SpaceDev's performance in achieving financial and non-financial objectives, and that any long-term incentive compensation should be closely aligned with the stockholders' interests. This philosophy applies to all SpaceDev employees, with a more significant level of variability and compensation at risk as an employee's level of responsibility increases. In 2004, the Compensation Committee began a review of the executive compensation philosophy, with the goal of ensuring the appropriate mix of fixed and variable compensation linked to individual and corporate performance. Although this review is ongoing, the Compensation Committee is seeking the advice and input of SpaceDev management. The Compensation Committee is also identifying the key strategic compensation design priorities for SpaceDev: employee retention, cost management, fair treatment of employees, alignment with stockholder interests and continued focus on corporate governance. The Compensation Committee also considers whether any changes should be made to SpaceDev's cash compensation and stock option programs in support of these strategic priorities.

The Compensation Committee intends to migrate SpaceDev's executive compensation practices toward a higher proportion of total compensation delivered through pay-for-performance incentive and long-term equity compensation, equating to more compensation risk for SpaceDev's executives than for the executives of competitor companies. This higher risk would be due to the combination of lower-than-market base salaries and higher-than-market annual pay-for-performance incentive targets and the infrequent, long-vesting stock option grants. The higher-than-market compensation variability employed by SpaceDev will be closely linked to the Company's annual financial results through lower-than-market total cash compensation in times of poor financial performance. Conversely, in times of excellent performance, the compensation variability yields higher total cash compensation, rewarding employees for excellent performance. Our philosophy is to pay higher-than-market average compensation over periods of sustained excellent performance. We have a cash and performance-based compensation program in which the majority of our employees are eligible to participate.

Total annual cash compensation for the majority of SpaceDev's employees, including its executive officers, consist of the following components:

- Base salary; and,
- An annual pay-for-performance cash incentive dependent on SpaceDev's operating earnings and performance against business objectives for the performance period, and an individual incentive target, with quarterly partial distributions.

Long-term incentive compensation is realized through the grant of stock options. All general full-time and part-time employees are eligible to receive stock options, including executive officers. Stock options require SpaceDev stock price appreciation in order for the employees to realize any benefit, thus directly aligning employee and stockholder interests.

Our employees can also acquire SpaceDev stock through a tax-qualified employee stock purchase plan, which is generally available to all employees. This plan allows participants to buy SpaceDev stock at a discount to the market price with up to 10% of their salary and incentives (subject to certain limits), with the objective of allowing employees to profit when the value of SpaceDev stock increases over time.

#### SETTING EXECUTIVE COMPENSATION

In setting the annual base salary and individual pay-for-performance incentive target amount for each executive officer, the Compensation Committee reviews executive compensation information derived from nationally recognized compensation surveys. The Compensation Committee utilizes a cross-industry subset of companies as well as a technology industry subset of companies generally considered to be comparable to SpaceDev. Although the Compensation Committee does not use a specific formula to set pay in relation to market data, it generally sets executive officer compensation below the average salaries for comparable jobs in the marketplace. However, when SpaceDev's business meets or exceeds certain predetermined financial and non-financial goals, amounts paid under the performance-based compensation programs may lead to total compensation levels that are higher than the average cash compensation for comparable jobs. Conversely, total cash compensation levels may be reduced and become further behind competitive cash compensation averages in times of poor performance.

#### PERSONAL BENEFITS

SpaceDev seeks to maintain an entrepreneurial culture in its facilities and operations. Officers are not entitled to operate under different standards than other SpaceDev employees. We do not provide officers with reserved parking spaces or separate dining or other facilities, nor do we have programs for providing any substantial personal-benefit perquisites to officers, such as permanent lodging or defraying the cost of personal entertainment or family travel. Our health care and other insurance programs are the same for all eligible employees, including officers. There are no outstanding loans of any kind to any executive officer, and since 2002, federal law has prohibited any new company loans to executive officers. We expect our officers to be role models.

The Committee is pleased to submit this report to SpaceDev's stockholders and believes that SpaceDev's pay-per-performance executive compensation is in the best interest of all SpaceDev stockholder.

Scott McClendon  
Curt Dean Blake  
Gen. Howell Estes

#### NOMINATING AND CORPORATE GOVERNANCE COMMITTEE REPORT

The Nominating and Corporate Governance Committee of the Board of Directors, currently consisting of General Estes, Dr. Huntress and Mr. Walker, held its first meeting in 2005. The Corporate Governance and Nominating Committee serves in an advisory capacity to the Board on the governance structure and conduct of the Board and has the responsibility for developing and recommending to the Board appropriate Corporate Governance Guidelines. In

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addition, the Committee identifies qualified individuals for nomination to the Board, recommends Directors for appointment to Board committees and evaluates current Directors for re-nomination to the Board or re-appointment to Board committees.

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The Corporate Governance and Nominating Committee will consider candidates submitted by stockholders as nominees for election as Directors of the Company. Stockholders wishing to have the Committee consider a candidate should submit the candidate's name and pertinent background information to Richard B. Slansky, Corporate Secretary, SpaceDev, Inc., 13855 Stowe Drive, Poway, CA 92064.

The Corporate Governance and Nominating Committee believes that Directors should possess exemplary personal and professional reputations, reflecting high ethical standards and values. The expertise and experience of Directors should provide a source of advice and guidance to the Company's management. A Director's judgment should demonstrate an inquisitive and independent perspective with acute intelligence and practical wisdom. Directors should be free of any significant business relationships which would result in a potential conflict in judgment between the interests of the Company and the interests of those with whom the Company does business. Each Director should be committed to serving on the Board for an extended period of time and to devote sufficient time to carrying out the Director's duties and responsibilities in an effective manner for the benefit of the Company's stockholders.

The Committee is pleased to submit this report to SpaceDev's stockholders.

Gen. Howell Estes  
Dr. Wesley Huntress  
Robert Walker

STOCKHOLDER PROPOSALS AND NOMINATIONS

Proposals of stockholders of the Company which are intended to be presented by such stockholders at the Company's next Annual Meeting of Stockholders must be received by the Company no later than March 1, 2006 in order to be considered for inclusion in the Company's proxy statement and form of proxy relating to that meeting. Stockholders who wish to make a recommendation for a nominee to be elected at the Company's 2006 Annual Meeting of Stockholders must submit their recommendation by March 1, 2006 to allow for meaningful consideration and evaluation of the nominees by the Nominating and Corporate Governance Committee.

/s/ Richard B. Slansky  
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Richard B. Slansky,  
Corporate Secretary

Dated: July 18, 2005

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PROXY

PROXY

SPACEDEV, INC.

PROXY SOLICITED BY THE BOARD OF DIRECTORS  
FOR THE ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD ON AUGUST 12, 2005

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The undersigned hereby appoints James W. Benson and Richard B. Slansky, Chief Executive Officer and Corporate Secretary, respectively, or either of them, as attorneys and Proxies of the undersigned, with full power of substitution, to vote all of the shares of stock of SpaceDev, Inc. (the "Company") which the undersigned may be entitled to vote at the Annual Meeting of Stockholders of the Company to be held at 13855 Stowe Drive, Poway, California 92064 on August 12, 2005 at 9:00 A.M. local time and at any and all continuations and adjournments or postponements thereof, with all powers that the undersigned would possess if personally present, on the following matters, in accordance with the following instructions, and on all matters that may properly come before the meeting. With respect to any matter not known to the Company as of August 12, 2005, such proxies are authorized to vote in their discretion.

UNLESS A CONTRARY DIRECTION IS INDICATED, THIS PROXY WILL BE VOTED FOR ALL NOMINEES LISTED IN PROPOSAL 1, FOR PROPOSAL 2 AND FOR PROPOSAL 3 AS MORE SPECIFICALLY DESCRIBED IN THE PROXY STATEMENT. IF SPECIFIC INSTRUCTIONS ARE INDICATED, THIS PROXY WILL BE VOTED IN ACCORDANCE THEREWITH.

YOUR VOTE IS IMPORTANT. THEREFORE, YOU ARE URGED TO COMPLETE,  
SIGN, DATE AND PROMPTLY RETURN THIS PROXY  
IN THE ENCLOSED ENVELOP.

SPACEDEV, INC.

PLEASE MARK VOTE IN THE FOLLOWING MANNER USING DARK INK ONLY. [X]

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE NOMINEES  
FOR DIRECTOR AND FOR PROPOSALS 2 AND 3.

- To elect nine directors to hold office until the 2006 Annual Meeting of Stockholders.

FOR	WITHHELD	VOTE FOR NOMINEE(S)	NOT LINED OUT
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[ ]	[ ]	[ ]	Strike a line through the nominee(s) name or names below that you do not vote for
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NOMINEES: James W. Benson, Susan C. Benson, Curt Dean Blake, Gen. Howell M. Estes, III, Wesley T. Huntress, Scott McClendon, Stuart E. Schaffer, Robert S. Walker and Richard B. Slansky.

- To ratify the appointment of PKF, Certified Public Accountants A Professional Corporation, as the Company's independent public accountants for the fiscal year ending December 31, 2005.

FOR	AGAINST	ABSTAIN
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[ ]	[ ]	[ ]
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- To approve an amendment to the Company's 2004 Equity Incentive Plan.

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FOR	AGAINST	ABSTAIN
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[ ]	[ ]	[ ]
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Date	Shares Held	Signature

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Print Name

-----	-----	-----
Date	E-Mail Address (Optional But Highly Recommended)	Signature

-----  
Print Name

Please sign exactly as your name appears on your stock certificate. If the stock is registered in the names of two or more persons, each should sign. Executors, administrators, trustees, guardians and attorneys-in-fact should add their titles. If signer is a corporation, please give full corporate name and have a duly authorized officer sign, stating title. If signer is a partnership or limited liability company, please sign the company name by authorized person.