

SPACEDEV, INC.  
Form POS AM  
April 22, 2008

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON APRIL 14, 2008

Registration File No. 333- 148643

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

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POST-EFFECTIVE AMENDMENT NO. 1

FORM S-1

REGISTRATION STATEMENT

UNDER THE SECURITIES ACT OF 1933 (originally filed as Form SB-2)

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SPACEDEV, INC.

(Name of small business issuer in its charter)

Delaware	3760	84-1374613
(State or jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

13855 Stowe Drive  
Poway, California 92064  
(Address and telephone number of principal executive offices)

13855 Stowe Drive  
Poway, California 92064  
(Address of principal place of business or intended principal place of business)

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Richard B. Slansky  
President and Chief Financial Officer  
SpaceDev, Inc.  
13855 Stowe Drive  
Poway, California 92064  
(858) 375-2000  
(Name, address, and telephone number of agent for service)

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Approximate Date of Commencement of Proposed Sale to the Public:

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.o

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If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box.

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

Large accelerated filer  Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)  Smaller reporting company

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective of such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. Unless an available exemption from registration is used, the selling stockholder may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion, Dated April 14, 2008

SpaceDev, Inc.

Prospectus

5,715,669 shares of common stock

This prospectus relates to the sale of up to 5,715,669 shares of our common stock by the selling stockholder identified in this prospectus. The prices at which the selling stockholder may sell the shares will be determined by the prevailing market price for the shares or in negotiated transactions. We are not selling any shares of common stock in this offering and therefore will not receive any proceeds from this offering.

Our common stock is traded on the OTC Bulletin Board under the trading symbol "SPDV.OB," and the closing price of our common stock on March 31, 2008 was \$0.75.

An investment in our common stock involves a high degree of risk. See "Risk Factors" beginning on page 6 for a discussion of these risks.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is April 14, 2008 .

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You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. The selling stockholder is offering to sell, and is seeking offers to buy, common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of the common stock. In this prospectus, "SpaceDev," "we," "us" and "our" refer to SpaceDev, Inc., a Delaware corporation including its wholly-owned active subsidiary, Starsys, Inc., which was acquired by SpaceDev, Inc., on January 31, 2006.

Prospectus Summary

This summary highlights information contained elsewhere in this prospectus. This summary does not contain all of the information you should consider before buying shares in this offering. You should read the entire prospectus carefully, including "Risk Factors" and our financial statements before making an investment decision about our company.

General

SpaceDev, Inc., a Delaware corporation, (together with its subsidiaries, ("SpaceDev," "we," "us," "our," or the "Company")), is a leading space technology company. SpaceDev is engaged in the conception, design, development, manufacture, integration, sale and operation of space technology systems, subsystems, products and services, as well as the design, manufacture, and sale of mechanical and electromechanical subsystems and components for spacecraft. We are currently focused on the commercial and military development of low-cost small satellites and related subsystems, hybrid rocket propulsion for space and launch vehicles, subsystems that enable critical spacecraft functions such as pointing solar arrays and communication antennas and restraining, deploying and actuating moving spacecraft components.

Our common stock trades on the OTC Bulletin Board under the trading symbol "SPDV.OB."

We reincorporated from Colorado to Delaware on August 20, 2007.

Principal Executive Offices

Our principal executive office is located at 13855 Stowe Drive, Poway, California 92064. Our website can be accessed at <http://www.spacedev.com>. The information on our company website is not a part of this prospectus.

The Offering

This prospectus relates to the following shares:

Common stock 593,295 shares

Common stock underlying 487,000 five-year warrants issued in August 2004 at an exercise price of \$1.77 and 50,000 five-year warrants issued in August 2004 at an exercise price of \$1.925 per share (together, the "Specified Warrants") 537,000 shares

Common stock issuable upon conversion of and/or as dividends on the Series C Preferred Stock 4,585,374 shares

Common Stock Outstanding assuming exercise of the Specified Warrants, issuance of 563,116 common shares as Series C Preferred Stock dividends and conversion of all outstanding Series C Preferred Stock 47,628,030 shares

Use of Proceeds

All proceeds from the sale of shares offered hereby will be received by the selling security holders for their own accounts. See "Use of Proceeds."

Risk Factors

You should read the "Risk Factors" beginning on page 5, as well as other cautionary statements throughout this prospectus, before investing in shares of our common stock.

## Risk Factors

You should consider the following factors and other information in this prospectus relating to our business and prospects before deciding to invest in the securities. This investment involves a high degree of risk, and you should purchase the securities only if you can afford to lose the entire sum invested in these securities. If any of the following risks actually occurs, our business, financial condition or operating results could be materially adversely affected. In such case, the trading price of our common stock could decline, and you may lose all or part of your investment. Additional risks and uncertainties, including those that are not yet identified or that we currently believe are immaterial, may also adversely affect our business, financial condition or operating results. You should also refer to the other information in this prospectus, including our consolidated financial statements and the related notes.

The following factors, among others, could cause actual results to differ materially from those contained in forward-looking statements made in this prospectus and presented elsewhere by management from time to time.

### Risks Related to our Company

We have experienced losses from operations in prior periods and have been required to seek additional financing to support our businesses.

In prior years, we have experienced operating losses and, in some periods, revenue from operations has not been sufficient to fund our operations. Assuming our merger with Starsys Research Corporation had occurred on January 1, 2005, on a pro forma basis, we would have had revenue of approximately \$35 million, \$32 million, and \$27 million, with a profit from operations of approximately \$116,000 and a net loss from operations of approximately \$1.0 million and \$2.9 million for the years ended December 31, 2007, 2006, and 2005, respectively. In addition, our operating activities have been using cash rather than providing cash. The success of our company depends upon our ability to generate revenue from existing contracts, to execute programs cost-effectively, to price fixed price contracts accurately, to attract and successfully complete additional government and commercial contracts, and possibly to obtain additional financing. The likelihood of our success must be considered in light of the expenses, difficulties and delays frequently encountered in connection with developing businesses, those historically encountered by us, and the competitive environment in which we operate.

If we are unable to raise capital, we may be unable to fund operating cash shortfalls, necessary capital expenditures, and future growth opportunities.

In the past, we have relied upon cash from financing activities to fund part of the cash requirements of our business. We may need additional financing to fund our projected operations, capital expenditures or expansion plans (including acquisitions). Additional financing may not be available to us on acceptable terms, or at all. Any equity financing may cause additional dilution to existing stockholders. Any debt financing or other issuance of securities senior to common stock likely will include financial and other covenants that will restrict our operating flexibility and payment of dividends to common stockholders.

Our size tends to limit our business opportunities.

Our size is determined by revenues, work force, and capabilities. As a small company, our ability to compete successfully for a large amount of desirable business may be limited because customers perceive that larger suppliers are more dependable, have the resources to successfully execute larger programs and, therefore, are more stable. Yet, if we cannot win such business, it may be difficult for us to rapidly grow our business through organic growth. Prime contracts in our industry may be large in dollar amount and critical to national interests. As a practical matter, smaller companies are at a disadvantage when competing to be awarded such large contracts as the prime contractor, due to customer perception that larger companies might be more stable. For this purpose, we would currently be considered a

"smaller company."

Some of our government contracts are staged and we cannot guarantee that all stages of the contracts will be awarded to us or fully funded.

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Some of our government contracts are phased contracts in which the customer may determine to terminate the contract between phases for any reason. Accordingly, the entire contract amount may not be realized by us. In the event that subsequent phases of some of our government contracts are not awarded to us, or if they are awarded to us but not fully funded, it could have a material adverse effect on our financial position and results of operations. We were informed in 2007 that there were not going to be any GFY 2008 funds from the Missile Defense Agency to support our microsatellite distributed sensing experiment. We have been working with the Missile Defense Agency and other government agencies for additional funding support. Government contract funds from the Missile Defense Agency from GFY 2007 were not exhausted by December 31, 2007 and were used to cover anticipated phase completion costs through January 2008. In early 2008, we were notified that the Department of Defense Operationally Responsive Space Office will be funding this program though at least May 2008 with a possible extension that may lead to a launch of this experimental satellite. However, there can be no assurance that funding will be available after March 2008, and if available, sufficient to fully fund the program.

We provide our products and services primarily through fixed price and cost-plus fixed-fee contracts. We have experienced significant losses on fixed price contracts, especially those requiring product development. Cost overruns may result in further losses and, if significant, could impair our liquidity position.

Under fixed price contracts, our customers pay us for work performed and products shipped without adjustment for the costs we incur in the process. Therefore, we generally bear all or a significant portion of the risk of losses as a result of increased costs on these contracts, unless we can obtain voluntary relief from our customer, which relief (or additional consideration) cannot be assured. Although we have taken significant steps to try to limit our risk on fixed price contracts going forward, we have historically experienced significant cost overruns on development projects under fixed price contracts, resulting in estimated losses on contracts before application of any management reserves of approximately \$316,000 at December 31, 2007 and approximately \$1.7 million at December 31, 2006. As of December 31, 2007, the accrual for potential losses on projects, which existed at January 31, 2006, was approximately \$30,000. For example, we experienced significant cost overruns in 2006 and 2007 on a sizable subcontract with Northrop Grumman Space Technology. These costs significantly affected our gross margin and impaired our liquidity position and operations.

When contract provisions produce unfavorable results for us, or fixed price development contracts result in losses, we generally do not have the legal or economic leverage needed to easily obtain renegotiated terms. Our customers generally would not fear any threat we might make to withhold future business and our financial and business position make litigation an unfavorable option for us. On the other hand, the reverse might be true of our customers, who tend to be large aerospace companies with significant resources. In the case of two major fixed price contracts on which we have experienced significant cost overruns, the customers were willing to work with us and negotiations resulted in contract amendments providing additional incentive payments based on performance. However, there can be no assurance that future attempts to renegotiate contracts will be successful.

To mitigate risks of this kind, we have made a business decision to:

- limit the number of new fixed price development contracts;
- offer our customers alternative contract structures that better protect us;
  - establish additional costing reviews; and
- increase senior management involvement to scrutinize proposal efforts related to fixed price contracts.

This decision could limit our ability to obtain new business.

Under cost-plus contracts, we are reimbursed for allowable incurred costs plus a fee, which may be fixed or variable. This type of contract structure passes much of the risk to the buyer; however, it also limits our ability to generate profit. We normally try to negotiate a cost-plus contract for high risk development-type programs. Most customers prefer a fixed-fee arrangement but variable fee arrangements are possible. There is no guarantee as to the fee amount

we will be awarded under a cost-plus contract with a variable fee. The price on a cost-plus fixed-fee reimbursable contract is based on allowable costs incurred, but generally is subject to contract funding limitations. Therefore, we could bear the amount of costs in excess of the funding limitation specified in the contract, and we may not be able to recover those cost overruns. Generally, cost-plus contracts are the best way to mitigate risks related to development-type programs and other higher risk opportunities. However, there can be no assurance that any type of contract vehicle can protect us from cost overruns and significant cost overruns could impair our liquidity position.

If we fail to integrate and operate our multi-location business effectively, we may have disappointing business results.

The integration of Starsys Research Corporation into SpaceDev is still ongoing and may disrupt operations, causing inefficiencies and additional expense, if it is not completed in a timely and efficient manner. If this integration effort is not successful, our company's results of operations could be affected and our company may not achieve the synergies or benefits we anticipated. Our company may encounter difficulties, costs, and delays involved in integrating our operations, including but not limited to the following:

- difficulties in successfully integrating the management teams and employees of the two companies;
  - challenges encountered in managing larger, more geographically dispersed operations;
    - the loss of key employees;
  - diversion of the attention of management from other ongoing business concerns;
    - potential incompatibilities of processes, technologies and systems;
  - potential difficulties integrating and harmonizing financial reporting systems; and,
- potential failure to implement systems to properly price and manage the execution of fixed price contracts.

We do not believe that the anticipated benefits of the merger with Starsys have yet been fully realized. We believe the market price of our common stock may have declined, in part, due to this. We will not meet the expectations of investors and financial or industry analysts if:

- the integration of the two companies does not result in the anticipated synergies and benefits;
- the costs savings from operational improvements arising from the merger is not greater than anticipated;
  - the combined financial results are not consistent with expectations;
  - management is unable to successfully manage a multi-location business;
  - the anticipated operating and product synergies of the merger are not realized; or,
- the fixed price development contracts acquired in the merger, or new fixed price contracts entered into after the merger, incur major cost overruns or remain unprofitable for other reasons.

We relocated to a new Colorado facility and North Carolina facility in 2007, increasing our rental costs.

The move of our Boulder, Colorado and Durham, North Carolina operations to new and larger nearby facilities in 2007 was time consuming and expensive and partially disrupted operations. In addition, we may not achieve anticipated efficiencies or other operational benefits of these moves. Although both moves are complete, we may not realize the anticipated operating efficiencies. Moreover, if our business does not develop as expected, the new facilities may be larger than what we require, resulting in rent payments for some unneeded space. Our rental costs at the new facilities are approximately 72% higher than we had paid at the prior facilities.

A substantial portion of our net sales are generated from government contracts, which makes us susceptible to the uncertainties inherent in the government budgeting process. In addition, many of our contracts can be terminated by our customer.

Our concentration of government work makes us susceptible to government budget cuts and policy changes, which may impact the award of new contracts or future phases of existing contracts. Government budgets (both in general and as to space and defense projects) are subject to the prevailing political climate, which is subject to change at any time. Additionally, awarded contracts could be altered or terminated before we recognize our projected revenue. Many contracts are awarded in phases where future phases are not guaranteed to us. For example, in 2007, we were informed by the Missile Defense Agency that there were no Government Fiscal Year 2008 funds available to support our microsatellite distributed sensing experiment. In addition, obtaining contracts and subcontracts from government agencies is challenging, and contracts often include provisions that are not standard in private commercial transactions. For example, government contracts may:

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- include provisions that allow the government agency to terminate the contract without penalty;
  - be subject to purchasing decisions of agencies that are subject to political influence;
    - contain onerous procurement procedures; and,
  - be subject to cancellation if government funding becomes unavailable.

Securing government contracts can be a protracted process involving competitive bidding. In many cases, unsuccessful bidders may challenge contract awards, which can lead to increased costs, delays, and possible loss of the contract for the winning bidder.

In addition, major contracts are often awarded to teams of companies. Therefore, our ability to win contracts may depend not only on our own merits, but also those of our bid team members. Also, if we do not lead the bid team as the prime contractor, we will have limited control over the contract bid and award processes.

Our common stockholders will experience dilution if our preferred stock is converted or our outstanding warrants and options are exercised.

As of March 10, 2008, we have outstanding non-stock-option derivative securities which could obligate us to issue 7,978,305 shares of our common stock, of which 1,922,138 underlie outstanding warrants and 6,056,167 are issuable upon conversion of our outstanding Series C and Series D-1 preferred stock. In addition, as of March 10, 2008, we had outstanding stock options to purchase an aggregate of 10,828,578 shares of our common stock, of which 8,243,773 are currently vested. The total number of shares issuable upon the exercise or conversion of currently vested warrants, options and preferred stock (16,222,078 shares) represents approximately 38% of our issued and outstanding shares of common stock as of March 10, 2008.

We face significant competition and many of our competitors have greater resources and market status than we do.

We face significant competition for our government and commercial contracts. Many of our competitors have greater resources than we do and may be able to devote greater resources than us to research and development, marketing, and lobbying efforts. Given the sophistication inherent in any space company's operations, larger competitors may have a significant advantage and may be able to more efficiently adapt and implement technological advances. In addition, larger and financially stronger corporations have advantages over us in obtaining space and defense contracts due to their superior marketing (lobbying) resources and the perception that they may be a better choice than smaller companies for mission-critical projects because of the higher likelihood that they will be able to continue in business for the necessary future period.

Furthermore, it is possible that other domestic or foreign companies or governments, some with greater experience in the space industry and many with greater financial resources than we possess, could seek to develop mission solutions or produce products or services that compete with us, including new mechanisms and electromechanical subsystems using new technology which could render our mission solutions and products less viable. Some of our foreign competitors currently benefit from, and others may benefit in the future from, subsidies from or other protective measures implemented by their home countries.

Our level of business may be difficult to predict.

We hope to sell an increasing percentage of our mission solutions, products and services on a recurring basis, but most of our revenue is derived from government contracts and government-related work, which may not be recurring or may be terminated. (See Risk Factor: A substantial portion of our net sales are generated from government contracts, which makes us susceptible to the uncertainties inherent in the government budgeting process. In addition, many of our contracts can be terminated by our customer.) Government contracts can be defunded or terminated by the Government for convenience. Also, some of our mission solutions, products and services may not achieve market acceptance, and our future prospects may therefore be difficult to evaluate.

We may not develop products successfully or in a timely manner.

Many of our mission solutions, products, services and technologies are currently in various stages of development. Further development and testing of our products and technologies will be required to prove additional performance capability beyond current levels and to confirm commercial viability. Additionally, the final cost of

development cannot be determined until development is complete. Most of our development work is in fact performed under contracts from our customers. In the past, we have contracted to execute development programs under fixed price contracts. Under these contracts, even if our costs begin to exceed the amount to be paid by the customer under the contract, we are required to complete the contract without receiving any additional payments from our customer. It is difficult to predict accurately the total cost of executing these programs. If the costs to complete these programs significantly exceed the payments from our customers under the contracts, our results of operations will be harmed. These contracts are inherently risky, and in the past have had material adverse effects to us. We intend to significantly reduce our acceptance of this sort of contract. This may limit our opportunity to develop products at a customer's expense.

Our mission solutions, products, services and technologies are, and will continue to be, subject to significant technological change and innovation. Our success will generally depend on our ability to continue to conceive, design, manufacture, and market new products and services on a cost-effective and timely basis. We anticipate that we will incur significant expenses in the design and initial manufacture and marketing of new products and services. Some of these costs may be covered by our customers or partnership arrangements. However, there can be no assurance that significant costs will not be incurred by us.

The marketplace for our technology and products is uncertain.

The demand for all space-related goods and services in general, and for our mission solutions, products, services and technologies in particular, is uncertain and we may not obtain a sufficient market share to sustain our business or to increase profitability. Our business plan assumes that near-term revenues will be generated largely from government contracts from our mission solutions, including, but not limited to, small satellites and electromechanical systems for spacecraft. A long-term commercial market may not develop for private manned and unmanned space exploration. Small satellites and commercial space exploration are still relatively new concepts, and it is difficult to predict accurately the ultimate size of the market. In addition, we are working to develop new ways to enhance our mission solutions, such as large deployable structures, solar array drives, slip rings, precision scanning assemblies for spacecraft, and now services such as turnkey launch solutions. Many of our products and services are new and unproven, and the true level of customer demand is uncertain. Lack of significant market acceptance of our mission solutions, products, services and technologies, delays in such acceptance, or failure of our markets to develop or grow could negatively affect our business, financial condition, and results of operations.

Our operating results could fluctuate on a quarterly and annual basis, which could cause our stock price to decline.

Our operating results may fluctuate from quarter-to-quarter and year-to-year for a variety of reasons, many of which are beyond our control. Factors that could affect our quarterly and annual operating results include those listed below as well as others listed in this "Risk Factors" section:

- we may not be awarded all stages of existing or future contracts;
- significant contracts may be awarded to our competitors rather than to us;
- the timing of new technological advances and mission solution announcements or introductions by us and our competitors;
  - changes in the terms of our arrangements with customers or suppliers;
  - reliance on a few customers for a significant portion of our revenue;
    - the failure of our key suppliers to perform as expected;
  - general or particular political conditions that could affect spending for the products that we offer;
    - changes in perception of the safety of space travel;
  - cost overruns or other delays or failures to satisfy our obligations under our contracts on a timely basis;
    - the failure of our mission solution to conduct a successful mission;
  - the uncertain market for our mission solutions, products, services and technologies;
    - the availability and cost of raw materials and components; and,
    - the potential loss of or inability to hire key personnel.

Our operating results may fall below the expectations of public market analysts or investors. In this event, our stock price could decline significantly.

Our products and services may not function well under certain conditions.

Most of our mission solutions and related products are technologically advanced and tested, but sometimes are not space qualified for performance under demanding operating conditions. Many of our customers conduct extensive testing during the extensive pre-launch period, while the hardware is on the ground. Depending on the contract terms,

we could incur additional costs related to rework. Although we have never had a failure of our mission solutions or products in space, it is possible that our mission solution or products may not successfully launch or operate, or perform or operate as intended in space. Like most organizations that have designed space missions or launched space qualified hardware, we may experience some failures, cost overruns, schedule delays, and other problems.



Launch failures or delays, due to no fault of our own, could have serious adverse effects on our business.

Launch failures or delays could have serious adverse effects on our business. Launches are subject to significant risks, the realization of which can cause disabling damage to, or total loss of, our mission solution and/or products, as well as damage to our reputation among actual and potential customers. Delays in the launch could also adversely affect our revenues. Delays could be caused by a number of factors related to the launch vehicle and outside of our control. Delays and the perception of potential delays could negatively affect our marketing efforts and limit our ability to obtain new contracts and projects.

In addition to many other risks involving our business, until we develop our own launch vehicle, we may be dependent on the performance of third party companies like United Launch Alliance (ULA), a large company, or Space Exploration Technologies, a small company with limited operating history, which has not yet had a successful launch, for our launch vehicle.

Our U.S. government contracts are subject to audits that could result in a material adverse effect on our financial condition and results of operations if a material adjustment is required.

The accuracy and appropriateness of our direct and indirect costs and expenses under our contracts with the U.S. government are subject to extensive regulation and audit by the Defense Contract Audit Agency, by other agencies of the U.S. government, or by prime contractors. These entities have the right to audit our cost estimates and/or allowable cost allocations with respect to certain contracts. From time to time we may in the future be required to make adjustments and reimbursements as a result of these audits. Responding to governmental audits, inquiries, or investigations may involve significant expense and divert management attention. Also, an adverse finding in any such audit, inquiry, or investigation could involve contract termination, suspension, fines, injunctions or other sanctions.

Our success depends on our ability to retain our key personnel.

Our success will be dependent upon the efforts of key members of our management and engineering team, including our Chairman and Chief Executive Officer, Mark N. Sirangelo, our President and Chief Financial Officer, Richard B. Slansky, and certain other key personnel. The loss of any of these persons, or other key employees, including personnel with security clearances required for classified work and highly skilled technicians and engineers, could have a material adverse effect on us. Our future success is likely to depend substantially on our continued ability to attract and retain highly qualified personnel. The competition for such personnel is intense, and our inability to attract and retain such personnel could have a material adverse effect on us. At this time, we do not maintain key man life insurance on any of our key personnel.

We reduced the use of stock options, in part due to SFAS 123(R), which reduced the effectiveness of stock options as a retention device.

Historically, we have used vesting stock options to enhance our ability to retain key personnel. Technology companies, in general, and our company in particular, depends upon and uses broad based employee stock option programs to hire, incentivize, and retain employees in a competitive marketplace. If the employee leaves us before the vesting period has been completed, the employee must forfeit any unvested portion of the stock options. To the extent vesting stock options were operating as a retention device, the reduced use of vesting stock options, in part due to SFAS 123(R), and the elimination of the vesting requirements on pre-2006 issued stock options, eliminated the retention benefit. An accounting standard setting body adopted SFAS 123(R), an accounting standard that requires us to record equity-based compensation expense for stock options and employee stock purchase plan rights granted to employees based on the fair value of the equity instrument at the time of grant. We began recording these expenses in 2006. The change in accounting rules lead to a decrease in reported earnings, if we have earnings, or an increased loss, if we do not have earnings. We continue to use vesting stock options as an incentive; however, as a result of SFAS 123(R) and other issues, the number of options being granted has been significantly reduced. By doing so, we may

have lost the advantage of a valuable incentive tool and could be placed at a competitive disadvantage by other potential employers who were more willing to grant stock options and incur the related expense.

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If we grow but do not effectively manage the growth, our business could suffer as a result.

Even if we are successful in obtaining new business, failure to manage the growth could adversely affect our operations. We may experience acute periods of very rapid growth (for example, if we were to win a major contract), which could place a significant strain on our management, operating, financial, and other resources. Our future performance will depend in part on our ability to manage growth effectively. We must develop management information systems, including operating, financial, and accounting systems, improve project management systems and processes and expand, train, and manage our workforce to keep pace with growth. Our inability to manage growth effectively could negatively affect results of operations and the ability to meet obligations as they come due.

We may not successfully address the problems encountered in connection with potential future acquisitions.

We expect to consider opportunities to acquire or make investments in other technologies, and businesses that could enhance our capabilities, complement our current business, or expand the breadth of our markets or customer base. Acquisitions may be necessary to enable us to quickly achieve the size needed for some potential customers to seriously consider entrusting us with mission solutions, mission-critical contracts or subcontracts. As a company, we have limited experience in acquiring other businesses and technologies: the Starsys Research Corporation acquisition was our first major acquisition. Potential and completed acquisitions and strategic investments involve numerous risks, including:

- problems assimilating the purchased technologies, products, or business operations;
  - problems maintaining uniform standards, procedures, controls, and policies;
    - unanticipated costs associated with the acquisition;
    - diversion of management's attention from core businesses;
  - adverse effects on existing business relationships with suppliers and customers;
    - incompatibility of business cultures;
- risks associated with entering new markets in which we have no or limited prior experience;
- dilution of common stock and stockholder value as well as adverse changes in stock price;
  - potential loss of key employees of acquired businesses; and
- increased legal and accounting costs as a result of the rules and regulations related to the Sarbanes-Oxley Act of 2002.

If our key suppliers fail to perform as expected, our reputation may be damaged. We may experience delays, lose customers, and experience declines in revenues, profitability, and cash flow.

We purchase a significant percentage of our product components and subassemblies from third parties. If our subcontractors fail to perform as expected or encounter financial difficulties, we may have difficulty replacing them or identifying qualified replacements in a timely or cost effective manner. As a result, we may experience performance delays that could result in additional program costs, contract termination for default, or damage to our customer relationships which may cause our revenues, profitability, and cash flow to decline. In addition, negative publicity from any failure of one of our products or sub-systems as a result of a supplier failure could damage our reputation and prevent us from winning new contracts.

Our limited insurance may not cover all risks inherent in our operations.

We may find it difficult to insure certain risks involved in our operations, including our mission solutions and satellite operations, accidental damage to high value customer hardware during the manufacturing process, and damages to customer spacecraft caused by us not working to specification. Insurance market conditions or factors outside of our control at the time insurance is purchased could cause premiums to be significantly higher than current estimates. Additionally, the U.S. Department of State has published regulations which could significantly affect the ability of brokers and underwriters to insure certain missions or launches. These factors could cause other terms to be

significantly less favorable than those currently available, may result in limits on amounts of coverage that we can obtain, or may prevent us from obtaining insurance at all. Furthermore, proceeds from insurance may not be sufficient to cover losses.

Our competitive position may be seriously damaged if we cannot protect intellectual property rights in our technology.

Our success, in part, depends on our ability to obtain and enforce intellectual property protection for our technologies. We rely on a combination of patents, trade secrets and contracts to establish and protect our proprietary rights in our technologies. However, we may not be able to prevent misappropriation of our intellectual property, and the agreements we enter into may not be enforceable. In addition, effective intellectual property protection may be unavailable or limited in some foreign countries.

There is no guarantee any patent will be issued on any patent application that we have filed or may file. Further, any patent that we may obtain will expire, and it is possible that it may be challenged, invalidated, or circumvented. If we do not secure and maintain patent protection for our technologies, our competitive position may be significantly harmed because it may be much easier for competitors to copy our mission solutions or sell products similar to ours. Alternatively, a competitor may independently develop or patent technologies designed around our patented technologies. In addition, it is possible that any patent that we may obtain may not provide adequate protection and our competitive position could be significantly harmed.

As we expand our mission solution offerings or develop new uses for our products, these offerings or uses may be outside the scope of our current patent applications, issued patents, and other intellectual property rights. In addition, if we develop new mission solutions or enhancements to existing products, there is no guarantee that we will be able to obtain patents to protect them. Even if we do receive patents, these patents may not provide meaningful protection. In some countries outside of the United States, effective patent protection is not available. Moreover, some countries that do allow registration of patents do not provide meaningful redress for violations of patents. As a result, protecting intellectual property in these countries is difficult and our competitors may successfully develop mission solution offerings and sell products in those countries that have functions and features that infringe on our intellectual property.

We may initiate claims or litigation against third parties in the future for infringement of our proprietary rights or to determine the scope and validity of our proprietary rights or the proprietary rights of competitors. These claims could result in costly litigation and divert the efforts of our technical and management personnel. As a result, our operating results could suffer and our financial condition could be harmed, regardless of the outcome of the case.

Claims by other companies that we infringe on their intellectual property or that patents on which we rely are invalid could adversely affect our business.

From time to time, companies may assert patent, copyright and other intellectual property rights against our mission solutions, or products using our technologies, or other technologies used in our industry. These claims may result in our involvement in litigation. We may not prevail in such litigation given the complex technical issues and inherent uncertainties in intellectual property litigation, as well as the possible need to devote our finite resources to priorities other than expensive litigation. If any of our products were found to infringe on another company's intellectual property rights, we could be required to redesign our mission solution or product, or license such rights and/or pay damages or other compensation to such other company. If we were unable to redesign our mission solution or product, or license such intellectual property rights used in our products, we could be prohibited from using such mission solution, or making and selling such products.

Other companies or entities also may commence actions seeking to establish the invalidity of our patents. In the event that one or more of our patents is challenged, a court may invalidate the patent or determine that the patent is not enforceable, which could harm our competitive position. If any of our key patents are invalidated, or if the scope of the claims in any of these patents is limited by court decision, we could be prevented from licensing the invalidated or limited portion of such patents. Even if such a patent challenge is not successful, it could be expensive and time consuming to address, divert management attention from our business, and harm our reputation.

We are subject to substantial regulations, some of which prohibit us from selling internationally. Any failure to comply with existing regulations, or increased levels of regulation, could have a material adverse effect on us.

Our business activities are subject to substantial regulations by various agencies and departments of the United States government and, in certain circumstances, the governments of other countries. Several government agencies, including NASA and the U.S. Air Force, maintain Export Control Offices to ensure that any disclosure of scientific and technical information complies with the Export Administration Regulations and the International Traffic in Arms Regulations (ITAR). Exports of our mission solutions, products, services, and technical information require Technical Assistance Agreements, manufacturing license agreements, or licenses from the U.S. Department of State depending on the level of technology being transferred. This includes recently published regulations restricting the ability of U.S.-based companies to complete offshore launches, or to export certain satellite components and technical data to any country outside the United States. The export of information with respect to ground-based sensors, detectors, high-speed computers, and national security and missile technology items are controlled by the Department of Commerce. Failure to comply with the ITAR and/or the Commerce Department regulations may subject guilty parties to fines of up to \$1 million and/or up to 10 years imprisonment per violation. The practical effect of ITAR is to limit our opportunities or increase the costs of our proposals in the international marketplace.

In September 2007, we sold to OHB Technology AG, a leading German space technology company, and MT Aerospace AG, a subsidiary of OHB Technology AG and an established supplier in the aeronautic, aerospace and defense sectors, common stock amounting to 19% of our then total outstanding shares. In December 2007, after an additional investment by Loeb Partners, a New York based investment firm, we sold additional shares of our common stock to OHB Technology AG and MT Aerospace AG, when they exercised their pre-emptive rights to remain at 19% of our total outstanding shares. Because they are foreign companies, we could possibly be at risk of losing new and ongoing business if we do not have the proper procedures in place to delineate and inform employees and visitors, and also stockholders like OHB, regarding our controls necessary to ensure that no transfer of classified defense information or controlled unclassified information occurs unless authorized.

In addition, the space industry has specific regulations with which we must comply. Command and telemetry frequency assignments for space missions are regulated internationally by the International Telecommunications Union (ITU). In the United States, the Federal Communications Commission (FCC) and the National Telecommunications Information Agency (NTIA), regulate command and telemetry frequency assignments. All launch vehicles that are launched from a launch site in the United States must pass certain launch range safety regulations that are administered by the U.S. Air Force. In addition, all commercial space launches that we would perform require a license from the Department of Transportation. Satellites that are launched must obtain approvals for command and frequency assignments. For international approvals, the FCC and NTIA obtain these approvals from the ITU. These regulations have been in place for a number of years to cover the large number of non-government commercial space missions that have been launched and put into orbit in the last 15 to 20 years. Any commercial deep space mission that we would perform would be subject to these regulations.

We are also subject to laws and regulations placed on the formation, administration and performance of, and accounting for, U.S. government contracts. With respect to such contracts, any failure to comply with applicable laws could result in contract termination, price or fee reductions, penalties, suspension, or debarment from contracting with the U.S. government.

We are also required to obtain permits, licenses, and other authorizations under federal, state, local, and foreign laws and regulations relating to the environment. Our failure to comply with applicable law or government regulations, including any of the above-mentioned regulations, could have serious adverse effects on our business.

Our stock price has been and may continue to be volatile, which could result in substantial losses for investors purchasing shares of our common stock.

The market prices of securities of technology-based companies like ours, particularly in industries (also like ours) where substantial value is ascribed to a hope for future increase in the size of the total market, are often highly volatile. The market price of our common stock has fluctuated significantly in the past. Our market price may

continue to exhibit significant fluctuations in response to a variety of factors, many of which are beyond our control, including:

- deviations in our results of operations from estimates;
- changes in estimates of our financial performance or in analyst coverage decisions;
- changes in our markets, including decreased government spending or the entry of new competitors;
  - awards of significant contracts to competitors rather than to us;
  - our inability to obtain financing necessary to operate our business;
    - changes in technology;



- potential loss of key personnel;
  - short selling;
- perceptions about the effect of possible dilution arising from the issuance of large numbers of shares of common stock underlying outstanding stock options, warrants, and preferred stock:
  - changes in market valuations of similar companies and of stocks generally;
  - volume fluctuations generally; and,
- other factors listed above in our Risk Factor: "Our operating results could fluctuate on a quarterly and annual basis, which could cause our stock price to fluctuate or decline."

The concentration of ownership of our common stock gives a few individuals significant control over important policy decisions and could delay or prevent changes in control.

As of March 10, 2008, our Executive Officers and Directors together beneficially owned approximately 34.1% of the issued and outstanding shares of our common stock. (Note: The beneficial ownership calculations are different from a straight percentage of outstanding ownership calculation. The beneficial ownership calculation takes into consideration derivative securities, such as stock options and warrants, which are vested or will vest within 60 days from March 10, 2008. These additional securities are deemed to be outstanding for the purpose of computing the percentage of common stock owned in this table, but are not deemed outstanding for the purpose of computing the percentage owned). OHB Technology AG and MT Aerospace AG collectively beneficially own approximately 18.8% of our common stock. James W. Benson and Susan C. Benson beneficially own approximately 16.7% of our common stock. (Mr. Benson separated from our employ in September 2006 but retains a seat on our Board of Directors.) Loeb Partners Corporation owns approximately 11.3% of our common stock. As a result, Executive Officers, Directors and/or significant stockholders (i.e., OHB Technology AG, MT Aerospace AG, Loeb Partners and/or the Bensons) could have the ability to exert significant influence over matters concerning us, including the election of directors, changes in the size and composition of the Board of Directors, and mergers and other business combinations involving us. Our foreign stockholders are contractually limited for a period of two years from their stock purchase date and Loeb Partners is contractually limited for a period of one year from their stock purchase date in their ability to exert significant influence over us by voting of shares. Also, through control of the Board of Directors and voting power, our Officers and Directors may be able to control certain decisions, including decisions regarding the qualification and appointment of officers, dividend policy, access to capital (including borrowing from third-party lenders and the issuance of additional equity securities), and the acquisition or disposition of our assets. In addition, the concentration of voting power in the hands of those individuals and entities could have the effect of delaying or preventing a change in control of our company, even if the change in control would benefit our stockholders. A perception in the investment community of an anti-takeover environment at our company could cause investors to value our stock lower than in the absence of such a perception.

We have not paid dividends on our common stock in the past and do not anticipate paying dividends on our common stock in the foreseeable future. In addition, other securities may restrict payment of common stock dividends.

We have not paid common stock dividends since our inception and do not anticipate paying dividends in the foreseeable future. Our current business plan provides for the reinvestment of any earnings in an effort to complete development of our technologies and products, with the goal of increasing sales and long-term profitability and value. In addition, the terms of our preferred stock currently restrict, and any other credit or borrowing arrangements that we may enter into may in the future restrict or limit, our ability to pay common stock dividends to our stockholders.

We are subject to new corporate governance and internal control reporting requirements, and our costs related to compliance with, or our failure to comply with existing and future requirements, could adversely affect our business.

We face new corporate governance requirements under the Sarbanes-Oxley Act of 2002, as well as new rules and regulations subsequently adopted by the SEC, the Public Company Accounting Oversight Board and any stock

exchange on which our stock may be listed in the future. These laws, rules and regulations, which are already known to be burdensome and costly, continue to evolve and may become increasingly stringent in the future. In particular, we are required to include a management report on internal control over financial reporting as part of this Form 10-KSB annual report (and future annual reports) pursuant to Section 404 of the Sarbanes-Oxley Act. We are continually evaluating our internal controls and processes to help ensure that we will be able to comply with Section 404 of the Sarbanes-Oxley Act. We cannot assure you that we will be able to fully maintain compliance with these laws, rules and regulations that address corporate governance, internal control reporting, and similar matters. Failure to comply with these laws, rules, and regulations, may be viewed negatively by investors and could materially adversely affect our reputation, financial condition, and the value of our securities.

The terms of our outstanding shares of preferred stock, and any shares of preferred stock issued in the future, may reduce the value of your common stock.

We have up to 10,000,000 shares of authorized preferred stock in one or more series. We currently have outstanding 248,460 shares of our Series C Preferred Stock and approximately 3,010 shares of our Series D-1 Preferred Stock, as of March 10, 2008. Our Board of Directors may determine the terms of future preferred stock offerings without further action by our stockholders. If we issue additional preferred stock, it could affect the rights of stockholders or reduce the value of common stock. In particular, specific rights granted to future holders of preferred stock could be used to restrict our ability to merge with or sell our assets to a third party. These terms may include voting rights, preferences as to dividends and liquidation, conversion and redemption rights, and sinking fund provisions. Our Series C Preferred Stock and Series D-1 Preferred Stock rank senior to the common stock with respect to dividends and liquidation and have other important preferred rights.

Our available secured debt financing is expensive and carries restrictive conditions.

On September 29, 2006, we entered into a secured revolving credit facility with Laurus Master Fund. Although the maximum size of the facility is \$5.0 million, actual borrowings are limited by a formula based on our eligible accounts receivable and eligible inventory. We currently have nothing drawn on the revolving credit facility. We paid a loan fee at inception in the form of 310,009 shares of common stock valued at \$350,000. On September 30, 2007, we issued an additional 283,286 restricted shares to Laurus, equivalent to a \$200,000 fee upon the first anniversary of the facility. In addition, we will be required to pay Laurus an additional loan fee in the form of common stock valued at \$200,000 on September 29, 2008, the second anniversary date of the facility, if the facility remains in place. Any outstanding balance on the facility bears interest at a floating rate of prime plus 2%, and the maximum life of the facility is three years. The facility is collateralized by substantially all of our assets. The facility contains certain default provisions. In the event of a default by us, we will be required to pay an additional fee per month until the default is cured. Laurus has the option of accelerating the entire principal balance and requiring us to pay a premium in the event of an uncured default.

Any further debt financing, if available at all when needed, might require further expensive and onerous financial terms, security provisions and restrictive covenants. If we cannot repay or refinance our debt when it comes due, we would be materially adversely affected.

Because our common stock is not listed on a national stock exchange and is subject to the SEC's penny stock rules, broker-dealers may experience difficulty in completing customer transactions and trading activity in our securities may be adversely affected.

Transactions in our common stock are currently subject to the "penny stock" rules promulgated under the Securities Exchange Act of 1934. Under these rules, broker-dealers who recommend our securities to persons other than institutional accredited investors must:

- make a special written suitability determination for the purchaser;
- receive the purchaser's written agreement to a transaction prior to sale;
- provide the purchaser with risk disclosure documents which identify certain risks associated with investing in "penny stocks" and which describe the market for these "penny stocks" as well as a purchaser's legal remedies; and,
- obtain a signed and dated acknowledgment from the purchaser demonstrating that the purchaser has actually received the required risk disclosure document before a transaction in a "penny stock" can be completed.

As a result of these rules, broker-dealers may find it difficult to effectuate customer transactions and trading activity in our securities may be adversely affected. As a result, the market price of our securities may be depressed, and it may be more difficult to sell our securities. In addition, having a common stock traded on the OTC Bulletin Board with a

low trading price may result in a negative image which hinders our commercial initiatives and our future capital-raising activities.

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Special Note Regarding Forward-Looking Statements

This prospectus contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. We intend that those forward-looking statements be subject to the safe harbors created by those sections. These forward-looking statements generally include the plans and objectives of management for future operations, including plans and objectives relating to our future economic performance, and can generally be identified by the use of the words "believe," "intend," "plan," "expect," "forecast," "project," "may," "should," "could," "seek," "pro forma," "estimates," "continues," "anticipate" and similar words. The forward-looking statements and associated risks may include, relate to, or be qualified by other important factors, including, without limitation:

- our ability to return to profitability and obtain additional working capital, if required;
  - our ability to successfully implement our future business plans;
  - our ability to attract strategic partners, alliances and advertisers;
    - our ability to hire and retain qualified personnel;
    - the risks of uncertainty of trademark protection;
- risks associated with existing and future governmental regulation to which we are subject; and,
- uncertainties relating to economic conditions in the markets in which we currently operate and in which we intend to operate in the future.

These forward-looking statements necessarily depend upon assumptions and estimates that may prove to be incorrect. Although we believe that the assumptions and estimates reflected in the forward-looking statements are reasonable, we cannot guarantee that we will achieve our plans, intentions or expectations. The forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ in significant ways from any future results expressed or implied by the forward-looking statements. We do not undertake to update, revise or correct any forward-looking statements.

Any of the factors described above or in the "Risk Factors" section above could cause our financial results, including our net income (loss) or growth in net income (loss) to differ materially from prior results, which in turn could, among other things, cause the price of our common stock to fluctuate substantially.

#### Use of Proceeds

This prospectus relates to shares of our common stock that may be offered and sold from time to time by selling the stockholder. We will pay the costs of registering those shares. We will receive no proceeds from the sale of shares of common stock in this offering, although we may receive approximately \$958,000 in gross cash proceeds upon the exercise of the Specified Warrants. Any such proceeds we may receive are not allocated for a specific purpose, and will be used for general corporate and working capital purposes.

## Selling Stockholders

The term "selling stockholders" includes the stockholders listed below and their transferees, pledges, donees or other successors.

We are registering for resale certain shares of our common stock. The following table presents information regarding the selling stockholders as of March 31, 2008, on which date 42,505,656 of common stock were outstanding. This information is based upon information provided by the selling stockholders. The selling stockholders identified below may have sold, transferred or otherwise disposed of all or a portion of their shares of common stock in transactions exempt from the registration requirements of the Securities Act since the date as of which they provided the information. Neither the selling stockholders, nor any of their affiliates, if any, has held a position or office or had any other material relationship with us or any of our predecessors or affiliates within the past three years other than as a result of the ownership of our securities and other than Laurus' status as a secured lender under a revolving line of credit. Neither of the selling stockholders is, or is affiliated with, a registered broker-dealer.

Name Of Selling Stockholders	Maximum Shares Offered Hereby		Total Shares of Common Stock Beneficially Owned		Total Shares of Common Stock Beneficially Owned After Offering	
	Number	Percentage	Number	Percentage	Number	Percentage
Laurus Master Fund, Ltd.	5,228,669(2)		9,204,212	9.99%(3)	2,395,000	4.99%
PSource Structured Debt Limited	487,000(3)		1,076,203	2.48%	589,203	1.23%
	5,715,669		10,280,415		2,984,203	

(1) Percentage of beneficial ownership is based on 42,505,656 shares of common stock outstanding as of March 31, 2008. Actual ownership of the shares is, as applicable, subject to conversion of Preferred Stock and exercise of warrants and stock options.

(2) Laurus Master Fund, Ltd. is managed by Laurus Capital Management, LLC. Eugene Grin and David Grin, through other entities, are the controlling principals of Laurus Capital Management, LLC and share sole voting and investment power over the securities owned by Laurus Master Fund, Ltd. The shares set forth in the first column include (A) 4,585,374 shares of common stock issued or issuable upon conversion of shares of Series C Preferred Stock; (B) 50,000 shares of common stock underlying warrants issued with the 2003 revolving credit facility; and (C) 593,295 shares of common stock issued as loan fees in conjunction with our 2006 revolving credit facility.

(3) The shares set forth in the first column include 487,000 shares of common stock underlying warrants issued with the Series C Preferred Stock, which were transferred by Laurus Master Fund, Ltd. to PSource Structured Debt Limited on March 7, 2008 together with certain other warrants.

(4) Under the terms of the Series C Preferred Stock, Series D-1 Preferred Stock and the warrants issued in the January 2006 private placement, holders (such as Laurus) of such Series C Preferred Stock, Series D-1 Preferred

Stock and warrants may not convert their Series C Preferred Stock or Series D-1 Preferred Stock into common stock, or exercise such warrants, to the extent that, after giving effect to any such conversion or exercise, the holder would beneficially own more than 4.99% (or for holders of greater than 4.99%, the limitation is set at 9.99%) of our outstanding common stock.

Plan of Distribution

The selling stockholders and any of their pledgees, assignees and successors-in-interest may, from time to time, sell any or all of their shares of common stock on the OTC Bulletin Board ("OTCBB") or any other stock exchange, market or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices. The selling stockholders may use any one or more of the following methods when selling shares:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
  - purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
  - an exchange distribution in accordance with the rules of the applicable exchange;
  - privately negotiated transactions;
- settlement of short sales entered into after the effective date of the registration statement of which this prospectus is a part;
- broker-dealers may agree with the selling stockholders to sell a specified number of such shares at a stipulated price per share;
  - a combination of any such methods of sale;
- through the writing or settlement of options or other hedging transactions, whether through an options exchange or otherwise; or
  - any other method permitted pursuant to applicable law.

The selling stockholders may also sell shares under Rule 144 under the Securities Act, if available, rather than under this prospectus.

Broker-dealers engaged by the selling stockholders may arrange for other brokers-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the selling stockholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated, but, except as set forth in a supplement to this prospectus, in the case of an agency transaction not in excess of a customary brokerage commission in compliance with FINRA Rule 2440; and in the case of a principal transaction a markup or markdown in compliance with FINRA IM-2440.

In connection with the sale of the common stock or interests therein, the selling stockholders may enter into hedging transactions with broker-dealers or other financial institutions, which may in turn engage in short sales of the common stock in the course of hedging the positions they assume. The selling stockholders may also sell shares of the common stock short and deliver these securities to close out their short positions, or loan or pledge the common stock to broker-dealers that in turn may sell these securities. The selling stockholders may also enter into option or other transactions with broker-dealers or other financial institutions or the creation of one or more derivative securities which require the delivery to such broker-dealer or other financial institution of shares offered by this prospectus, which shares such broker-dealer or other financial institution may resell pursuant to this prospectus (as supplemented or amended to reflect such transaction).

The selling stockholders and any broker-dealers or agents that are involved in selling the shares may be deemed to be "underwriters" within the meaning of the Securities Act in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act. Each selling stockholder has informed us that it does not have any written or oral agreement or understanding, directly or indirectly, with any person to distribute the common stock. In no event shall any broker-dealer receive fees, commissions and markups which, in the aggregate, would exceed eight percent (8%).



We are required to pay certain fees and expenses incident to the registration of the shares of common stock listed offered in this prospectus. We have agreed to indemnify the selling stockholders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act.

Because the selling stockholders may be deemed to be "underwriters" within the meaning of the Securities Act, they will be subject to the prospectus delivery requirements of the Securities Act. In addition, any securities covered by this prospectus which qualify for sale pursuant to Rule 144 under the Securities Act may be sold under Rule 144 rather than under this prospectus. The selling stockholder has advised us that it has not entered into any written or oral agreements, understandings or arrangements with any underwriter or broker-dealer regarding the sale of the resale shares. There is no underwriter or coordinating broker acting in connection with the proposed sale of the resale shares by the selling stockholders .

The resale shares will be sold only through registered or licensed brokers or dealers if required under applicable state securities laws. In addition, in certain states, the resale shares may not be sold unless they have been registered or qualified for sale in the applicable state or an exemption from the registration or qualification requirement is available and is complied with.

Under applicable rules and regulations under the Exchange Act, any person engaged in the distribution of the resale shares may not simultaneously engage in market making activities with respect to the common stock for the applicable restricted period, as defined in Regulation M, prior to the commencement of the distribution. In addition, the selling stockholders will be subject to applicable provisions of the Exchange Act and the rules and regulations thereunder, including Regulation M, which may limit the timing of purchases and sales of shares of the common stock by the selling stockholders or any other person. We will make copies of this prospectus available to the selling stockholders and have informed it of the need to deliver a copy of this prospectus to each purchaser at or prior to the time of the sale.

## Market Price and Dividend Information

## Market Information

Our common stock has been traded on the OTC Bulletin Board (OTCBB) since August 1998 under the symbol "SPDV" or "SPDV.OB." The following table sets forth the trading history of our common stock on the OTCBB for each quarter from fiscal 2006 through March 31, 2008 as reported by Yahoo! Finance Historical Prices ([www.finance.yahoo.com](http://www.finance.yahoo.com)). The quotations reflect the high and low sale prices, without retail mark-up, markdown or commission and may not represent actual transactions.

Quarter Ending	Quarterly High	Quarterly Low
3/31/2006	\$1.52	\$1.10
6/30/2006	\$1.58	\$1.20
9/30/2006	\$1.36	\$0.91
12/31/2006	\$1.23	\$0.65
3/31/2007	\$1.06	\$0.68
6/30/2007	\$0.98	\$0.65
9/30/2007	\$0.84	\$0.51
12/31/2007	\$0.88	\$0.65
3/31/2008	\$1.06	\$0.60

## Holders of Record

As of March 31, 2008, there were approximately 500 holders of record of SpaceDev common stock.

## Dividends

We have never paid a cash dividend on our common stock. Payment of common stock dividends is at the discretion of the Board of Directors. The Board of Directors plans to retain earnings, if any, for operations and does not intend to pay common stock dividends in the foreseeable future. Our secured debt and our preferred stock outstanding currently restrict our ability to pay common stock dividends.

## Management's Discussion and Analysis or Plan of Operation

The following discussion should be read in conjunction with the Company's consolidated financial statements and the notes thereto and the other financial information appearing elsewhere in this document. Readers are also urged to carefully review and consider the various disclosures made by us which attempt to advise interested parties of the factors which affect our business, including without limitation our fiscal year 2007 Form 10-KSB and quarterly Form 10-QSB filings.

In addition to historical information, the following discussion and other parts of this document may contain forward-looking statements. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential," or "continue," the negative of such terms or other comparable terminology. These statements are only predictions. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. We undertake no obligation to publicly update any of the forward-looking statements after the date of this report to conform such statements to actual results or to changes

in our expectations.

Actual results could differ materially from those anticipated by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to those identified in the "Risk Factors" subsection below.

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## Overview

SpaceDev, Inc., a Delaware corporation, together with our subsidiaries, (“SpaceDev,” “we,” “us,” “our,” or “Company”), is a leading space technology company. We are engaged in the conception, design, development, manufacture, integration, sale, and operation of space systems, subsystems, products and services, as well as the design, manufacture, and sale of mechanical and electromechanical subsystems and components for spacecraft. We are currently focused on the commercial and military development of low-cost small satellites and related subsystems, hybrid rocket propulsion for space and launch vehicles, subsystems that enable critical spacecraft functions such as pointing solar arrays and communication antennas and restraining, deploying and actuating moving spacecraft components. We maintain our corporate headquarters in California and operating centers in California, Colorado and North Carolina and currently have approximately 185 full and part time employees.

During 2007, approximately 73% of our revenues were generated from direct government contracts, and from government-related work through subcontracts with others, while the remaining 27% were generated from commercial contracts. In 2006, approximately 89% of our revenues were generated from direct government contracts, and from government-related work through subcontracts with others, while the remaining 11% were generated from commercial contracts. Currently, we are focusing on the domestic United States government market, which we believe is only about one-half of the global government market for our mission solutions, products, services and technologies. We are restricted by export control regulations, including International Traffic in Arms Regulations, which may limit our ability to develop market opportunities outside the United States. However, international revenues have historically represented less than 5% of our total net sales and we are interested in exploring further international contract opportunities. Our new and evolving relationship with OHB Technology AG and MT Aerospace AG may influence our decision and ability to operate in the international marketplace, as well as for them to operate in the United States government and civil marketplace.

During 2007, we submitted over 200 bids for government or commercial programs and continued our work with the United States Congress to identify directed funding for our programs.

## Financing

### Sale of Common Stock to Loeb Partners Corporation

In December 2007, we entered into a Stock Purchase Agreement with Loeb Partners Corporation (hereinafter “Loeb”) covering the issuance and sale of 3,750,000 shares of our common stock at a purchase price of \$0.75 per share. We received gross proceeds from the sale of approximately \$2.8 million in cash. The common stock is restricted. In addition, pursuant to our Stockholder Agreement with Loeb, Loeb has agreed not to sell the common stock issued under the Stock Purchase Agreement for one year. We have also provided Loeb with the right, after one year, to demand that we file a registration statement with the Securities and Exchange Commission to cover re-sales of their common stock. In addition, subject to existing rights of other stockholders, we have provided Loeb with rights to participate in our future financings.

Pursuant to our Stockholder Agreement with Loeb, for one year, Loeb agreed to vote their common stock in favor of nominees recommended by our Board of Directors. Loeb agreed to, after the first year, continue to vote their common stock in favor of current members of the Board of Directors. Further, Loeb agreed not to purchase additional shares of common stock or cause others to do so, except as expressly provided in the Stockholder Agreement. The Stockholder Agreement expires on the earliest of: (1) ten years; (2) a change of control of SpaceDev; or (3) when Loeb owns less than 4.99% of us.

### Sale of Common Stock to OHB Technology AG and MT Aerospace AG

In September 2007, we raised \$4.4 million in cash by selling 7,095,566 shares of our common stock to OHB Technology AG, a leading German space technology company, and MT Aerospace AG, a subsidiary of OHB Technology AG, in a private transaction at a purchase price of \$0.62 per share. The price was determined as a premium of 11% to the closing price of our common stock on September 12, 2007, which was \$0.56 per share. We used some of this cash to retire revolving debt balances and certain dividend bearing preferred stock. We also believe that our relationship with OHB Technology AG and MT Aerospace AG may evolve into a strategic one of mutual high level benefit as a result of actively exploring manufacturing opportunities using our production facilities, systems development by both organizations, and new business program opportunities in Europe as well as in the United States.

In December 2007, we raised an additional \$658,000 in cash by selling 877,653 shares of our common stock to OHB Technology AG and MT Aerospace AG at \$0.75 per share, in connection with the Loeb Partners Corporation investment in us, and the pre-emptive right of OHB Technology AG and MT Aerospace AG to maintain their 19% ownership in us.

The investors agreed not to solicit our customers and clients in the United States for the same products and services provided by us. The investors agreed not to purchase additional shares of common stock or cause others to do so, except as expressly provided in our Stockholder Agreement with them. The Stockholder Agreement expires on the earliest of: (1) ten years, (2) a change of control of SpaceDev or (3) when the investors own less than 4.99% of us.

Also, pursuant to this Stockholder Agreement, we agreed to elect a qualified representative of OHB Technology AG (or any qualified replacement) to our Board of Directors and to nominate this representative of OHB Technology AG for election by the stockholders. This obligation will continue until the expiration of this Stockholder Agreement. Pursuant to this provision, we elected Hans Steininger to our Board of Directors in November 2007. In addition, per our Stockholder Agreement, for two years OHB Technology AG and MT Aerospace AG agreed to vote their shares of our common stock in favor of the nominees to our Board of Directors that have been recommended for election by the Board of Directors. OHB Technology AG and MT Aerospace AG also agreed to, following this two year period, continue to vote their shares of common stock in favor of any nominees recommended by the Company's Board of Directors (1) if such nominee is a current member of the Board of Directors or (2) if the slate of nominees that is recommended for election by the Board of Directors includes the Stockholder's nominee.

#### Revolving Credit Facility

In September 2006, we entered into a \$5.0 million financing arrangement with Laurus Master Fund, Ltd. ("Laurus"). The financing is effected through a revolving note for up to \$5.0 million, although the exact principal balance at any given time will depend on draws made by us on the facility. We are allowed to borrow against the revolving credit facility under an investment formula based on accounts receivable at an advance rate equal to 90% of eligible receivables and the lesser of: (a) 50% of eligible inventory (calculated on the basis of the lower-of-cost-or-market, on a first-in-first-out basis); or, (b) \$1.0 million, provided, however, that no more than \$500,000 of such eligible inventory may be in the form of work-in-process inventory. The balance on this revolving credit facility at December 31, 2007 and 2006 was approximately \$0 and \$805,000, respectively.

The revolving credit facility bears interest at a rate equal to prime plus 2% and is payable monthly. The rate will be increased or decreased on the date the Prime Rate is adjusted. Interest is due on the first business day of each month through maturity. The term of the facility is scheduled to end on September 29, 2009. At inception, Laurus received, as a loan fee, 310,009 unregistered shares of our common stock valued at \$350,000 plus cash fees of \$175,000. The value of these shares was determined based on the \$1.13 average trading price for the stock during the preceding ten (10) business days and the expense was amortized daily over the first year of the note. The cash loan fee is being amortized over 36 months. In September 2007, Laurus became entitled to an additional 283,286 shares, valued at \$200,000 upon the first anniversary of the facility. We will issue additional restricted shares of our common stock worth, in the aggregate, \$200,000 to Laurus in September 2008, if the facility remains in place. The pricing of these additional shares will be based on the applicable preceding ten (10) business day average trading price. The facility is not convertible into any class of our securities.

Laurus agreed that if and when it can resell the unregistered shares under Rule 144, its resale on any one day cannot exceed 10% of the daily trading volume. We registered the 310,009 shares and 283,286 shares, which totaled 593,295 shares, for resale in a registration statement that we filed in January 2008 and which was declared effective by the Securities and Exchange Commission in February 2008. In addition, Laurus is strictly prohibited from engaging in any short sales of our common stock during the term of the facility.

The facility is a secured debt, collateralized by substantially all of our assets. The facility contains certain default provisions. In the event of a default by us, we will be required to pay an additional fee per month until the default is cured. Laurus has the option of accelerating the entire principal balance and requiring us to pay a premium in the event of an uncured default. The facility requires us to deposit all funds (other than certain refundable deposits) into a lockbox that will be swept on a daily basis to reduce any outstanding facility balance. Any funds in excess of any outstanding facility balance are transferred to us on a daily basis.



### Series D-1 Amortizing Convertible Perpetual Preferred Stock

In January 2006, we entered into a securities purchase agreement, which we refer to as the 2006 Purchase Agreement, with a limited number of institutional accredited investors, led by Omicron Capital, but including Tailwind Capital Management, Bristol Capital, Nite Capital and Laurus. Omicron subsequently distributed its ownership to Rockmore Capital and Portside Capital/Ramius, upon the dissolution of Omicron. We issued and sold to these investors 5,150 shares of our Series D-1 Amortizing Convertible Perpetual Preferred Stock, par value \$0.001 per share, which we refer to as Series D-1 Preferred Stock, for an aggregate purchase price of \$5,150,000, or \$1,000 per share. We also issued various warrants to these investors under the 2006 Purchase Agreement.

In May 2007, we offered to the holders of the Series D-1 warrants the opportunity to exercise the warrants at a reduced price to be calculated as 80% times the volume weighted average price of our common stock for the 20 trading days preceding the warrant holder's acceptance of the offer. Although this written offer expired by its terms in mid-June 2007, we orally renewed the offer to the end of June 2007 and Laurus accepted, exercising 500,000 of their 639,203 warrants of this series for \$290,000 cash. The Volume Weighted Average Price for the 20 trading days preceding Laurus' exercise was \$0.725 per share, making the strike price of the common stock warrant \$0.58 which is 80% of the \$0.725. Due to a ratchet anti-dilution provision in the warrants of this series, the exercise price of the remaining 635,138 warrants in the series (which includes 139,203 warrants still owned by Laurus) was reduced to \$0.58 per share as a result of this transaction, and otherwise the remaining warrants remain in full force and effect in accordance with their original terms. The warrants are exercisable for five years following the date of grant. The warrants feature a net exercise provision, which enables the holder to choose to exercise the warrant without paying cash. However, this right is available only if a registration statement or prospectus covering the shares subject to the warrant is not available. The warrants will continue to have the anti-dilution provisions reducing the warrant exercise price, if we issue equity securities (other than in specified exempt transactions) at an effective price below the warrant exercise price, to such lower exercise price.

### Selection of Significant Contracts

In June 2002, Starsys Research Corporation was awarded a contract from Northrop Grumman Space Technology for the design, development, assembly, and test of two configurations of flat plate gimbal drive assemblies. These gimbals are used to position six dish antennas and two nulling antenna systems for each of two large spacecraft. Subsequent to this award, Northrop Grumman Space Technology modified this contract to include a third shipset bringing the total contract value to approximately \$7.1 million. In addition to eight flight unit deliveries per large spacecraft, the program includes development and qualification hardware. This contract was awarded as a firm fixed price contract with the final delivery scheduled for March 2007 and was part of our acquisition of Starsys Research Corporation on January 31, 2006. We recorded revenues from this contract for 2007 and from February 1, 2006 through December 31, 2006 of approximately \$1.4 million and \$2.9 million, respectively. We experienced significant cost overruns on this contract. Prior to our merger, the contract was modified to add an additional \$1.7 million. After the merger, we negotiated contract modifications in both the timing of payments and in the amount of additional contract consideration of up to \$1.0 million based on the achievement of specific milestones. Of the additional possible \$1.0 million, we achieved milestones entitling us to the majority of the incentive payments, which will partially mitigate the impact of significant cost, scope and requirement changes and overruns. Since we were successful in achieving our performance targets, we defrayed some of our cost overruns; however, there were some ongoing costs that we will incur in early 2008 until the program is completed. As of December 31, 2007, the total contract value of this program is approximately \$9.8 million.

In March 2004, we were awarded a five-year, cost-plus fixed-fee indefinite delivery/indefinite quantity contract for up to approximately \$43 million to conduct a microsatellite distributed sensing experiment (intended to design and build up to six responsive, affordable, high performance microsatellites to support national missile defense), an option for a laser communications experiment, and other microsatellite studies and experiments as required in support of the Advanced Systems Deputate of the Missile Defense Agency. The overall contract initially called for us to analyze, design, develop, fabricate, integrate, test, operate and support a networked cluster of three formation-flying boost phase and midcourse tracking microsatellites, with an option to design, develop, fabricate, integrate, test, operate and support a second cluster of three formation-flying microsatellites to be networked on-orbit with high speed laser communications technology. This overall contract proceeded under a phased approach. The first phase, executed under Task Order I for approximately \$1.1 million, was awarded in April 2004, completed in September 2004, and resulted in a general mission and microsatellite design. The second phase, executed under Task Order II for approximately \$8.3 million, was awarded in October 2004 and was originally expected to be completed by January 2006 but was extended at the request of the Missile Defense Agency with an increased funding of \$1.5 million, and subsequently completed in March 2006. Task Order II resulted in a detailed mission and microsatellite design, which underwent a successful Critical Design Review in March 2006. Task Order III, the first of several task orders expected during the third phase was awarded in April 2006 for a total of approximately \$1.5 million, which was later amended to approximately \$2.5 million and was successfully completed in June 2006. Task Order IV was awarded by the Missile Defense Agency in July 2006, with initial funding of approximately \$4.0 million through November 2006. Task Order IV was subsequently amended to approximately \$4.5 million and extended through June 15, 2007. On April 12, 2007, we finalized a contract modification to Task Order IV with the Missile Defense Agency. The main content of the change was to: 1) extend the period of performance from June 15, 2007 to September 30, 2007 and subsequently to March 31, 2008, at no additional cost to the government; 2) increase the funding ceiling from approximately \$4.5 million to approximately \$9.0 million; 3) provide approximately \$1.6 million in funding toward the increased ceiling; and 4) change the statement of work to reflect the delivery of one microsatellite. On May 11, 2007 the remaining \$2.9 million in funding was provided to fully fund the \$9.0 million task order. We were informed that there was no Government Fiscal Year 2008 funds available from the Missile Defense Agency to support our microsatellite distributed sensing experiment beyond the funds described above. We have been working with the Missile Defense Agency and other government agencies for additional funding support. Government contract funds from the Missile Defense Agency from Government Fiscal Year 2007 were not exhausted by December 31, 2007 and were used to cover anticipated phase completion costs through January 2008. In January 2008, we arranged for another government agency, the Department of Defense Operationally Responsive Space Office, to fund our continued development through at least May 2008 with a possible extension that may lead to a launch of this experimental satellite. (See Risk Factors: "Some of our government contracts, including our large Missile Defense Agency contract, are staged and we cannot guarantee that all stages of the contracts will be awarded to us or fully funded" and "A substantial portion of our net sales are generated from government contracts, which makes us susceptible to the uncertainties inherent in the government budgeting process. In addition, many of our contracts can be terminated by the customer.) We recognized revenues of approximately \$5.2 million under this contract in 2007, and \$22.0 million under this contract from inception through December 31, 2007.

In January 2005, we were awarded a firm fixed price contract from Raytheon in Goleta, California for the design, development, manufacture, assembly and test of the Aerosol Polarimetry Sensor, Scan Mirror Motor/Encoder Assembly. The Aerosol Polarimetry Sensor instrument is slated to fly on the NASA Glory mission. The Aerosol Polarimetry Sensor instrument is also a prime candidate for a secondary payload on National Polar-orbiting Operational Environmental Satellite System (NPOESS). The Scan Mirror Motor/Encoder Assembly consists of low ripple, precision brushless DC motor and optical encoder assembly. The program consists of a development unit, engineering unit, qualification/life test unit, and flight units. This contract was awarded as a cost-plus fixed-fee contract at a value of \$2.5 million. In July 2006, the contract was modified to add approximately \$2.5 million with incremental funding and extend to March 2009. We recorded revenues from this contract for 2007 and from February 1, 2006 through December 31, 2006 of approximately \$1.4 million and \$2.0 million, respectively.

In October 2005, we were awarded a contract from General Dynamics C4 Systems to design and deliver an antenna pointing gimbal and control electronics for the GeoEye-1 program. The contract awarded was originally valued at \$2.0 million, and modified to \$2.4 million in 2007. The GeoEye-1 program is a next-generation, high-resolution commercial remote-sensing satellite originally scheduled for launch in 2007. The antenna control system is uniquely designed to operate by greatly reducing motion to the GeoEye-1 spacecraft while pictures are being taken and data is simultaneously transmitted to earth ground stations through incorporation of a low disturbance designed micro-stepping actuator and actuator drive electronics (Quiet Array Drive). We recorded revenues from this contract for 2007 and from February 1, 2006 through December 31, 2006 of approximately \$700,000 and \$1.26 million, respectively. This program was completed in July 2007.

In February 2006, the Air Force Research Laboratory awarded us two deployable boom technology contracts for advance research and development of a self-deployed articulated boom for approximately \$950,000 and a jack screw deployed boom for approximately \$1.5 million. We recorded revenues from these contracts for 2007 and 2006 of approximately \$1.5 million and \$833,000, respectively.

In June 2006, Lockheed Martin Commercial Space Systems awarded us a firm fixed price contract for the design and fabrication of the antenna pointing gimbals onboard the US Navy's Mobile User Objective System. The initial award is for two flight shipsets and includes two standard A2100 5-meter antenna gimbal assemblies, four Ka-Band antenna gimbal assemblies and two 14-meter gimbal assemblies. Options are included for additional gimbals supporting three additional large spacecraft. The contract will include the development and qualification of the Ka-Band and 14-meter gimbal designs in addition to delivery of standard gimbals and solar array deployment hinges that we have previously provided for the A-2100 bus. The contract value for the initial award was \$1.8 million; however, if all options are exercised, the total contract value could exceed \$6.0 million. The current value of this contract is approximately \$4.3 million. We recorded revenues from this contract for 2007 and 2006 of approximately \$1.2 million and \$625,000, respectively.

In July 2006, we were awarded a contract from the Air Force Research Laboratories in support of a Broad Agency Announcement. This contract allows tasks to be identified, approved, and funded to develop innovative technologies in the field of deployable structures for spaceflight applications. The current contract value is \$1.3 million. Future funding will be available in the amount of \$1.1 million from General Dynamics C4 Systems to design and deliver upon task approval. Deployable structures are designed to enable the placement of large payloads within the constrained volume of the launch vehicle and then to deploy, or erect, a larger system once the satellite or vehicle is no longer constrained by the enclosed volume of the launch vehicle fairing. The development efforts to date have focused on deployable antennae for commercial applications, large systems for a variety of radio frequency missions, and deployable optical systems. Several of these efforts have resulted in securing customer funding from potential missions to further design and/or analyses in evaluating the potential application of the SDI deployable structure technologies. We recorded revenues for 2007, and from July 1, 2006 through December 31, 2006 of approximately \$381,000 and \$6,000 respectively.

In August 2006, we were awarded a government firm fixed price contract to provide the solar array drive, antenna pointing actuators, and gimbal control electronic assemblies for the Lunar Reconnaissance Orbiter program from NASA Goddard Space Flight Center and Swales Aerospace. The total contract value is in excess of \$6.6 million. The Lunar Reconnaissance Orbiter mission is scheduled to launch in the fall of 2008 as part of NASA's Lunar Precursor and Robotic Program. The spacecraft requires two drive actuators to align the solar panels with the sun, and a two axis pointing mechanism to align the downlink antenna for communication with earth. We are to provide these actuators for the large spacecraft along with the electronics to control them. A total of seven actuators and five control electronics assemblies will be delivered under the contract. We recorded revenues from this contract for 2007 and 2006 of approximately \$4.0 million and \$1.8 million, respectively.

In August and November 2006 we were awarded two contracts to provide hardware for the H-II Transfer Vehicle for Ishikawa Aerospace and JAXA, the Japanese Space Agency. The H-II Transfer Vehicle will provide servicing missions to deliver supplies to the International Space Station. These contracts were obtained as follow-on to a prior development contract started in 2002. The total value of these two contracts is \$1.2 million. JAXA is continuing to market supply missions which may result in further contract growth to this award. We recorded revenues from this contract for 2007 and from August 1, 2006 through December 31, 2006 of approximately \$896,000 and \$200,000 respectively.

In January 2007, in partnership with the University of Colorado Laboratory for Space Physics, we were awarded a \$750,000 contract from the Missile Defense Agency to design and develop a non-sticking cover seal system for the Exo-atmospheric Kill Vehicle program, which is the kill vehicle component of the Ground Based Interceptor (the weapon element of the Ground-based Midcourse Defense System program). The contract was awarded under the Small Business Technology Transfer Program that provides research funding for partnerships between industry and non-profit research institutions. We recognized approximately \$382,000 in revenue under this contract from inception through December 31, 2007.

In February 2007, we were awarded a \$1.4 million cost reimbursable design and development subcontract with NASA's Jet Propulsion Laboratory in support of the Mars Science Laboratory mission. In 2007, this contract was modified to a value of approximately \$1.9 million, and in 2008, we received an additional contract modification bringing the total contract value today to approximately \$2.5 million. We will develop and deliver electromechanical Descent Brake dampers. The contract period of performance is approximately 18 months. NASA's Mars Science Laboratory mission will deliver a 1,800-pound rover to the surface of Mars in 2010. Rather than the airbag landing system used by the Mars Exploration Rover mission, a "Skycrane" landing system will use a rocket-decelerated Descent Stage that will hover and gently lower the rover on a 25-foot long bridle cord. A critical component of the "Skycrane" landing system is the Descent Brake that will lower the rover in less than seven seconds with a controlled speed profile that will provide a gentle touch-down on the Martian surface. We recognized approximately \$1.9 million in revenue under this contract from inception through December 31, 2007 and expect to complete this program during the second quarter of 2008.

In February 2007, we were awarded a contract valued at \$1.5 million from Space Systems/Loral to deliver cell shorting devices for their communication satellite battery systems. We are now working on the assembly and test of the first 100-unit delivery. This is a follow-on contract for these devices that were originally developed under a previous contract and flight units have been in production since 2001. The Space Systems/Loral communications satellite platform is currently the leading seller among U.S. satellite platforms for commercial communications. The cell shorting devices provide autonomous shorting or override of cells in the event that a cell fails. This preserves the battery system operation and performance at the best possible levels in the event of a cell failure. We recorded revenues from this contract through December 31, 2007 of approximately \$636,000.

In March 2007, we were awarded a \$500,000 cost reimbursable contract with the Naval Research Laboratory for the preliminary design of the Combined Optical, Radio, Radar Instrument, designed for a small satellite payload application. Combined Optical, Radio, Radar Instrument integrates three independent capabilities into a single instrument suite: high resolution optical/IR imagery, high-gain broadband RF up/downlink and sensitive proximity radar. We recognized approximately \$450,000 in revenue under this contract from inception through December 31, 2007. This program was successfully completed in February 2008.

Also in March 2007, we received a follow-on order from Ball Aerospace and Technology Corporation for solar array rotational drive assemblies and drive control electronics for the Digital Globe WorldView-2 satellite program. The value of the order is approximately \$1.3 million increasing the total contract value to \$2.5 million. The Starsys Quiet Array Drive Micro-Stepping motion control technology will be utilized on the Ball Aerospace BCP 2000 platform, which will articulate each of the two solar arrays for alignment with the sun. The WorldView-2 satellite is scheduled to be ready for launch in late 2008 and is expected to expand the capabilities of DigitalGlobe's world imaging portfolio. We recognized revenue on this program through December 31, 2007 of approximately \$1.9 million.

In September 2007, we were awarded a cost reimbursable design and development contract with the Defense Advanced Research Projects Agency to develop a Solar Thermal Propulsion demonstration article as a subsystem of a small satellite that is intended to enable the first Solar Thermal Propulsion flight experiment. The program consists of a six-month Base Program culminating in a Critical Design Review, followed by a six-month option culminating in a Solar Thermal Propulsion demonstration. The award of the option is contingent on the Defense Advanced Research Projects Agency's evaluation of the research results of the Base Program against a set of Go and No-Go criteria. The contract value for the initial Base Program is \$3.8 million. However, if the option is exercised, the total contract value would be \$7.3 million. We recognized approximately \$1.2 million in revenue under this contract from inception through December 31, 2007.

## Results of Operations

Year Ended December 31, 2007 -vs.- Year Ended December 31, 2006

### Net Sales

During the twelve months ended December 31, 2007, we had net sales of approximately \$34.7 million as compared to net sales of approximately \$32.6 million for the same period in 2006, an increase of approximately 6%. In 2007, we had several events that impacted revenues. These were the rebuild, restructure, and moving of our Colorado and North Carolina operations, the conclusion of certain loss-generating fixed price development contracts, fire storms, which affected our San Diego operations for an extended period, as well as discontinuation of revenue from our Missile Defense Agency contract in the fourth quarter. Approximately \$25.4 million, or 73%, of net sales were attributable to government and government-related work, with approximately \$9.1 million, or 27%, of net sales being attributable to commercial contracts. Our government customers include, but are not limited to, the Missile Defense Agency, the Air Force Research Laboratory, NASA, and other U.S. Department of Defense agencies. Our government-related work customers include, but are not limited to, General Dynamics, Northrop Grumman, and Raytheon. Commercial customers include Lockheed Martin and Sumitomo. Revenues during 2006 derived from government and government-related work were approximately \$28.9 million, or 89% of net sales and revenue from commercial customers was approximately \$3.6 million, or 11% of net sales.

### Cost of Sales

For the year ended December 31, 2007, cost of sales was approximately \$25.9 million, or 74.6% of net sales, as compared to approximately \$25.7 million, or 79.0% of net sales during the same period in 2006. Cost of sales consists of direct and allocated costs associated with individual contracts. The improved margin percentage was due to the wind-down of work on certain loss-generating fixed price government-related development contracts, which we

inherited in the Starsys acquisition. We continue to focus our efforts on final completion of these contracts, as well as altering our bid and proposal processes to better manage any decision to enter into fixed price development contracts. Contracts of a developmental nature are now usually bid using cost reimbursable contracts to mitigate the risk wherever possible. We are also continuing to focus efforts on improving our operations and increasing our efficiencies, including but not limited to, recruiting new talented engineers and business professionals, developing and enhancing our project management skills, and creating or expanding systems to assist in the efficient and effective management of our projects.

## Operating Expenses

Operating expenses increased from approximately \$7.8 million, or 24.0% of net sales, for the year ended December 31, 2006 to approximately \$8.7 million, or 25.0% of net sales, for the year ended December 31, 2007. Operating expenses include general and administrative expenses, research and development costs and marketing and sales expenses.

- General and administrative expenses decreased from approximately \$5.3 million, or 16.4% of net sales, for the year ended December 31, 2006 to approximately \$5.1 million, or 14.6% of net sales, for the year ended December 31, 2007. This decrease is attributed mainly to an initiative to integrate certain business management functions within the company, including, but not limited to finance and accounting, contracts, information systems and security, as well as a refinement of our cost allocation method and a movement toward activity based costing. The benefit of this reduction was partially offset by the added expense in 2007 related to: 1) the Company's investment in a security professional and related expenses; 2) the relocation of our Colorado and North Carolina facilities; and 3) costs related to preparing for regulatory compliance, e.g., Sarbanes-Oxley, etc.
- Research and development expenses, internally funded, increased to approximately \$300,000, or 0.9% of net sales, for the year ended December 31, 2007, from approximately \$284,000, or 0.9% of net sales, during the same period in 2006. Both the total dollars spent and percent of net sales remained essentially flat as most of our scientific work is performed under customer or government funded contracts. Since monies from those contracts are accounted for as revenue, we account for the related expenses as a cost of sales, rather than as research and development expense, in order to match the revenue with the appropriate expenses.
- Marketing and sales expenses increased to approximately \$3.3 million, or 9.5% of net sales, for the year ended December 31, 2007, from approximately \$2.2 million, or 6.8% of net sales, during the same period in 2006. The total dollar increase of approximately \$1.1 million was mainly due to costs related to bidding a larger number of proposals, an increase in engineering efforts on proposals, and appropriately capturing costs related to engineering efforts on proposals. The core marketing and sales costs remained essentially flat from year to year. In 2007, we responded to over 200 proposal requests for potential work over the next several years, including, but not limited to, the second phase of NASA COTS. In 2006, we responded to approximately 100 requests for proposals, including, but not limited to, the first phase of NASA COTS. Although we did not win the NASA COTS proposal, we spent in excess of \$300,000 in 2007 and in excess of \$800,000 in 2006 bidding on this program.

Included in all of our expenses, cost of sales, general and administrative, research and development and marketing and sales, we have recorded our stock option expense which is based on a calculation using the minimum value method as prescribed by SFAS 123(R), otherwise known as the Black-Scholes method. Under this method, we used a risk-free interest rate at the date of grant, an expected volatility, an expected dividend yield, and an expected life of the options to determine the fair value of options granted. The risk-free interest rate ranged from 3.03% to 4.79%, expected volatility ranged from 59.99% to 90.8% at the time all options were granted, the dividend yield was assumed to be zero, and the expected life of the options was assumed to be four years based on the average vesting period of options granted. The total expense for the years ended December 31, 2007 and 2006 was approximately \$408,000 and \$133,000, respectively. To minimize SFAS 123(R) stock option expense, we have reduced the number of stock options we would otherwise be granting.

Income/(loss) from operations improved from a loss of approximately \$974,000, or 3% of net sales for the year ended December 31, 2006, to a profit of approximately \$116,000, or 0.3% of net sales for the year ended December 31, 2007, an increase of approximately \$1.1 million from year to year. This improvement includes an increase of approximately \$275,000 in non-cash stock option expense, which is included in cost of sales, marketing and sales, and general and administrative expenses (see allocation chart at the bottom of our Consolidated Statements of Operations).



Non-operating expense (income) consisted of amortization of deferred gain on the sale of our Poway headquarters building, other non-cash loan fees and expenses, and interest expense and interest income. Our loan fees expense increased substantially in 2007 as a result of the Laurus revolving credit facility, and our interest expense increased in 2007, due to larger average balances on our revolving credit facility. We experienced net non-operating loss of approximately \$399,000 compared to net non-operating income of approximately \$20,000 for the years ended December 31, 2007 and 2006, respectively.

- We recorded loan fees related to our revolving credit facility as well as other fund financing activities of approximately \$389,000 and \$115,000 for the years ended December 31, 2007 and 2006, respectively. The increase in expense was due to the partial year of use in 2006 and the full year of use in 2007. We issued 310,009 shares of our common stock, valued at \$350,000, to Laurus in September 2006 for revolving credit facility loan fees, which we amortized over the initial 12 months, plus cash fees of \$175,000, which we are amortizing over 36 months. We further issued 283,286 shares of our common stock, valued at \$200,000, to Laurus in September 2007 for revolving credit facility loan fees, which we are amortizing from October 2007 through September 2008. The following chart highlights the loan fee expenses under our revolving credit facility for 2006 through 2008:

Date Granted	Type	Shares	Expense	2006	2007	2008	2009
September, 2006	Non-Cash	310,009	\$ 350,000	\$ 90,137	\$ 259,863	\$ -	\$ -
September, 2007	Non-Cash	283,286	\$ 200,000	\$ -	\$ 51,507	\$ 148,493	\$ -
September, 2008	Non-Cash	TBD*	\$ 200,000	\$ -	\$ -	\$ 51,507	\$ 148,493
September, 2006	Cash	N/A	\$ 175,000	\$ 24,463	\$ 58,333	\$ 58,333	\$ 33,871
Cash and Non-Cash Loan Fees				\$ 114,600	\$ 369,703	\$ 258,333	\$ 182,364

\* Presuming that the revolving credit facility remains in place for the third year.

- We expensed approximately \$208,000 and \$66,000 in interest for the years ended December 31, 2007 and 2006, respectively. The increase was due to borrowings under our new revolving credit facility that we entered into in September 2006 and utilized to fund operations for most of 2007. In the fourth quarter of 2007, we used a portion of the proceeds from our common stock offerings to reduce the balance on our revolving credit facility to zero by December 31, 2007. We will continue to pay interest expense on certain capital leases in 2008 and, if needed, borrowings on our revolving credit facility; however, we do not anticipate using the \$5.0 million revolving credit facility at this time.
- We recognized approximately \$81,000 and \$83,000 in interest income in 2007 and 2006, respectively. Our interest income remained essentially flat as we continued to manage our cash and cash reserves.
- We recognized approximately \$117,000 of amortized deferred gain on the sale of our Poway headquarters building during each of the years ended December 31, 2007 and 2006, and we will continue to amortize the remaining deferred gain of approximately \$596,000 into non-operating income over the remainder of the lease of the building, which is scheduled to expire in 2013.

#### Net Income (Loss) and Adjusted EBITDA

Net loss was approximately \$273,000, or 0.8% of net sales, for the year ended December 31, 2007, compared to a net loss of approximately \$973,000, or 3.0% of net sales, for the year ended December 31, 2006. During the year ended December 31, 2007, we had adjusted earnings before interest, taxes, depreciation and amortization, loan fees on our revolving facility, stock option expense, and gain on our 2003 building sale, or Adjusted EBITDA, of approximately \$1.7 million, or 5.0% of net sales, compared to approximately \$142,000, or 0.4% of net sales, for the year ended December 31, 2006.

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The following table reconciles Adjusted EBITDA to net income (loss) for the years ended December 31, 2007 and 2006:

	(Restated)	
For the twelve months ended	December 31, 2007	December 31, 2006
	(Audited)	(Audited)
Net Loss	\$ (272,562)	\$ (973,185)
Interest Income	(81,156)	(83,362)
Interest Expense	207,516	65,713
Loan Fees on Revolving Credit Facility	389,479	114,600
Gain on Building Sale	(117,272)	(117,274)
Stock Option Expense	408,094	133,379
Provision for income taxes	(9,809)	19,290
Depreciation and Amortization	1,234,261	982,860
Adjusted EBITDA *	\$ 1,758,551	\$ 142,021

\* Adjusted earnings before interest, taxes, depreciation, amortization, loan fees on our revolving credit facility, stock option expense, and gain on the 2003 sale of our building. Other companies may use the same "Adjusted EBITDA" phrase as we do, but define or calculate it differently than we do.

We define Adjusted EBITDA as net income before interest, taxes, depreciation, amortization, loan fees on our revolving credit facility, stock option expense, and gain on the 2003 sale of our Poway building. Adjusted EBITDA is not recognized under U.S. GAAP. We believe the use of Adjusted EBITDA along with U.S. GAAP financial measures enhances the understanding of our operating results and is useful to our management, Board of Directors and investors.

- Adjusted EBITDA is used by management as a performance measure for benchmarking against our peers and our competitors. In particular, we evaluate management performance by using revenues and operating income (loss) before depreciation and amortization, loan fees on our revolving credit facility, stock option expense, and gain on our 2003 building sale. We also use Adjusted EBITDA to evaluate operating performance, to measure performance for incentive compensation programs, and to evaluate future growth opportunities.
- Adjusted EBITDA is one of the metrics used by management and our Board of Directors, to review the financial performance of the business on a monthly basis and, in part, to determine the level of compensation for management. This is done by comparing the managers' departmental budgets without interest, taxes, depreciation and amortization, loan fees on our revolving credit facility, stock option expense, and gain on our 2003 building sale as a measure of their performance.
- We believe Adjusted EBITDA is useful to investors and allows a comparison of our operating results with that of competitors exclusive of depreciation and amortization, interest income, interest expense, non-cash stock option expenses and other non-operating expenses such as loan fees and gain on our 2003 building sale. Financial results

of competitors in our industry have significant variations that can result from timing of capital expenditures, the amount of intangible assets recorded, the differences in assets' lives, the timing and amount of investments and the variances in the amount of stock options granted to employees.

Adjusted EBITDA should not be viewed in isolation and is not presented as an alternative to cash flow from operations as a measure of our liquidity or as an alternative to net income as an indicator of our operating performance. Adjusted EBITDA should be used in conjunction with U.S. GAAP financial measures. Adjusted EBITDA is not intended to be a measure of free cash flow for management's discretionary use, as it does not consider certain cash requirements such as capital expenditures, contractual commitments, interest payments, income tax payments and debt service requirements. There are material limitations associated with making the adjustments to calculate Adjusted EBITDA and using this non-GAAP financial measure as compared to the most directly comparable GAAP financial measure. For instance, EBITDA does not include: 1) interest expense, and because we often borrow money to finance our operations, interest expense is a necessary element of our costs; 2) depreciation and amortization expense, and because we use tangible and intangible capital assets, depreciation and amortization expense is a necessary element of our costs; and, 3) income tax expense, and despite our prospective tax loss carry forwards, because the payment of income taxes is part of our operations, income tax expense is a necessary element of our costs. Since not all companies use identical calculations, our presentation of Adjusted EBITDA may not be comparable to other similarly titled measures of other companies.

We showed three consecutive years of positive and growing revenue and three consecutive years of positive Adjusted EBITDA. The following chart illustrates our annual trend in Adjusted EBITDA for the years ended December 31, 2005, 2006 and 2007.

#### Liquidity and Capital Resources

Net increase in cash and cash equivalents during the twelve months ended December 31, 2007 was approximately \$5.1 million compared to a net decrease of approximately \$4.3 million for the same twelve-month period in 2006. Net cash provided by operating activities totaled approximately \$1.7 million for the year ended December 31, 2007, compared to approximately \$1.4 million used in operating activities during 2006. The approximate \$3.1 million increase in cash from operating activities was primarily due to our improvement in operating performance (approximately \$700,000), an increase in depreciation and amortization (approximately \$250,000), an increase in stock options expense (approximately \$275,000), an increase in non-cash loan fees (approximately \$255,000), an increase in deferred rent and other non-cash accruals of approximately (\$362,000) and an increase in all other operating assets and liabilities (approximately \$1,258,000) which relates to normal payables and receivables of approximately \$3,633,000 offset by the source and use of current inventories and the increase and decrease of work performed over work billed to date of approximately \$2,375,000. These working capital items are somewhat skewed due to Starsys' condition when we acquired it in early 2006, which continued to require us to commit working capital as of December 31, 2006.

Net cash used in investing activities totaled approximately \$1.7 million for the year ended December 31, 2007, compared to approximately \$2.8 million used in investing activities during the same twelve-month period in 2006. The cash used in investing activities in 2006 included approximately \$1.4 million of one-time acquisition costs for Starsys Research Corporation. Other than that, cash used in investing activities in 2007 related to the purchases of fixed assets of approximately \$1.5 million versus comparable purchases of fixed assets in 2006 of approximately \$1.4 million, illustrating a small increase in fixed asset spending, mainly due to the relocation of our Colorado and North Carolina facilities in 2007.

Net cash provided by financing activities totaled approximately \$5.1 million for the year ended December 31, 2007, compared to net cash provided by financing activities totaling approximately \$137,000 during 2006. The increase is primarily attributable to the sale of our common stock to OHB Technology AG, MT Aerospace AG and Loeb Partners Corporation in 2007 of approximately \$7.9 million, partially offset by the partial redemption (i.e., amortization) of our Series D-1 Preferred Stock of approximately \$1.3 million. All other financing activities included:

- net borrowings on notes and capital leases (approx. <\$130,000>);
- payments on the revolving credit facility (approx. <\$805,000>);
- Employee Stock Purchase Plan contributions (approx. <\$38,000>); and
- dividend payments on our preferred stock (approx. <\$570,000>).

The total of the financing activities was a use of cash of approximately \$1.1 million. Key factors in 2006 were the issuance of Series D-1 Preferred Stock for \$4.0 million net, and note principal payments (related to the Starsys acquisition) of \$4.7 million.

Our cash, cash reserves, and cash available for investment increased to approximately \$6.5 million at December 31, 2007, compared to approximately \$1.4 million at December 31, 2006. The increase was mainly attributable to the proceeds from issuance of our common stock. Cash plus accounts receivable increased from approximately \$8.7 million at December 31, 2006 to approximately \$13.0 million at December 31, 2007, an increase of over \$4.2 million. Our working capital ratio at December 31, 2007 was approximately 2.0 compared to 1.2 at December 31, 2006.

We had net billings in excess of costs (which is defined as “billings in excess of costs” [an asset] minus “costs in excess of billings” [a liability]) of approximately \$1.0 million and \$1.1 million at December 31, 2007 and 2006, respectively. This effectively means that, on average, we were advanced more contract funds from our customers than we expended or earned and were not able to bill yet, i.e., it was a net advance payment. At December 31, 2007 and 2006, “billings in excess of costs”, which represented the amounts billed to our customers under the contractual terms, represented approximately \$2.4 million and \$2.8 million, respectively. At December 31, 2007 and 2006, “costs in excess of billings” which represented the actual costs incurred that had not been billed to date, represented approximately \$1.4 million and \$1.7 million at December 31, 2007 and 2006, respectively.

Our backlog was approximately \$29 million at December 31, 2007, compared to approximately \$28 million at December 31, 2006. Our backlog consists of contracted and contract-in-process business. Our contracted business is the estimated value of contracts for which we are authorized to incur costs and for which orders have been recorded, but for which revenue has not yet been recognized. Contracted business fluctuates due to a variety of events, including but not limited to the timing of awards. Contracts-in-process business are situations where we have been informed that our bids on new contract work have been accepted, but due to issues, such as: delays in the adoption of the U.S. Government budget; changes in program budgets; and, finalization of mutually acceptable contract terms and conditions, these contract opportunities have not been admitted into our backlog. Our contracted business was approximately \$16 million and \$20 million at December 31, 2007 and 2006, respectively. Our contract-in-process business was approximately \$13 million and \$8 million at December 31, 2007 and 2006, respectively.

Issuance of Our Common Stock to OHB Technology AG and MT Aerospace AG

In September 2007, we raised \$4.4 million in cash by selling 7,095,566 shares of our common stock to OHB Technology AG, a leading German space technology company, and MT Aerospace AG, a subsidiary of OHB Technology AG and an established supplier in the aeronautic, aerospace and defense sectors, in a private transaction at a purchase price of \$0.62 per share. The price was determined as a premium of 11% to the closing price of our common stock on September 12, 2007, which was \$0.56 per share. We used some of this cash to retire revolving debt balances and certain dividend bearing preferred stock. We also believe that our relationship with OHB Technology AG and MT Aerospace AG may evolve into a strategic one of mutual benefit as a result of actively exploring manufacturing opportunities using our production facilities, systems development by both organizations, and new business program opportunities in Europe as well as in the United States.

In December 2007, we raised an additional \$658,000 in cash by selling 877,653 shares of our common stock to OHB Technology AG and MT Aerospace AG at \$0.75 per share, in connection with the Loeb Partners Corporation investment in us, and the pre-emptive right of OHB Technology AG and MT Aerospace AG to maintain their 19% ownership in us.

The common stock we issued is restricted. We also entered into a Stockholder Agreement with the investors, which provide the investors with the right, after one year, to demand that we file a registration statement with the Securities and Exchange Commission to cover re-sales of the common stock from time to time by the investors. In addition, subject to existing rights of other stockholders, we provided the investors with rights to participate in our future financings.

The investors agreed not to solicit our customers and clients in the United States for the same products and services provided by us. The investors agreed not to purchase additional shares of common stock or cause others to do so, except as expressly provided in our Stockholder Agreement with them. Our Stockholder Agreement with them expires on the earliest of: (1) ten years, (2) a change of control of SpaceDev or (3) when the investors own less than 4.99% of us.

Also, pursuant to our Stockholder Agreement, we agreed to elect a qualified representative of OHB Technology AG (or any qualified replacement) to our Board of Directors and to nominate this representative of OHB Technology AG for election by the stockholders. This obligation will continue until the expiration of our Stockholder Agreement. Pursuant to this provision, we elected Hans Steininger to our Board of Directors in November 2007. In addition, per our Stockholder Agreement, for two years OHB Technology AG and MT Aerospace AG agreed to vote their shares of our common stock in favor of the nominees to our Board of Directors that have been recommended for election by the Board of Directors. OHB Technology AG and MT Aerospace AG also agreed to, following this two year period, continue voting their shares of common stock in favor of any nominees recommended by the Company's Board of Directors (1) if such nominee is a current member of the Board of Directors or (2) if the slate of nominees that is recommended for election by the Board of Directors includes the Stockholder's nominee.

#### Issuance of Our Common Stock to Loeb Partners Corporation

In December 2007, we entered into a Stock Purchase Agreement with Loeb Partners Corporation (hereinafter "Loeb") covering the issuance and sale of 3,750,000 shares of our common stock at a purchase price of \$0.75 per share. We received gross proceeds from the sale of approximately \$2.8 million in cash. The common stock is restricted. In addition, pursuant to our Stockholder Agreement with Loeb, Loeb agreed not to sell the common stock issued under the Stock Purchase Agreement for one year. We have also provided Loeb with the right, after one year, to demand that we file a registration statement with the Securities and Exchange Commission to cover re-sales of their common stock. In addition, subject to existing rights of other stockholders, we have provided Loeb with rights to participate in our future financings.

Pursuant to our Stockholder Agreement with Loeb, for one year, Loeb agreed to vote their common stock in favor of nominees recommended by our Board of Directors and Loeb agreed to, after one year, continue to vote their common stock in favor of current members of the Board of Directors. Further, Loeb has agreed not to purchase additional shares of common stock or cause others to do so, except as expressly provided in our Stockholder Agreement with Loeb. Our Stockholder Agreement with Loeb expires on the earliest of: (1) ten years; (2) a change of control of SpaceDev; or (3) when Loeb owns less than 4.99% of us.

#### Our Revolving Credit Facility with Laurus

In September 2006, we entered into a new revolving financing arrangement with Laurus. The financing is effected through a revolving note for up to \$5.0 million, although the exact principal balance at any given time will depend on draws made by us on the facility. We are allowed to borrow against the facility under an investment formula based on accounts receivable (See "Financing: Revolving Credit Facility" above). The balance on this revolving credit facility at December 31, 2007 and 2006 was approximately zero and \$805,000, respectively. The facility is not convertible into any class of our securities. The facility is a secured debt, collateralized by substantially all of our assets. The facility contains certain default provisions.



### Our Series D-1 Preferred Stock Financing

In January 2006, we entered into a securities purchase agreement, which we refer to as the 2006 purchase agreement, with a limited number of institutional accredited investors, led by Omicron Capital. We issued and sold to these investors 5,150 shares of our Series D-1 Amortizing Convertible Perpetual Preferred Stock, par value \$0.001 per share, which we refer to as Series D-1 Preferred Stock, for an aggregate purchase price of \$5,150,000, or \$1,000 per share. We also issued various warrants to these investors under the 2006 purchase agreement. Since then, we have repurchased, or redeemed, approximately \$2.0 million which represented approximately 1,951 shares of Series D-1 Preferred Stock.

## Critical Accounting Standards

Due to the acquisition of Starsys, our revenues transitioned in 2006 from being primarily cost-plus fixed-fee contracts, where revenues are recognized as costs are incurred and services are performed, to a combination of cost-plus fixed-fee contracts and fixed price contracts, where revenues are recognized using the percentage-of-completion method of contract accounting based on the ratio of total costs incurred to total estimated costs. Losses on contracts are recognized when they become known and reasonably estimated (see the Notes to our Consolidated Financial Statements). Actual results of contracts may differ from management's estimates and such differences could be material to the consolidated financial statements. In addition, when the total value of a contract becomes uncertain (such as when a contract modification to reflect cost overruns is being negotiated), we may be unable to report further revenues on the contract under the percentage-of-completion method until the uncertainty is resolved.

Professional fees are billed to customers on a time-and-materials basis, a fixed price basis or a per-transaction basis. Time-and-material revenues are recognized as services are performed. Deferred revenue represents amounts collected from customers for services to be provided at a future date. Research and development costs are expensed as incurred.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payment (SFAS 123(R)), which replaces SFAS No. 123 and supersedes APB Opinion No. 25. SFAS 123(R) requires all share-based payments to employees, including grants and vesting of employee stock options beginning January 1, 2006, to be recognized in the financial statements based on their fair values. In addition, the adoption of SFAS 123(R) requires additional accounting related to the income tax effects and additional disclosure regarding the cash flow effects resulting from share-based payment arrangements. SFAS 123(R) became effective January 1, 2006 for calendar year companies. Accordingly, we implemented the revised standard in the first quarter of 2006. (See Note 7 to our Consolidated Financial Statements for additional information.)

## Recent Accounting Pronouncements

In September 2006, the FASB issued FASB Statement No. 157, Fair Value Measurements. This statement defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It provides a framework for measuring fair value and requires additional disclosures about fair value measurements. This statement applies only to fair value measurements already required or permitted by other statements; it does not impose additional fair value measurements. This statement is effective for fair value measurements in fiscal years beginning after November 15, 2007. We do not expect this statement to have a material impact on our financial condition or results of operations.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities - including an amendment of FASB Statement No. 115 ("SFAS No. 159"). SFAS No. 159 permits entities to elect to measure many financial instruments and certain other items at fair value. Upon adoption of SFAS No. 159, an entity may elect the fair value option for eligible items that exist at the adoption date. Subsequent to the initial adoption, the election of the fair value option should only be made at initial recognition of the asset or liability or upon a re-measurement event that gives rise to new-basis accounting. SFAS No. 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value nor does it eliminate disclosure requirements included in other accounting standards. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We are currently assessing the impact of SFAS No. 159 on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (R), Business Combinations, and SFAS No. 160, Noncontrolling interests in Consolidated Financial Statements, an amendment of ARB No. 51. The new standards require that a noncontrolling interest in a consolidated subsidiary be displayed in the consolidated statement of financial position as

a separate component of equity. The new standards also indicate gains and losses should not be recognized on sales of noncontrolling interests in subsidiaries but that differences between sale proceeds and the consolidated basis of accounting should be accounted for as charges or credits to consolidated additional paid-in-capital. However, in a sale of a subsidiary's shares that results in the deconsolidation of the subsidiary, a gain or loss would be recognized for the difference between the proceeds of that sale and the carrying amount of the interest sold. Also, a new fair value in any remaining noncontrolling ownership interest is established. These statements are effective for the first annual reporting period on or after December 15, 2008. We are currently evaluating the provisions of SFAS 141 (R) and SFAS 160 and do not expect there to be an impact to our current financial statements; however, future acquisitions could be impacted.

## Information Regarding Business of SpaceDev

### Overview

SpaceDev, Inc., a Delaware corporation, together with our subsidiaries, (“SpaceDev,” “we,” “us,” “our,” or “Company”), is a leading space technology company. We are engaged in the conception, design, development, manufacture, integration, sale, and operation of space systems, subsystems, products and services, as well as the design, manufacture, and sale of mechanical and electromechanical subsystems and components for spacecraft. We are currently focused on the commercial and military development of low-cost small satellites and related subsystems, hybrid rocket propulsion for space and launch vehicles, subsystems that enable critical spacecraft functions such as pointing solar arrays and communication antennas and restraining, deploying and actuating moving spacecraft components. We maintain our corporate headquarters in California and operating centers in California, Colorado and North Carolina and currently have approximately 185 full and part time employees.

During 2007, approximately 73% of our revenues were generated from direct government contracts, and from government-related work through subcontracts with others, while the remaining 27% were generated from commercial contracts. In 2006, approximately 89% of our revenues were generated from direct government contracts, and from government-related work through subcontracts with others, while the remaining 11% were generated from commercial contracts. Currently, we are focusing on the domestic United States government market, which we believe is only about one-half of the global government market for our mission solutions, products, services and technologies. We are restricted by export control regulations, including International Traffic in Arms Regulations, which may limit our ability to develop market opportunities outside the United States. However, international revenues have historically represented less than 5% of our total net sales and we are interested in exploring further international contract opportunities. Our new and evolving relationship with OHB Technology AG and MT Aerospace AG may influence our decision and ability to operate in the international marketplace, as well as for them to operate in the United States government and civil marketplace.

During 2007, we submitted over 200 bids for government or commercial programs and continued our work with the United States Congress to identify directed funding for our programs.

### Business Strategy

Our strategy is based on the belief that innovative advancements in technology and the application of standard business processes and practices will make commercial access to space much more practical and affordable. We believe these factors will cause growth in certain areas of space commerce and will create new space markets and increased demand for our products and services.

Our business strategy and approach for our operations is to:

- Introduce commercial business practices into the space arena, use off-the-shelf technology in innovative ways and standardize hardware and software to reduce costs and to increase reliability and profits;
- Start with small, practical and profitable projects, and leverage credibility and profits into larger and ever more bold initiatives - utilizing partnerships where appropriate;
- Bid, win, and leverage government programs to fund our Research and Development and product development efforts;
- Integrate our smaller, low cost commercial spacecraft and hybrid space transportation systems to provide one-stop turnkey payload and/or data delivery services to target customers; and,

- Apply our low cost space products to new applications and to create new users, new markets and new revenue streams.

Today, a majority of our business involves us serving as a subcontractor to a prime contractor who integrates our contributions into a larger spacecraft. However, an increasing portion of our business involves us serving as a prime contractor with other companies (often much larger companies) serving as a subcontractor to us. Our business development process is generally a competitive bid in response to a request for proposal that is generated by our potential customers. These proposals have various bases, including firm fixed price, cost-plus fixed-fee, products and time-and-materials. We typically prepare between ten and twenty proposals in a given month and we usually have one to three weeks to respond to a request for proposal. We also execute on long term build to requirement contracts with some of the prime contractors. However, due to our past experiences where we realized losses on fixed price development contracts, we are now more careful in bidding fixed price development work. It is our preference, wherever possible, to bid development work using a cost reimbursable-type contract; however, when customers require fixed price contracts, we decide to bid or not to bid the opportunity based on the risk premium that we can apply to the proposal. The risk premium addresses our perceived exposure to bidding development work on a fixed price basis.

## Product and Services; Market

Our space technology business is focused on providing end-to-end spacecraft mission solutions and spacecraft products and services to customers in the space and aerospace marketplace. We have several areas of space technology, which when applied to customer needs, we believe provides our industry with a sound, profitable and cost effective alternative to the large aerospace solutions. We operate in small interdisciplinary teams to provide high value at a much lower cost than the large aerospace companies. We can design and integrate different space products, services and technologies, as customer needs require, across a spectrum of missions to help meet the needs of our customers. Many of our products and technologies could be employed on a single project or mission to provide an optimal end-to-end solution. We have flown 2,500 mechanisms and systems on 250 spacecraft with complete on-orbit mission success to affirm our understanding of design/build of space qualified parts and provide the heritage desired by customers in our industry.

Our spacecraft focus is mainly on small satellites, (e.g., microsatellite and nanosatellite spacecraft buses), although many of our products and technologies service larger spacecraft. The primary benefit of small satellites is lower cost, less weight and more rapid time to deployment. Due to our business strategy and core business model, we believe that we can dramatically reduce manufacturing costs and the costs to launch small satellites to earth-orbit and deep space. In doing so, we can pass cost savings on to our customers. Small, inexpensive satellites were once the exclusive domain of scientific and amateur groups; however, smaller satellites are now a supplement to, and a viable alternative to, larger, more expensive satellites, as they provide a high powered, cost-effective solution to traditional problems. We design and build low cost, high-performance space-mission solutions involving small satellites generally 250 kg (550 pounds) to meet our customer requirements. Our approach is to maintain a core business supporting larger satellites while fostering the growth of an emerging small satellite market.

We provide rapid access to space through innovative mission solutions currently lacking in the marketplace. Our approach is to provide smaller spacecraft – generally 500 kg mass and less – and draw upon our other compatible products and technologies to support commercial, university and government customers. The small spacecraft market is evolving and supported by the evolution of microelectronics, common hardware and software interface standards, and smaller launch vehicles. Reduction of the size and mass of traditional spacecraft electronics has reduced the overall spacecraft size, mass, and volume over the past 10 to 15 years. For example, our miniature flight computer is only 24 cubic inches and provides 300 million instructions per second of processing power versus a competitor's more "traditional" solution that requires about 63 cubic inches and only provides 10 million instructions per second. We also provide a wide variety of hybrid propulsion systems to safely and inexpensively enable small satellites and on-orbit delivery systems to rendezvous and maneuver on-orbit and deliver payloads to sub-orbital altitudes. Hybrid rocket propulsion is a safe and low-cost technology that has tremendous benefits for current and future space missions. Our hybrid rocket propulsion technology features a simple design, is restartable and throttleable, and is easy to transport, handle and store.

We have our own mission control and operations center, located in our headquarters building near San Diego, coupled with our mission control and operations package, which is Internet-based and allows for the operation and control of missions from anywhere in the world that has access to the Internet. Our first small satellite, CHIPSat, which was launched in January 2003 and is still operating today, was one of the first U.S. missions to use end-to-end satellite operations with TCP/IP and FTP. This concept can provide significant advantages. For example, a formation-flying cluster or constellation of TCP/IP-based small satellites can be designed to communicate directly with each other, as a wide area network in space. Provided any one satellite/node in this network is in line-of-sight with any ground station at any given time, the entire constellation could always maintain ground station connectivity, thus creating a network on-orbit and on the web, a direct extension of CHIPSat's elegantly simple TCP/IP mission operations architecture.

We can provide end-to-end mission design and analysis, including the design of the mission and its science, commerce or technology demonstration goals, the design of an appropriate space vehicle (satellite or spacecraft), prototype development, construction and testing of the spacecraft, integration of one or more payloads (instruments, experiments or technologies) into the spacecraft, integration of the spacecraft onto the launch vehicle (rocket), the launch and the mission control, and operations during the life of the mission. Our propulsion products and services are being designed to support our small spacecraft, although we are also involved with helping other companies and agencies utilize this safe and efficient hybrid propulsion technology in other applications. We team with launch providers in order to identify and market affordable launches for the small satellite market. We can provide customers with a complete on-orbit data delivery service that can also involve our spacecraft and related products and technologies. These innovative, low-cost, turnkey mission solutions could allow us to provide a one-stop shop for mission services, spacecraft, payload accommodation, total flight system integration and test, and mission operations. Our customers and potential customers only need define their mission (and in some cases provide the payload), and we perform all the tasks required for the customer to get to orbit and begin collecting data.

As an ancillary initiative, we have begun designing a reusable, piloted, sub-orbital space ship that could be scaled to transport passengers to and from Low Earth Orbit, including the International Space Station. The name of the vehicle is the SpaceDev Dream Chaser™. We signed a non-binding Space Act Memorandum of Understanding with NASA, which confirms our intention to explore novel, hybrid propulsion based hypersonic test beds for routine human space access. We will explore with NASA collaborative partnerships to investigate the potential of using our proven hybrid propulsion and other technologies, and a low cost, private space program development approach to establish and design new piloted small launch vehicles and flight test platforms to enable near-term, low-cost routine space access for NASA and the United States. The SpaceDev Dream Chaser™ is expected to be crewed and launch vertically, like most launch vehicles, and would glide back for a normal horizontal runway landing. We are continuing to seek funding partners for this activity.

In addition to supporting our own mission solutions, we provide space components, mechanisms and electromechanical systems for larger spacecraft applications. These include electromagnetic motors, pointing systems, thermal control systems, and robotic systems to a variety of general drive applications. Motors and actuators are required on spacecraft to move instruments, point antennas and solar arrays, and deploy structural elements. We have a suite of technologies that can be combined to meet a wide variety of spacecraft requirements. Many of our systems provide critical spacecraft functions. Our unique suite of technological core competencies enables us to deliver these as turn-key systems. These mission solutions, products and services are being marketed and sold directly into primarily domestic government, university, military and commercial markets.

Our business is, in part, reliant on the U.S. Government budgeting process and as a result, has elements of seasonality. In addition, our business follows normal industry trends such as increased demand during bullish economic periods, or slow-downs in demand during periods of recession.

Finally, we are working with potential partners to create new markets that can generate new space-related service and commercial revenue streams. While we believe that certain space market opportunities are still several years away, our focus continues to be on the commercialization of space and finding ways to create value for our stockholders through these endeavors.

#### Components and Raw Materials

Although our business may experience a shortage of certain parts and components related to our products, we have many alternative suppliers and distributors and are not dependent on any individual supplier or distributor. Furthermore, we have not experienced difficulty in our ability to obtain our parts or component materials, nor do we expect this to be an issue in the future.

We purchase a significant percentage of product materials, components, structural assemblies and certain key satellite components and instruments from third parties. We also occasionally obtain parts and equipment that we use in the production of our mission solutions and products or in the provision of our services from the U.S. government or customers. Generally, we do not experience difficulty in obtaining product materials components and equipment, and believe that alternatives to our existing sources of supply are readily available. If securing alternative sources of supply is necessary or required, increases in costs and delays may be incurred as a result of such actions. For a relatively small number of unique materials or product components, we do rely upon sole sourced suppliers to provide such items. While alternative sources may be available, the inability of any such supplier to provide us with these items to qualified specifications could have an adverse effect on our ability to manufacture our products and would impact costing and schedules.



## Competition

We compete for contracts related to our mission solutions and for sales of our products and services based on price, performance, technical features, contracting approach, reliability, availability, customization, perceived stability, and, in some situations, geography. The following list identifies some of our competitors, depending on the type of contract or sale that we may be seeking:

- Ø AeroAstro
- Ø Aeroflex (a subsidiary of UMTC)
- Ø Alliance
- Ø Alliant Tech Systems
- Ø ATK
- Ø CDA Astro
- Ø Cesaroni Technology Incorporated
- Ø EADS Astrium
- Ø G&H Technologies
- Ø General Dynamics
- Ø Harris Corporation
- Ø Microsat Systems (a subsidiary of Sierra Nevada)
- Ø Moog, Inc.
- Ø MPC Products Corporation
- Ø Planetary Systems, Inc.
- Ø Prime Contractor Internal Mechanisms
- Ø Surrey Satellite Technology Limited
- Ø Swales Aerospace
- Ø TiNi Aerospace

We believe that our mission solutions, as well as our product and service offerings, provide a significant value to our customers and prospective customers. Some of our competitors compete across a broader range of opportunities than others. Several of our current and potential competitors have greater resources, including technical and engineering resources, marketing resources, and political connections. Also, customers may perceive larger competitors to be more stable.

Our customers are sometimes our competitors. In the aerospace industry, we have found that we subcontract to companies that we also compete with when it comes to responding to requests for proposals and requests for information. Many of these competitors are larger companies and have substantially greater resources (and rate structures) than we do, which is often why we can supply them with cost effective solutions, components and/or subsystems. Part of our strategy is to remain non-confrontational with the larger aerospace companies so that we can both supply and compete with them. Even the larger aerospace companies have this issue with each other as they strive to support their customer, e.g., a government agency.

Furthermore, it is possible that other domestic or foreign companies or governments, some with greater experience in the space and defense industry and many with greater financial resources than we possess, will seek to provide mission solutions, products or services that compete with us. Any such foreign competitor could benefit from subsidies from or other protective measures by its home country.

We also compete with each of our competitors for a qualified work force. There are a limited number of individuals with all of the requirements that we seek and there can be no assurance that we can locate and recruit these individuals in a timely and cost-effective manner. Many of our competitors have greater resources than we do and can offer higher salaries or better incentives to attract these individuals or to hire our existing employees away from us.

## Regulation

Our business activities are regulated by various agencies and departments of the U.S. government and, in certain circumstances, the governments of other countries. We are required to ensure that any disclosure of scientific and technical information complies with the Export Administration Regulations (EAR) and the International Traffic in Arms Regulations (ITAR). Exports of our products, services and technical data require either Technical Assistance Agreements or Licenses from the United States Department of State, depending on the complexity of the technology being exported. The commercial exports of information with respect to ground-based sensors, detectors, and high-speed computers are controlled by the Department of Commerce. The government is vigilant with respect to strict compliance. Statutes state that failure to comply with the ITAR and/or the Commerce Department regulations may subject guilty parties to substantial fines of up to \$1 million and/or up to 10 years imprisonment per violation. Our failure to comply with any of the previous regulations could have a serious adverse effect on our ability to do business. Our ability to market, sell and deliver products into international markets may be adversely impacted due to ITAR and/or Commerce Department requirements. Potential negative impacts include, but are not limited to, the inability to sell to certain customers, extended sales cycles, delays in material procurement, manufacturing, test, product delivery, and collection of accounts receivable. Our conservative position is to consider any material beyond standard marketing material to be regulated by federal statute i.e., EAR, ITAR.

In addition to local, state, and national government regulations that all businesses must adhere to, the space industry has specific federal regulations. In the United States, command and telemetry frequency assignments for space missions are primarily regulated by the Federal Communications Commission for our domestic commercial products. Our products marketed towards domestic government customers are regulated by the National Telecommunications Information Agency. Products sold internationally are regulated by the International Telecommunications Union. All launch vehicles that are launched from a launch site in the United States must pass certain launch range safety regulations that are administered by the United States Air Force. In addition, all commercial space launches that we might perform require a license from the Department of Transportation. Satellites that are launched must obtain approvals for command and frequency assignments.

We may also be required to obtain permits, licenses, and other authorizations under federal, state, local, and foreign statutes, laws, or regulations or other governmental restrictions relating to the environment or to emissions, discharges or releases of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic, or hazardous substances or wastes into the environment including, without limitation, ambient air, surface water, ground water, or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or hazardous substances or wastes, or the clean-up or other remediation thereof. Presently, we do not have a requirement to obtain any special environmental licenses or permits.

We may need to utilize the Deep Space Network on some of our missions. The Deep Space Network is a United States funded network of large antennas that support interplanetary spacecraft missions and radio and radar astronomy observations for the exploration of the solar system and the universe. The network also supports selected Earth-orbiting missions. The network is an asset of NASA, and is managed and operated for NASA by the Jet Propulsion Laboratory (JPL) at California Technology Institute. The Telecommunications and Mission Operations Directorate at JPL manages the Program.

Also, some of our projects with the Department of Defense may need special clearances to continue work advancing our projects. Classified programs generally will require that we comply with various Executive Orders, Federal laws, regulations and customer security requirements that may include specialized facilities and restrictions on how we develop, store, protect, and share information. Laboratories, manufacturing and assembly areas, meeting spaces, office areas, storage areas, computers systems, and networks and telecommunications systems may require modification or replacement in order to comply with classified customer requirements. Classified programs may require our employees to obtain government clearances and restrict our ability to have key employees work on these programs until these clearances are received from the appropriate United States government agencies.

In order to staff these programs we may need to recruit and retain personnel with the appropriate professional training, experience, and security clearances. There are a very limited number of individuals with all of the requirements that we may be required to seek in the marketplace. There is no assurance that we can locate and recruit these individuals in a timely and cost-effective manner. We may be required to modify existing facilities and to develop new facilities and capabilities that will only be utilized by these classified programs. We may be required to install computer networks, communications systems, and monitoring systems that are dedicated to these classified programs. Some or all of these requirements may entail additional expense. It is uncertain whether we will be able to recover all of the costs of these systems from our classified customers. Many of these classified programs are regulated by Executive Orders, various Federal laws and regulations, and customer requirements. Failure to comply with any of the aforementioned Executive Orders, Federal laws and regulations and customer requirements could have serious adverse effects on the business. Also, our ability to successfully market and sell into the Department of Defense markets may be severely restricted if we are unable to meet threshold classified program requirements. There is no assurance that we will be able to successfully pass the criteria required in order to win new classified programs or to maintain current classified contracts. There is also no assurance that we will maintain any particular level of classified status once it has been granted.



## Employees

As of December 31, 2007, we employed 173 full-time and 12 part-time persons, most of whom are engineers or technicians. We employ the following types of engineers: spacecraft systems, propulsion systems, avionics, software, guidance/navigation/control, structural, mechanical, electrical, and electro-mechanical. We employed 114 full-time and 8 part-time employees in the Louisville/Denver area of Colorado, 44 full-time employees in the San Diego area of Southern California, and 15 full-time employees in the Raleigh/Durham area of North Carolina. We do not have any collective bargaining agreements with our employees.

## Intellectual Property

We have protected and intend to continue to protect our intellectual property through a combination of patents, license agreements, trademarks, service marks, copyrights, trade secrets, and other methods of restricting disclosure and transferring title. We rely, in part, on patents, trade secrets and know-how to develop and maintain our competitive position and technological advantage, particularly with respect to our launch vehicle, satellite products, structures, and mechanisms. We hold U.S. and foreign patents relating to release devices, deployable truss structures, hybrid propulsion, and battery cell shorting mechanisms. The majority of our U.S. patents relating to the noted technologies expire between 2019 and 2022. We have also filed patent applications relating to our hybrid propulsion technology, satellite technology and structures technology. There can be no assurance that the patents from such applications will be granted. We have entered, and intend to continue to enter, into confidentiality agreements with our employees, consultants and vendors; entered into license agreements with third parties; and, generally, sought to control access to and distribution of our intellectual property.

## Properties

In January 2003, we entered into a sale and 10-year leaseback of our 25,000 square foot headquarters facility in Poway, California. Our facility includes a small Spacecraft Assembly and Test facility with a 1,800 square foot Class 100,000 clean room, avionics development lab, machine shop with rocket motor casting capability, mechanical assembly lab, and mission control and operations center. In March 2005, we leased an additional 11,000 square feet of office and warehouse space within a mile of our Poway, California facility and moved our machine shop with rocket motor casting capability for hybrid propulsion into it. This lease is now set to expire on June 30, 2008. We also negotiated an arrangement with Northrop Grumman for use of a test pad at their Capistrano Test Facility approximately one hour from our Poway, California offices. We use this site to fire and test larger hybrid rocket motors. Key uses of our California facilities are program and project conferences and meetings, engineering design, engineering analysis, spacecraft assembly, avionics labs, software labs, and media outreach. We also have an Internet-based Mission Control and Operations Center in our building. Our facilities allow for efficient design, assembly, and test for our projects, and of our mission solutions, products and technologies.

The rent on our headquarters building is approximately \$29,500 per month with a 3.5% COLA increase annually. We are responsible for property tax and liability insurance on the facility. We were required to make an advance payment in the form of a security deposit of approximately \$25,700, which we carry as an asset on our balance sheet. The rent on the second Poway facility was approximately \$9,000 per month in 2006 and \$11,000 per month in 2007 and included all CAM charges and taxes. The Capistrano facility is billed to us by Northrop Grumman only when in use and includes all support services.

As a result of our acquisition of Starsys Research Corporation in January 2006, we acquired a lease for a 41,400 square foot facility in Boulder, Colorado (at a rental rate of approximately \$55,000 per month) and a 5,000 square foot facility in Durham, North Carolina (at a rental rate of approximately \$6,000 per month). We entered into a new lease in August 2006 on a facility located at 1722 Boxelder Street in the Colorado Technology Center in Louisville, Colorado. The Boulder lease expired in March 2007. We relocated our manufacturing operations from Boulder to Louisville, Colorado in March 2007, which was approximately 12 miles southeast of the Boulder location. This new

facility provided an immediate improvement in product work flow over the existing Boulder location. The Louisville facility has approximately 72,000 square feet, and rent is approximately \$92,000 per month including common area maintenance charges and with a 3.0% COLA increase annually. We plan to develop this space through phased capital equipment additions that will improve our fabrication, assembly, and test capabilities.

Finally, our Durham, North Carolina facility lease expired in March 2007. We signed a new lease in March 2007, and in May 2007 relocated our Durham manufacturing operations from 633 Davis Drive to 1030 Swabia Court, one mile east of the prior location. We held over in the existing facility until the tenant improvements were completed. The new Durham facility has approximately 13,500 square feet of usable office and laboratory space. The rent is approximately \$11,000 per month with an increase annually.

#### Mission Assurance and Testing

Our mission assurance charter is to ensure procured materials, internal processes, and finished products meet contract and Quality Management System requirements. Our Colorado and North Carolina facilities maintain AS9100 and ISO-9001 third party certified quality management systems. Both facilities have implemented rigorous employee training and certification programs to empower operator ownership for process adherence and product quality. We perform frequent internal audits and facilitate third party site audits to confirm processes perform to expectations, products comply with engineering requirements and to identify opportunities to provide higher quality and increased value to our customers.

Our Quality Engineering provides up-front support to ensure contract requirements are clearly identified and appropriately flowed down, processes are capable to provide consistent and measurable results, and sub-tier suppliers meet their quality goals and objectives. Our Quality Inspection provides specialized inspection support for detailed dimensional inspections, independent confirmations of operator self verification activities, and in-line inspections when mandated by regulatory or contract requirements. We have extensive in-house capabilities for aerospace environmental testing, including thermal and thermal/vacuum chambers, and vibration testing. We also have access to certified suppliers for vibration, shock, and electromagnetic interference testing. We maintain an environmentally controlled dimensional inspection lab to house our state of the art, high precision coordinate measuring machine work centers. All test and measurement activities are performed with equipment calibrated to standards traceable to the National Institute of Standards and Technology.

Although our mission assurance charter extends to all of our operating facilities, our quality management operations have not been third party certified in our California facilities. We anticipate third party quality management system certification at all of our facilities in the future.

#### Research and Development

A large portion of our total new product development and enhancement programs is funded under government and customer contracts. Our internal research and development expenses, other than under such contracts, totaled approximately \$300,000 and \$284,000 for the years ended December 31, 2007 and 2006, respectively. We expect to invest some non-government and non-customer internal research and development monies in 2008 to improve current products and to develop new products within our areas of core competency.

#### United States Government Contracts

During 2007 and 2006, approximately 73% and 89% of our total annual revenues were derived from contracts with the U.S. government and its agencies, or from subcontracts with other U.S. government prime contractors. Most of our U.S. government contracts are funded incrementally on a year-to-year basis.

Our major contracts with the United States Government fall into three categories; cost-reimbursable contracts, fixed price contracts, and time-and-material contracts. In 2007, approximately 53% of revenues from U.S. government contracts were derived from cost-reimbursable contracts, 44% from fixed price contracts, and 3% from time-and-material contracts compared to approximately 51%, 48%, and 1% in 2006, respectively. Under a cost-reimbursable contract, we recover our allowable incurred costs, allowable overhead costs, and a fee consisting of a fixed-fee established at the inception of the contract, and/or an award fee amount that is based upon the customer's

evaluation of our performance in terms of the criteria stated in the contract and/or an incentive fee established based upon schedule, technical, cost and management criteria. Our fixed price contracts include firm fixed price and fixed price incentive fee contracts. Under firm fixed price contracts, work performed and products shipped are paid for at a fixed price without adjustment for actual costs incurred in connection with the contract. Therefore, we bear the risk of loss if costs increase, although some of this risk may be passed on to subcontractors. Fixed price incentive fee contracts provide for sharing by us and the customer of unexpected costs incurred or savings realized within specified limits, and may provide for adjustments in price depending on actual contract performance other than costs. Costs in excess of the negotiated maximum (ceiling) price and the risk of loss by reason of such excess costs are borne by us, although some of this risk may be passed on to subcontractors.



We have experienced significant cost overruns in the past on fixed price development projects resulting in losses on contracts before application of reserves. Since merging with Starsys, we have taken significant steps to limit our risk on fixed price development contracts going forward, including but not limited to seeking voluntary relief or additional consideration from our customer(s), altering our bid and proposal process to address risk assessment on fixed price development contracts, and migrating our contract structure toward cost reimbursable contracts. Under cost reimbursable contracts, we are reimbursed for allowable incurred costs plus a fixed-fee award fee or incentive fee. This contracting arrangement allows us to better manage the risk for a development-type program.

We expect the majority of our United States Government contracts to remain cost reimbursable contracts. We expect our government-related contracts (i.e., contracts awarded by the United States Government to a prime commercial contractor, where we are a sub-contractor to the prime contractor) will increase in 2008, and we intend to minimize the use of fixed price contracts for development work. Due to our past experiences where we realized losses on fixed price development contracts, we are much more careful in bidding fixed price development contracts. Sometimes our customers require fixed price contracts, in which case, we make a decision to bid or not bid the opportunity based on the risk premium that we can apply to the proposal. It is our preference, wherever possible, to bid development work using a cost reimbursable-type contract.

United States Government contracts are dependent on continued political support and funding. All of our United States Government contracts and, in general, our subcontracts with other United States prime contractors provide that such contracts may be terminated for convenience at any time by the United States Government or by the prime contractor. Furthermore, any of these contracts may become subject to a government-issued stop work order under which we would be required to suspend our activities under the contract. In the event of a termination for convenience, contractors generally are entitled to receive the purchase price for delivered items, reasonable reimbursement for allowable costs for work in process, and an allowance for reasonable profit thereon or adjustment for loss if completion of performance would have resulted in a loss.

#### Litigation

We are currently not aware of any legal proceedings or claims that we believe will have, individually or in the aggregate, a material adverse affect on our business, financial condition or operating results.

#### Management

##### Information Regarding SpaceDev's Directors and Executive Officers

On November 8, 2007, Dr. Wesley T. Huntress resigned as a member of our Board of Directors. Dr. Huntress is retiring after a long and valued service. Dr. Huntress had been a member of our board of directors since June 1999, and most recently was a member of our Audit Committee and Nominating and Corporate Governance Committee.

On November 8, 2007, our Board of Directors appointed Scott Hubbard and Hans Steininger as directors, effective immediately. Mr. Hubbard is a former NASA Ames Research Center Director and currently consulting professor in Stanford's Department of Aeronautics and Astronautics. Mr. Hubbard's 30 year career in space and aerospace includes 20 years with NASA. In addition to being a member of our Board of Directors, he has been selected to serve on our Audit, Nominating and Corporate Governance, and Government Security committees. Mr. Steininger is Chief Executive Officer of MT Aerospace AG, a globally recognized space structures manufacturing company, and will serve as a non-independent director, due to his beneficial ownership in the OHB Technology AG and MT Aerospace AG investment in us. Mr. Hubbard was appointed to fill the vacancy left by the departure of Dr. Wesley T. Huntress and Mr. Steininger was appointed as part of the terms of our September 14, 2007 Stockholder Agreement with OHB Technology AG and MT Aerospace AG.



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The following are the current Directors and Executive Officers of SpaceDev and their background and ages as of March 31, 2008.

Name	Age	Title
Mark N. Sirangelo	47	Chairman of the Board and Chief Executive Officer
Richard B. Slansky	51	President, Chief Financial Officer, Corporate Secretary and Director
Scott Tibbitts	50	Managing Director and Director
James W. Benson	62	Director
Curt Dean Blake (1)	50	Director
General Howell M. Estes, III (USAF Retired) (1)	66	Director
Scott Hubbard (1)	59	Director
Scott McClendon (1)	68	Director
Hans Steininger	46	Director
Robert S. Walker (1)	65	Director

(1) Denotes Independent, Unaffiliated Director

Mark N. Sirangelo was appointed our Vice Chairman and Chief Executive Officer in December 2005, became our Chairman in 2006 upon the resignation of James W. Benson, and was appointed to our Government Security Committee in 2007. Before SpaceDev, Mr. Sirangelo was the managing member and Chief Executive Officer of The Quanstar Group, LLC from December 2003 until November 2005 and the managing member of QS Advisors, LLC from February 1998 to December 2005. During this tenure, Mr. Sirangelo actively participated in the development of a number of early-stage companies in aerospace, technical, and scientific industries. His work also included hands-on involvement with technology commercialization transfer for university and government laboratories. From 2001 until 2003, Mr. Sirangelo also served as a senior Officer of Natexis Bleichroeder, Inc., an international investment banking firm. Before that, Mr. Sirangelo had 20 years of executive management experience operating aerospace and technology companies. Mr. Sirangelo has a bachelor's degree in science, a master's degree in business, and juris doctorate, all from Seton Hall University. Mr. Sirangelo is a Director for the National Center for Missing and Exploited Children, a Director and Treasurer of the International Center for Missing and Exploited Children, a Director of the California Space Authority, and the Vice Chairman of the Personal Spaceflight Federation.

Richard B. Slansky is currently our President, Chief Financial Officer, Director, and Corporate Secretary. He joined us in February 2003 as Chief Financial Officer and Corporate Secretary. In November 2004, Mr. Slansky 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. From May 2000 to July 2002, 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. 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.

Scott Tibbitts was appointed our Managing Director and a Director on January 31, 2006. Mr. Tibbitts co-founded Starsys Research Corporation in 1988 and has served as President, Chief Executive Officer, and a member of the Board of Directors of Starsys Research Corporation from 1988 until May 2005; and from May 2005 to January 2006 served as Chief Executive Officer and a member of the Board of Directors of Starsys Research Corporation. Mr. Tibbitts has a bachelor's degree in chemical engineering from the University of Wisconsin.

James W. Benson is our founder and served as our Chairman of the Board from October 1997 until September 2006. Mr. Benson also served as our Chief Executive Officer from October 1997 until December 2005, at which time he was succeeded by Mark N. Sirangelo in such position, and became our Chief Technology Officer. In September 2006, Mr. Benson resigned from SpaceDev to found Benson Space Company, but remained a member of our Board or Directors. In 1984, Mr. Benson founded Compusearch Corporation (later renamed Compusearch Software Systems) in McLean, Virginia, which was engaged in the development of software algorithms and applications for personal computers and networked servers to create full text indexes of government procurement regulations and to provide instant full text searches for any word or phrase. In 1989, Mr. Benson started the award-winning ImageFast Software Systems, which later merged with Compusearch. In 1995, Mr. Benson sold Compusearch and ImageFast, and retired at age fifty. Mr. Benson started SpaceDev, Inc., a Nevada corporation, which was acquired by Pegasus Development Corp, a Colorado corporation, in October of 1997. Mr. Benson acquired a controlling ownership in Pegasus and later changed its name to SpaceDev, Inc. Mr. Benson holds a bachelor's 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.

Curt Dean Blake was appointed to our Board of Directors as an independent Director in September 2000. He serves as Chairman of our Audit Committee and is a member of our Compensation Committee. The Board has identified Mr. Blake as an audit committee financial expert under the rules of the Securities and Exchange Commission. In 2003 Mr. Blake formed, and currently remains the Chief Executive Officer 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 has a master's degree and juris doctorate from the University of Washington.

General Howell M. Estes, III (USAF Retired) was appointed to our Board of Directors as an independent Director in April 2001, is Chairman of our Nominating and Corporate Governance Committee and is a member of our Compensation and Government Security Committees. 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 and the United States Space Command, and the Commander of the Air Force Space Command headquartered at Peterson Air Force Base, 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 Harvard's J.F.K. School of Government. Since 1998 General Estes has been the President of Howell Estes & Associates, Inc., a consulting firm to chief executive officers, 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 as a commissioner on the U.S. Congressional Commission to Assess United States National Security Space Management and Organization, also known as the Rumsfeld Commission.

G. Scott Hubbard was appointed to our Board of Directors as an independent Director in November 2007. Mr. Hubbard is also a member of our Audit and Nominating and Corporate Governance Committees. The Board has identified Mr. Hubbard as an audit committee financial expert under the rules of the Securities and Exchange Commission. He is currently a professor at Stanford University School of Engineering, Department of Aeronautics and Astronautics. In 2006 and 2007 he was also a Visiting Scholar at the Stanford University Electrical Engineering Department and Carl Sagan Chair for the Study of Life in the Universe, SETI Institute. From 1987 to 2006 Mr. Hubbard held a variety of positions with NASA Ames Research Center including Director of NASA Ames, Deputy Director for Research, Mars Program Director, Deputy Director of the Space Directorate, Deputy Chief, Space Products, and Chief, Space Instrumentation and Studies. He holds a bachelor's degree in Physics and Astronomy from Vanderbilt University, a doctorate honoris causa from Polytech Universtiy of Madrid, and doctor of arts honoris causa from Cogswell Polytechnic College.

Scott McClendon was appointed to our Board of Directors as an independent Director in July 2002. He is currently Chairman of our Compensation Committee and a member of our Audit Committee. The Board has identified Mr. McClendon as an audit committee financial expert under the rules of the Securities and Exchange Commission. Mr. McClendon is currently acting President as well as Chairman of the Board of Directors for Overland Storage, Inc., a public data storage company. He became the Chairman of the Board after serving as President and Chief Executive Officer from October 1991 to March 2001. In addition to SpaceDev and Overland Storage, Mr. McClendon is currently serving on the Board of Directors of Procera Networks, Inc., a global provider of intelligent network traffic identification, control, and service management infrastructure equipment. Mr. McClendon received a bachelor's degree in electrical engineering, and a master's degree in electrical engineering from Stanford University School of Engineering.

Hans J. Steininger was appointed to our Board of Directors in November 2007. Mr. Steininger was appointed Chief Executive Officer of MT Aerospace AG in June 2007. Mr. Steininger is also a co-investor in MT Aerospace, which in July 2005 emerged in the course of the acquisition of MAN Technology AG by OHB Technology AG/Bremen and Apollo Capital Partners/Munich. From 2005 to May 2007, he acted as Chief Financial Officer of MT Aerospace AG. In 1999, Mr. Steininger founded Apollo Capital Partners, a Munich based private equity firm, of which he remains a managing partner. From 1991 until 1998, he acted in various management positions within BMW Rolls

Royce GmbH and BMW AG. Mr. Steininger earned a master's degree from the Technical University in Munich in Aeronautical Engineering and in Business Administration.

Robert S. Walker was appointed to our Board of Directors as an independent Director in April 2001. He is currently Chairman of our Government Security Committee, and a member of our Nominating and Corporate Governance Committee. Mr. Walker has acted as Chairman of Wexler & Walker Public Policy Associates in Washington, D.C. since January 1997. Mr. Walker was a member of the U.S. House of Representatives from 1977 through 1997, during which time he served as Chairman of the House Science Committee, Vice Chairman of the Budget Committee, and participated in House Republican leadership activities. Mr. Walker was the first sitting member of the U.S. House of Representatives to be awarded NASA's highest honor, the Distinguished Service Medal. Mr. Walker was on the Board of Directors of The Aerospace Corporation, from March 1997 to November 2005. Mr. Walker became Chairman of the Board of the Space Foundation in January 2006.

## Executive Officer Compensation

Total compensation paid to our "named Executive Officers" for the past two fiscal years is set forth below. The named Executive Officers consist of each person who was our principal Executive Officer at any time in 2007 and our two most highly compensated Executive Officers other than the principal Executive Officer(s) who were serving as Executive Officers on December 31, 2007.

Name and Year principal position	Summary Compensation Table				
	Salary (\$)	Bonus (\$)	All other compensation (\$)		Total
Mark N. Sirangelo Chief Executive Officer	2007	313,962	-	-	\$ 313,962
Richard B. Slansky President and Chief Financial Officer	2006	292,730	25,000	60,000	(1) 377,729
Scott Tibbitts Managing Director	2007	221,815	-	1,431	(2) 223,244
	2006	195,877	25,000	101,458	(2),(3) 322,335
	2007	150,000	-	101,475	(2),(4) 251,475
	2006	143,360	-	100,214	(2),(4) 243,573

(1) Compensation received for living expenses over the initial term of his employment agreement.

(2) Company contributions to the individual's 401(k) plan were \$1,431 and \$1,458 for Mr. Slansky in 2007 and 2006, respectively; \$1,475 and \$2,703 for Mr. Tibbitts in 2007 and 2006, respectively

(3) Commissions paid in the amount of \$100,000 on the sale of common and preferred stock under a previous employment agreement.

(4) Payments made under a non-compete agreement entered into upon the acquisition of Starsys in January 2006 of \$100,000 and \$97,511 in 2007 and 2006, respectively.

## Outstanding Equity Awards at Fiscal Year-End

The following table reflects information for our Executive Officers named in the Summary Compensation Table, effective December 31, 2007:

Name	Number of securities underlying unexercised options exercisable (#)	Number of securities underlying unexercised options unexercisable (#)	Equity incentive plan award: number of securities underlying unexercised unearned options (#)	Option exercise price(\$)	Option expiration date
Mark N. Sirangelo	1,900,000	-	-	\$ 1.40	12/20/2010
Richard B. Slansky	1,400,000	-	-	1.40	12/20/2010
	330,000	-	-	0.51	2/10/2009

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	395,000	-	-	0.92	3/25/2010
Scott Tibbitts	-	-	-	-	-
Director Compensation					

The following table sets forth the remuneration paid to our Directors during the fiscal year ended December 31, 2007. We issued options for director compensation at the end of 2007 for services under our new director compensation arrangement which was implemented in 2007. The new director compensation arrangement does pay our independent Directors additional compensation for their service as Directors.



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Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Nonqualified Deferred Compensation Earnings (\$)	All other Compensation (\$)	Total (\$)
Mark N. Sirangelo	-	-	-	-	-	-	-
Richard B. Slansky	-	-	-	-	-	-	-
James W. Benson	1,500	-	-	-	-	-	1,500
Scott Tibbitts	-	-	-	-	-	-	-
Curt Dean Blake	6,750	-	4,380	-	-	-	11,130
General Howell M. Estes, III	3,750	-	4,380	-	-	-	8,130
Wesley T. Huntress	3,750	-	4,380	-	-	-	8,130
Scott McClendon	7,500	-	4,380	-	-	-	11,880
Robert S. Walker	2,250	-	4,380	-	-	-	6,630
Scott Hubbard	1,500	-	20,872	-	-	-	22,372
Hans Steininger	-	-	-	-	-	-	-

Our independent Directors received options on 10,000 shares of our common stock for attending 2007 meetings of the Board. Our independent Directors also received cash compensation for attending regularly scheduled Board meetings of \$1,500 for in-person attendance and \$750 for telephone attendance. Each independent Director also received \$750 for their participation in each regularly scheduled committee meeting. In addition to the above, independent Directors received options for 5,000 shares on the date of election or appointment in 2006 and 50,000 shares on the date of election or appointment in 2007. The 2007 options granted to Board Members for the above mentioned services were issued pursuant to the 2004 Equity Incentive Plan at fair market value as of the date of grant, (i.e., the last business day of the year), vest over three years in six semi-annual installments, and expire on the four-year anniversary of the grant date.

#### Employment Agreements and Termination of Employment Arrangements and Change of Control Agreements

In January 2006, we entered into a three year executive employment agreement with Scott Tibbitts, pursuant to which Mr. Tibbitts is employed as our Managing Director. Under the agreement, Mr. Tibbitts earns an annual base salary of \$150,000 and is eligible for quarterly performance bonuses, as determined by our Board of Directors or Compensation Committee, up to an annual aggregate amount of 50% of his base salary. Bonus milestones will be mutually agreed upon in good faith by Mr. Tibbitts and by our Board of Directors or Compensation Committee. We will pay severance to Mr. Tibbitts if his employment is terminated by us without cause or by Mr. Tibbitts for good reason. The severance payment is equal to: (1) if Mr. Tibbitts' employment is terminated by us without cause, his then-current base salary per month multiplied by the number of months remaining in the term of the agreement (prorated with respect to any partial month); or, (2) if Mr. Tibbitts' employment is terminated by Mr. Tibbitts for good reason, his then-current base salary per month multiplied by the lesser of twelve months and the number of months remaining in the term of the agreement. Under the agreement, we will indemnify Mr. Tibbitts to the extent provided in our articles of

incorporation, as may be amended from time to time, and pursuant to our standard indemnification agreement with our Officers and Directors, provided that we will have no obligation to indemnify or defend Mr. Tibbitts for any action, suit or other proceeding to the extent based on acts, omissions, events, or circumstances occurring prior to the Starsys merger.

On December 20, 2005, we entered into an executive employment agreement with Mark N. Sirangelo pursuant to which Mr. Sirangelo was employed as our Chief Executive Officer and Vice Chairman. The agreement had an initial term of two years, and was automatically renewed for a third year, since neither we nor Mr. Sirangelo provided written notice of intent not to renew. Under the agreement, Mr. Sirangelo is entitled to receive; (1) a base salary of \$22,500 per month, subject to adjustment up to \$27,500 per month upon the happening of certain events or by the sixteenth month of service; (2) performance-based cash bonuses based on the achievement of specific goals set forth in the agreement (including a bonus of \$25,000 upon the completion of the merger with Starsys); and (3) a fully-vested option to purchase up to 1,900,000 shares of our common stock under the terms and conditions of a non-plan stock option agreement between Mr. Sirangelo and us. The option has an exercise price equal to \$1.40 per share, which was the closing sale price reported on the OTCBB on the date of grant, and will expire five years after the date of grant. Some of the shares subject to the option are subject to sale restrictions that expire upon the achievement of certain specific milestones or four years from the date of grant, whichever comes first. Subject to certain limitations, the option may be exercised by means of a net exercise provision by surrendering shares with a fair market value equal to the exercise price upon exercise. We will pay severance to Mr. Sirangelo if his employment is terminated by us without cause or by Mr. Sirangelo for good reason. The severance payment is equal to: (1) if Mr. Sirangelo's employment is terminated by us without cause, his then-current base salary per month multiplied by the greater of (A) 12 months or (B) the number of months remaining in the term of the agreement (prorated with respect to any partial month); or (2) if Mr. Sirangelo's employment is terminated by Mr. Sirangelo for good reason, his then-current base salary per month multiplied by the lesser of (A) 12 months or (B) the number of months remaining in the term of the agreement provided that such number of months will not be deemed to be less than six months.

On December 20, 2005, we entered into an amended and restated executive employment agreement with Richard B. Slansky pursuant to which Mr. Slansky is employed as our President and Chief Financial Officer. The agreement supersedes in full the employment agreement dated February 10, 2003 between Mr. Slansky and us. The agreement had an initial term of two years, and was automatically renewed for a third year, since neither we nor Mr. Slansky provided written notice of intent not to renew. Under the agreement, Mr. Slansky is entitled to receive: (1) a base salary of \$14,500 per month, subject to adjustment up to \$20,000 per month upon the happening of certain events or by the sixteenth month of service; (2) performance-based cash bonuses based on the achievement of specific goals set forth in the agreement (including a bonus of \$25,000 upon the completion of the merger with Starsys); and (3) a fully-vested option to purchase up to 1,400,000 shares of our common stock under the terms and conditions of a non-plan stock option agreement between Mr. Slansky and us. The option has an exercise price equal to \$1.40 per share, which was the closing sale price reported on the OTCBB on the date of grant, and will expire five years after the date of grant. Some of the shares subject to the options are subject to sale restrictions that expire upon the achievement of certain specific milestones or four years from the date of grant, whichever comes first. Subject to certain limitations, the option may be exercised by means of a net exercise provision by surrendering shares with a fair market value equal to the exercise price upon exercise. We will pay severance to Mr. Slansky if his employment is terminated by us without cause or by Mr. Slansky for good reason. The severance payment is equal to: (1) if Mr. Slansky's employment is terminated by us without cause, his then-current base salary per month multiplied by the greater of (A) 12 months or (B) the number of months remaining in the term of the agreement (prorated with respect to any partial month); or (2) if Mr. Slansky's employment is terminated by Mr. Slansky for good reason, his then-current base salary per month multiplied by the lesser of (A) 12 months or (B) the number of months remaining in the term of the agreement provided that such number of months will not be deemed to be less than six months.

#### Employee Benefits

In 1999, we adopted a stock option plan under which our Board of Directors had the ability to grant its 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 provided for preferential tax treatment, were only available to employees, including Officers and affiliates, and were not issued to non-employee Directors. The exercise price of the Incentive Stock Options is 100% of the fair market value of the stock on the date the options are granted. Pursuant to the plan, the exercise price for the non-statutory stock options was to be not less than 95% of the fair market value of the stock on the date the option was granted.

In 2000, we amended the 1999 Stock Option Plan, increasing the number of shares eligible for issuance under the Plan to 30% of the then outstanding common stock to 4,184,698 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 has not made any such adjustment since.

In 2004, we adopted the 2004 Equity Incentive Plan authorizing options on 2,000,000 shares. It was first amended in August 2005 increasing the authorized options under the plan by 2,000,000 for a total of 4,000,000 shares and was further amended on January 31, 2006 increasing the authorized options by 3,000,000 for a total of 7,000,000 under the plan. As of December 31, 2007, 11,184,698 shares were authorized for issuance under both the 1999 and 2004 plans, 7,358,726 of which were subject to outstanding options and awards and 1,610,199 of which have been exercised for our common stock.

We also offer a variety of health, dental, vision, 401(k) and life insurance benefits to our employees.

#### Certain Relationships And Related Transactions

James W. Benson, our former chief technology officer and former Chairman of the Board of Directors, has personally guaranteed the building lease on our Poway, California headquarters facility and has placed his home in Poway as

collateral.

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## Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table provides information as of March 31, 2008 concerning the beneficial ownership of our common stock, which is our only class or series of voting securities, by: (i) each Director; (ii) each named Executive Officer; (iii) each stockholder known by us to be the beneficial owner of more than 5% of our outstanding Common Stock; and (iv) the Directors and Executive 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.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership(1)	Percent of Ownership
Mark N. Sirangelo	2,142,500 (2)	4.82%
Richard B. Slansky	2,237,886 (3)	5.01%
Susan C. Benson	5,459,407 (4)	12.69%
James W. Benson	4,216,407 (5)	9.80%
Scott F. Tibbitts	1,449,194	3.41%
Curt Dean Blake	172,490 (6)	0.40%
Scott McClendon	174,460 (7)	0.41%
General Howell M. Estes, III	157,167 (8)	0.37%
Robert S. Walker	101,546 (9)	0.24%
Scott Hubbard	-	0.00%
Hans Steininger	5,979,846 (10)	14.07%
OHB Technology AG	7,973,129 (11)	18.76%
Loeb Partners Corporation	4,792,300 (12)	11.27%
Laurus Master Fund, Ltd.	4,274,212 (13)	9.99%
Executive Officers and Directors as a group (10 Persons)	16,631,496 (14)	34.67%

The business address for each of these persons is 13855 Stowe Drive, Poway, CA 92064, with the exception of Susan Benson, whose address is 13592 Ranch Creek Lane, Poway, CA 92064, OHB Technology AG, whose address is Karl-Ferdinand-Braun Str. 8, D-28359 Bremen/Germany, Laurus Master Fund, whose address is 335 Madison Avenue, 10th Floor, New York, NY 10017, and Loeb Partners Corporation, whose address is 61 Broadway, New York, NY 10006.

- (1) Where persons listed on this table have the right to obtain additional shares of our common stock through the exercise of outstanding options or warrants or the conversion of convertible securities within 60 days from March 31, 2008, 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 42,505,656 on March 31, 2008.
- (2) Represents 242,500 shares in which he has indirect ownership interest, these shares are held by The Quanstar Group LLC. Mr. Sirangelo also holds vested options to purchase up to an aggregate of 1,900,000 shares.
  - (3) Includes vested options to purchase up to an aggregate of 2,125,000 shares.
- (4) Represents 2,967,700 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 Ms. Benson, plus beneficial ownership in 1,702,294 shares held jointly with James W. Benson, as to which she shares voting and investing power with Mr. Benson, indirect beneficial ownership interest in 289,413 shares held in Space Development Institute (where Ms. Benson is a member of the Board of Directors along with James W. Benson), as to which she shares voting and investing power with Mr. Benson, and beneficial ownership in vested options issued in the name of James W. Benson on 500,000 shares (which may constitute as community property with James W. Benson). Excludes approximately 1.8 million shares held by children of Ms. Benson, for which Ms. Benson disclaims beneficial ownership.

- (5) Represents 1,724,700 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 1,702,294 shares held jointly with Susan C. Benson, as to which he shares voting and investing power with Ms. Benson, indirect beneficial ownership interest in 289,413 shares held in Space Development Institute (where Mr. Benson is a member of the Board of Directors along with Susan C. Benson), as to which he shares voting and investing power with Ms. Benson, and beneficial ownership in vested options to purchase up to an aggregate of 500,000 shares (which may constitute as community property with Susan C. Benson). Excludes approximately 1.8 million shares held by children of Mr. Benson, for which Mr. Benson disclaims beneficial ownership.
- (6) Includes vested options to purchase up to an aggregate of 92,000 common shares.
- (7) Includes vested options to purchase up to an aggregate of 149,000 common shares.
- (8) Includes vested options to purchase up to an aggregate of 90,500 common shares.
- (9) Includes vested options to purchase up to an aggregate of 70,500 common shares.
- (10) Hans Steininger is the Chief Executive Officer of MT Aerospace AG and is listed as beneficial owner of the shares owned by it.
- (11) Includes 5,979,846 shares held by their subsidiary MT Aerospace AG.
- (12) Includes 3,750,000 shares that Loeb purchased from the Company in November 2007, 500,000 shares purchased in a private transaction with Mr. Benson in February 2008, as well as 542,300 shares purchased on the open market. The following table details the holdings of Loeb and its affiliates:

	Total
Loeb Arbitrage Fund	1,563,429
Loeb Partners Corporation	221,583
Loeb Offshore Fund Ltd.	356,363
Loeb Arbitrage B Fund LP	506,822
Loeb Offshore B Fund Ltd.	158,803
Loeb Marathon Fund, LP	1,190,332
Loeb Marathon Offshore Fund, Ltd.	794,968
Total	4,792,300

- (13) Includes 5,459,705 shares underlying vested warrants and Series C and Series D-1 Convertible Preferred shares, adjusted down by approximately 4,930,000 to maintain the 9.99% blocker on the beneficial ownership mandated in the Series D-1 preferred stock agreement as well as the 4.99% blocker on the beneficial ownership mandated in the Series C preferred stock agreement.
- (14) Executive Officers and Directors as a group include our ten Board members, three of whom are also Executive Officers.

Description of Securities

The descriptions in this section and in other sections of this prospectus of our securities and various provisions of our certificate of incorporation and our bylaws are limited solely to descriptions of the material terms of our securities within the, certificate of incorporation and bylaws. Our certificate of incorporation and bylaws have been incorporated by reference as exhibits to the registration statement of which this prospectus forms a part. Our authorized capital stock consists of 100,000,000 shares of common stock, par value \$0.0001 per share, and 10,000,000 shares of preferred stock, par value \$0.001 per share. As of March 31, 2008, 42,505,656 shares of our common stock were issued and outstanding. This excludes an aggregate of approximately 19.3 million shares of common stock reserved for issuance upon exercise of stock options and warrants and upon the conversion of preferred stock.

#### Common Stock

Each outstanding share of common stock is entitled to one vote. The holders of our common stock do not have cumulative voting rights, which means that the holders of more than 50% of such outstanding shares voting for the election of directors can elect all of our directors, if they so choose.

Holders of common stock are not entitled to any preemptive rights. Holders of common stock are entitled to receive such dividends as may be declared by the directors out of funds legally available therefore and to share pro rata in any distributions to holders of common stock upon liquidation or otherwise. However, we have not paid cash dividends on our common stock, and do not expect to pay such dividends in the foreseeable future. No dividends may be paid on common stock unless all dividends due on our outstanding Series C Preferred Stock (described below) have been paid. The terms of our Series D-1 Preferred Stock (described below) prohibit us from paying cash dividends on our common shares.

The Board of Directors may issue additional shares of Common Stock without the consent of the holders of Common Stock.



#### Transfer Agent and Registrar

Our transfer agent and registrar for the common stock is Continental Stock Transfer and Trust, 17 Battery Place, 8th Floor, New York, NY 10004. Continental Stock Transfer can be contacted via telephone at (212) 845-3215.

#### Series C Preferred Stock

On August 25, 2004, we issued 250,000 shares of its Series C Non-Redeemable Convertible Preferred Stock, par value \$0.001 per share (the "Series C Preferred Stock"), to Laurus for an aggregate purchase price of \$2.5 million or \$10.00 per share (the "Stated Value"). The Series C Preferred Stock was originally convertible into shares of the Company's common stock at a rate of \$1.54 per share. On September 21, 2007, we adjusted the fixed conversion price from \$1.54 to \$0.62 per share due to a common stock financing with OHB Technology AG and MT Aerospace AG. SpaceDev had not previously re-priced the Series C Preferred Stock when the Series D-1 Preferred Stock was issued and the June 2007 warrant offer to preferred stockholders was made due to Laurus' participation in those transactions. SpaceDev has received verbal and written waivers from Laurus on these previous transactions.

SpaceDev accrues quarterly, cumulative dividends on the Series C Preferred Stock at a rate of 6.85% per annum. As of December 31, 2007 and 2006, we declared dividends payable of approximately \$170,000 for each twelve month period to the holders of its Series C Preferred Stock. These dividends are payable in cash or shares of common stock at the holder's option with the exception that dividends may be paid in shares of common stock for up to 25% of the aggregate dollar trading volume if the fair market value of the Company's common stock for the 20-days preceding the conversion date exceeds 120% of the conversion rate. Accrued dividends were paid in cash during 2007 and 2006. On December 31, 2007, accrued but unpaid dividends were approximately \$43,000; these accrued dividends were paid in cash in January 2008.

The Series C Preferred Stock is redeemable by SpaceDev in whole or in part at any time after issuance for (a) 115% of the Stated Value if the average closing price of the common stock for the 22 days immediately preceding the date of redemption does not exceed \$0.62 per share (adjusted in September 2007 related to the sale of common stock to OHB Technology AG and MT Aerospace AG) or (b) the Stated Value if the average closing price of the common stock for the 22 days immediately preceding the date of redemption exceeds \$0.62 per share (adjusted in September 2007 related to the sale of common stock to OHB Technology AG and MT Aerospace AG). The Series C Preferred Shares have a liquidation right equal to the Stated Value upon the Company's dissolution, liquidation or winding-up. The Series C Preferred Shares have no voting rights, except as required by law.

In conjunction with the Series C Preferred Shares, we issued a five-year common stock warrant to Laurus for the purchase of 487,000 shares of the Company's common stock at an exercise price of \$1.77 per share. This warrant, which is one of the Specific Warrants, was transferred on March 7, 2008 by Laurus to PSource Structured Debt Limited, together with certain other warrants.

#### Series D-1 Preferred Stock

On January 12, 2006, SpaceDev entered into a Securities Purchase Agreement with a limited number of institutional accredited investors, including Tail Wind Capital, Bristol Capital Management, Nite Capital, Laurus and Omicron Capital, (which has since transferred its preferred shares to Portside Growth & Opportunity Fund and Rockmore Investment Master Fund). On January 13, 2006, we issued and sold to these investors 5,150 shares of Series D-1 Amortizing Convertible Perpetual Preferred Stock, par value \$0.001 per share, for an aggregate purchase price of \$5.15 million, or \$1,000 per share. As of December 31, 2007, approximately 3,199 shares of Series D-1 Preferred Stock remain outstanding and approximately 1,951 shares of Series D-1 Preferred Stock had been repurchased through voluntary amortization, converted to the Company's common stock or redeemed by investor request at a discount. In total, 75 shares of Series D-1 Preferred Stock were converted into 50,676 shares of the Company's common stock, 1,709 shares of Series D-1 Preferred Stock have been repaid through voluntary amortization, as

provided for in the Agreement, and 167 shares of Series D-1 Preferred Stock have been repurchased through an investor request at a 15% discount. We also issued various warrants to these investors as described below. SpaceDev paid cash fees and expenses of approximately \$119,000 to a finder for the introduction of potential investors in this financing, and paid \$60,000 to the lead investor's counsel for legal expenses incurred in the transaction. The preferred shares are convertible into shares of the Company's common stock at a rate of \$1.48 per share and accrue quarterly, cumulative dividends at a rate of LIBOR plus 4% on the first day of the applicable quarter. As of December 31, 2007, we had accrued Series D-1 dividends of approximately \$76,000, which were paid in January 2008.

Certain warrants we issued to the Series D-1 investors at the closing entitled the investors to purchase up to an aggregate of 1,135,138 shares of the Company's common stock at an exercise price of \$1.51 per share. On May 31, 2007, we offered to the holders of these warrants the opportunity to exercise the warrants at a specially reduced price to be calculated as 80% times the volume weighted average price (VWAP) of its common stock for the 20 trading days preceding the warrant holder's acceptance of the offer. Although this written offer expired by its terms on June 15, 2007, SpaceDev orally extended the offer to June 29, 2007 and Laurus accepted, exercising 500,000 of its 639,203 warrants of this series for \$290,000 cash. The VWAP for the 20 trading days preceding June 29, 2007 was \$0.725 per share making the strike price of the common stock warrant \$0.58 which is 80% of the \$0.725. Due to a ratchet anti-dilution provision in the warrants of this series, the exercise price of the remaining 635,138 warrants in the series (which includes 139,203 warrants then owned by Laurus which Laurus has since assigned to PSource Structured Debt Limited together with certain other warrants) was reduced to \$0.58 per share as a result of this transaction, and otherwise the remaining warrants remain in full force and effect in accordance with their original terms. The warrants are exercisable for five years following the date of grant. The warrants feature a net exercise provision, which enables the holder to choose to exercise the warrant without paying cash. However, this right is available only if a registration statement or prospectus covering the shares subject to the warrant is not available. The warrants will continue to have the anti-dilution provisions reducing the warrant exercise price, if SpaceDev issues equity securities (other than in specified exempt transactions) at an effective price below the warrant exercise price, to such lower exercise price. SpaceDev refers to these warrants as the common stock warrants.

The purchase agreement contains a number of covenants by SpaceDev, which includes an agreement not to effect any transaction involving the issuance of securities convertible, exercisable or exchangeable for the Company's common stock at a price or rate per share which floats (i.e., which may change over time), without the consent of a majority of the Series D-1 preferred stockholders, so long as any shares of Series D-1 Preferred Stock are outstanding, subject to certain conditions.

In connection with the Series D-1 Preferred Stock financing, Laurus consented to and waived certain contractual rights. The Company paid Laurus Capital Management, L.L.C., and the manager of Laurus Master Fund, an amount of \$87,000 in connection with Laurus' delivery of the consent and waiver, and paid \$1,000 to Laurus' counsel for their related fees.

#### "Blank Check" Preferred Stock

The term "blank check" refers to preferred stock, the creation and issuance of which is authorized in advance by the stockholders and the terms, rights and features of the series of which are determined by our board of directors from time to time. The authorization of this blank check preferred stock permits our board of directors to authorize and issue preferred stock from time to time in one or more series. Subject to our certificate of incorporation, and the limitations prescribed by law or any stock exchange or national securities association trading system on which our securities may then be listed, the board of directors is expressly authorized, at its discretion, to adopt resolutions to issue shares, to fix the number of shares and to change the number of shares constituting any series and to provide for or change the voting powers, designations, preferences, and relative, participating, optional or other special rights, qualifications, limitations or restrictions thereof, in each case without any further action or vote by the stockholders. Our board of directors is required to make any determination to issue shares of preferred stock based on its judgment as to the best interests of our company and its stockholders.

## Existing Anti-Takeover Mechanisms

Our certificate of incorporation and bylaws contain provisions that may make it less likely that our management would be changed, or someone would acquire voting control of us, without the consent of our board of directors. These provisions include:

- Shares of our authorized but unissued "blank check" preferred stock (as well as shares of our authorized but unissued common stock) could be issued in an effort to dilute the stock ownership and voting power of persons seeking to obtain control of our company, or could be issued to purchasers who would support our board of directors in opposing an unsolicited takeover proposal;
- The occurrence of a change of control transaction affecting us would be a triggering event under the Series D-1 provisions of the Certificate of Incorporation requiring us to redeem shares of Series D-1 Preferred Stock at a premium to stated value; and
- Our board of directors may increase the number of directors and may fill the vacancies created by such action.

Other than as described above, there are no anti-takeover mechanisms present in our governing documents or otherwise.

## Legal Matters

Legal matters in connection with the validity of the shares of common stock offered hereby were passed upon for us by Heller Ehrman LLP.

## Experts

The audited financial statements of us and of SpaceDev, Inc., our Colorado predecessor, in this prospectus have been audited by PKF, Certified Public Accountants, a Professional Corporation, an independent registered public accounting firm, to the extent and for the periods set forth in their report included herein, and are included herein in reliance upon such reports given upon the authority of said firm as experts in auditing and accounting.

## Where You Can Find More Information

We have filed with the SEC a Form SB-2 registration statement (now amended as a Form S-1 registration statement) under the Securities Act with respect to the common stock offered by this prospectus. This prospectus, which constitutes part of the registration statement, does not contain all of the information set forth in the registration statement and its exhibits and schedules, certain parts of which are omitted in accordance with the rules and regulations of the SEC. For further information regarding our common stock and our company, please review the registration statement, including exhibits, schedules and reports filed as a part of the registration statement. Statements in this prospectus about the contents of any contract or other document filed as an exhibit to the registration statement, set forth the material terms of contracts or other documents but are not necessarily complete. The registration statement, including the exhibits and schedules, may be inspected without charge at the principal office of the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. Copies of this material can also be obtained at prescribed rates by writing to the Public Reference Section of the SEC at its principal office at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the public reference

facilities by calling the SEC at 1-800-SEC-0330. The SEC maintains a Web site (<http://www.sec.gov>) that contains reports, proxy statements and other information regarding registrants that file electronically with the SEC, including SpaceDev. Additional information about SpaceDev can be obtained from our Internet website at <http://www.spacedev.com>. The content of this website does not constitute part of this prospectus.

CONSOLIDATED FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders  
SpaceDev, Inc.

We have audited the accompanying consolidated balance sheets of SpaceDev, Inc. and Subsidiaries as of December 31, 2007 and 2006 (Restated), and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal controls over financial reporting. Our audits included consideration of internal controls over financial reporting as a basis for designing audit procedures that are appropriate in the circumstance, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SpaceDev, Inc. and Subsidiaries as of December 31, 2007 and 2006 (Restated), and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123(R), Shared-Based Payment, as of January 1, 2006.

/s/ PKF  
San Diego, California  
March 25, 2008  
A Professional Corporation

PKF  
Certified Public Accountants

SpaceDev, Inc.  
and Subsidiaries  
Consolidated Balance Sheets

	2007	2006 (Restated)
December 31,		
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Notes 1(o) and 9(a))	\$ 6,521,003	\$ 1,438,146
Accounts receivable, net (Notes 1(d) and 9(b))	6,433,285	7,289,720
Inventory (Note 1(q))	1,006,229	309,205
Other current assets (Note 1(n))	702,120	599,565
<b>Total Current Assets</b>	<b>14,662,637</b>	<b>9,636,636</b>
Fixed Assets - Net (Notes 1(f) and 2)	4,420,020	3,793,365
Intangible Assets (Note 3)	746,392	841,133
Goodwill (Note 3)	11,233,665	11,233,665
Other Assets (Note 1(n))	1,045,272	626,086
<b>Total Assets</b>	<b>\$ 32,107,986</b>	<b>\$ 26,130,885</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 1,491,116	\$ 1,755,985
Current portion of notes payable (Note 4(a))	86,385	-
Current portion of capitalized lease obligations (Note 8(a))	76,500	35,441
Accrued payroll, vacation and related taxes	1,424,462	1,184,457
Billings in excess of costs and deferred revenue (Note 1(r))	2,463,366	2,816,072
Revolving line of credit (Note 4(b))	-	805,172
Other accrued liabilities (Note 1(e) and 8(b))	1,632,768	1,602,561
	<b>7,174,597</b>	<b>8,199,688</b>



Total Current Liabilities		
Notes Payable, Less Current Maturities (Note 4(a))	91,822	50,193
Capitalized Lease Obligations, Less Current Maturities (Note 8(a))	251,799	136,709
Deferred Gain (Note 8(c))	596,133	713,405
Other Long Term Liabilities - Deferred Rent	643,168	160,782
Total Liabilities	8,757,519	9,260,777
Commitments and Contingencies (Note 8)		
Stockholders' Equity (Note 7)		
Convertible preferred stock, \$.001 par value, 10,000,000 shares authorized, and 251,659 and 252,963 shares issued and outstanding, respectively		
Series C convertible preferred stock (Note 7(a))	248	248
Series D-1 convertible preferred stock (Note 7(b))	3	4
Common stock, \$.0001 par value; 100,000,000 shares authorized, and 42,306,871 and 29,550,342 shares issued and outstanding, respectively (Note 7(c))	4,231	2,954
Additional paid-in capital	40,441,249	33,150,566
Accumulated deficit	(17,095,264)	(16,283,664)
Total Stockholders' Equity	23,350,467	16,870,108
	\$ 32,107,986	\$ 26,130,885

Total Liabilities and  
Stockholders' Equity

The accompanying notes are an integral part of these consolidated financial statements.

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# SpaceDev, Inc.

and Subsidiaries

Consolidated Statements of Operations

Years Ended

December 31,	2007	%	2006	%
			(Restated)	
Net Sales (Note 1(e))	\$ 34,697,613	100.0%	\$ 32,555,570	100.0%
Cost of Sales*	25,897,718	74.6%	25,720,581	79.0%
Gross Margin	8,799,895	25.4%	6,834,989	21.0%
Operating Expenses				
Marketing and sales	3,304,137	9.5%	2,196,838	6.7%
Research and development (Note 1(g))	300,159	0.9%	284,346	0.9%
General and administrative	5,079,403	14.6%	5,328,023	16.4%
Total Operating Expenses*	8,683,699	25.0%	7,809,207	24.0%
Income/(Loss) from Operations	116,196	0.3%	(974,218)	-3.0%
Non-Operating Income/(Expense)				
Interest and other income	81,156	0.2%	83,362	0.3%
Interest expense	(207,516)	-0.6%	(65,713)	-0.2%
Gain on building sale (Note 8(c))	117,272	0.3%	117,274	0.4%
Loan fee (Note 4(b))	(389,479)	-1.1%	(114,600)	-0.4%
Total Non-Operating Income/(Expense)	(398,567)	-1.1%	20,323	0.1%
Loss Before Income Taxes	(282,371)	-0.8%	(953,895)	-2.9%
Income tax (benefit) provision (Notes 1(h) and 5)	(9,809)	0.0%	19,290	0.1%
Net Loss	\$ (272,562)	-0.8%	\$ (973,185)	-3.0%
Net Loss	(272,562)		(973,185)	
Less: Preferred dividend payments	(539,038)		(610,287)	
Net Loss Available to Common Stockholders	(811,600)		(1,583,472)	

Net Loss Per Share: (Note 1(j))	\$ (0.03)	\$ (0.06)
Weighted-Average shares outstanding	32,290,096	28,666,059
Fully Diluted Net Loss Per Share:	\$ (0.03)	\$ (0.06)
Weighted-Average shares used in calculation	32,290,096	28,666,059

\* The following table shows how the Company's stock option expense would be allocated to all expenses.

Cost of sales	\$ 218,028	\$ 24,339
Marketing and sales	74,284	4,840
Research and development	-	-
General and administrative	115,782	104,200
	\$ 408,094	\$ 133,379

The accompanying notes are an integral part of these consolidated financial statements.

# SpaceDev, Inc. and Subsidiaries

## Consolidated Statements of Stockholders' Equity

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount			
Balance at January 1, 2006 as originally presented	248,460	\$ 248	24,606,275	\$ 2,460	\$ 22,541,994	\$ (14,575,489)	\$ 7,969,213
Prior period adjustment (Note 1(s))	-	-	-	-	-	(124,703)	(124,703)
Balance at January 1, 2006, Restated	248,460	\$ 248	24,606,275	\$ 2,460	\$ 22,541,994	\$ (14,700,192)	\$ 7,844,510
Preferred stock issued for cash (Note 7(a) and 7(b))	5,150	5	-	-	3,587,984	-	3,587,989
Common stock issued for acquisition and acquisition costs (Note 3)	-	-	4,046,756	406	5,943,641	-	5,944,047
Common stock issued for cash from employee stock purchase plan (Note 6(b))	-	-	104,845	10	133,256	-	133,266
Common stock issued from conversion of preferred stock (Note 7(a) and 7(b))	(647)	(1)	50,676	5	74,995	-	74,999
Common stock issued	-	-	230,281	21	173,193	-	173,214

from employee stock options (Notes 6(b) and 7(e))								
Common stock issued for services (Note 7(c))	-	-	1,500	1	2,175	-	2,176	
Common stock issued from warrants (Note 7(d))	-	-	200,000	20	209,980	-	210,000	
Common stock issued under revolving credit facility (Note 4(b))	-	-	310,009	31	349,969	-	350,000	
Common stock issued from conversion of declared dividends (Note 7(a) and 7(b))	-	-	-	-	-	-	-	
Stock option expense under SFAS 123(R) (Notes 6(b) and 7(e))	-	-	-	-	133,379	-	133,379	
Declared dividends	-	-	-	-	-	(610,287)	(610,287)	
Net Loss (Restated)	-	-	-	-	-	(973,185)	(973,185)	
Balance at December 31, 2006	252,963	252	29,550,342	2,954	33,150,566	(16,283,664)	16,870,108	
Common stock issued for cash (Note 7(c))	-	-	11,723,129	1,174	7,525,550	-	7,526,724	
Common stock issued for cash from employee stock purchase	-	-	126,351	13	92,564	-	92,577	

plan (Note 6(b) and 7(c))							
Repurchase of preferred stock (Note 7(a) and 7(b))	(1,304)	(1)	22,914	2	(1,263,893)	-	(1,263,892)
Common stock issued from employee stock options (Notes 6(b) and 7(e))	-	-	100,849	10	38,446	-	38,456
Common stock issued from warrants (Note 7(d))	-	-	500,000	50	289,950	-	290,000
Common stock issued under revolving credit facility (Note 4(b))	-	-	283,286	28	199,972	-	200,000
Stock option expense under SFAS 123(R) (Notes 6(b) and 7(e))	-	-	-	-	408,094	-	408,094
Declared dividends	-	-	-	-	-	(539,038)	(539,038)
Net Loss	-	-	-	-	-	(272,562)	(272,562)
Balance at December 31, 2007	251,659	\$ 251	42,306,871	\$ 4,231	\$ 40,441,249	\$ (17,095,264)	\$ 23,350,467

The accompanying notes are an integral part of these consolidated financial statements.

## SpaceDev, Inc. and Subsidiaries

### Consolidated Statements of Cash Flows

Years Ended December 31,	2007	2006 (Restated)
<b>Cash Flows From Operating Activities</b>		
Net loss	\$ (272,562)	\$ (973,185)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,234,261	982,860
Gain on disposal of building sale	(117,272)	(117,274)
Changes in reserves	181,403	-
Stock option expense	408,094	133,379
Loss on disposal of assets	11,081	-
Non-cash loan fee	369,704	114,600
Accrued liabilities	32,655	-
Common stock issued for compensation and services	-	2,175
Deferred rent	160,305	20,813
Change in operating assets and liabilities:		
Accounts receivable	856,436	(783,250)
Inventory	(852,024)	(58,136)
Other assets	1,514	979,059
Accounts payable and accrued expenses	(24,864)	(1,162,717)
Billings in excess of costs incurred and deferred revenue	(352,706)	1,292,145
Other accrued liabilities	25,153	(1,808,087)
Net cash provided by (used in) operating activities	1,661,178	(1,377,618)
<b>Cash Flows From Investing Activities</b>		
Acquisition costs, net of cash	-	(1,408,134)
Issuance of letter credit	(535,669)	
Tenant improvements reimbursement	374,830	
Purchases of fixed assets	(1,557,137)	(1,389,293)
Net cash used in investing activities	(1,717,976)	(2,797,427)
<b>Cash Flows From Financing Activities</b>		
Principal payments on notes payable	(97,052)	(4,675,832)



Principal payments on capitalized lease obligations	(33,449)	(35,749)
(Payments) proceeds from revolving credit facility	(805,172)	805,172
Employee stock purchase plan	(38,456)	133,266
Dividend payments on Series C and Series D-1 preferred	(570,081)	(610,287)
Other assets, capitalized preferred stock issuance costs	-	(175,000)
(Repurchase)/Issuance of preferred stock	(1,263,894)	4,038,361
Net proceeds from issuance of common stock	7,947,759	383,222
Net cash provided by (used in) financing activities	5,139,655	(136,847)
Net Increase/(Decrease) in Cash and Cash Equivalents	5,082,857	(4,311,892)
Cash and Cash Equivalents at Beginning of Year	1,438,146	5,750,038
Cash and Cash Equivalents at End of Year	\$ 6,521,003	\$ 1,438,146

The accompanying notes are an integral part of these consolidated financial statements.

## SpaceDev, Inc. and Subsidiaries

### Consolidated Statements of Cash Flows

Years Ended	2007	2006
December		(Restated)
31,		

#### Supplemental Disclosures of Cash Flow Information:

Cash paid  
during the  
year for:

Interest	\$	207,516	\$	65,713
Income	\$		\$	19,290
Taxes		-		

#### Noncash Investing and Financing Activities:

During 2007 and 2006, the Company entered into capital leases in the amount of approximately \$190,000 and \$225,000, respectively.

During 2007 the Company licensed software in the amount of \$188,000 through a note payable.

During 2007 and 2006, the Company converted \$92,564 and \$133,266 of employee stock purchase plan contributions into 126,351 and 104,845 shares of common stock, respectively.

During 2007 and 2006, the Company declared preferred stock dividends payable of \$539,039 and \$610,287, respectively, to the holders of its Series C and Series D-1 preferred stock.

During 2007 and 2006, the Company issued 283,286 and 310,009 shares of its common stock and expensed \$311,372 and \$114,600, as well as accrued \$148,493 to be spread over the next nine months in non-cash loan fees for the additional expenses incurred under its revolving credit facility with the Laurus Master Fund.

During 2007, the Company converted preferred stock  
amortization payments in the amount of  
\$16,591 into 22,914 shares of common stock, for its  
preferred stockholders.

The accompanying notes are an integral part of these consolidated financial statements.

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1. Summary of Significant Accounting Policies

A summary of the Company's significant accounting policies applied in the preparation of the accompanying consolidated financial statements follows.

(a) Nature of operations

SpaceDev, Inc., a Delaware corporation, (together with its subsidiaries, "SpaceDev" or the "Company"), is a space technology company. SpaceDev is engaged in the conception, design, development, manufacture, integration, sale, and operations of space systems, subsystems, products and services, as well as the design, manufacture, and sale of mechanical and electromechanical subsystems and components for spacecraft. The Company is currently focused on the commercial and military development of low-cost small satellites and related subsystems, hybrid rocket propulsion for space and launch vehicles, subsystems that enable critical spacecraft functions such as pointing solar arrays and communication antennas and restraining, deploying and actuating moving spacecraft components. The Company maintains its corporate headquarters in California and operating centers in California, Colorado and North Carolina and currently has approximately 185 full and part time employees.

(b) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned active subsidiary, Starsys, Inc., a Colorado corporation, which was acquired on January 31, 2006, and its wholly-owned inactive subsidiary Dream Chaser, Inc., a Delaware corporation. As of December 31, 2007 and 2006, the Company had no partially owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

(c) Preparation of consolidated financial statements

The Company has a December 31 year end. The consolidated financial statements for the years ended December 31, 2007 and 2006 have been prepared in accordance with U.S. generally accepted accounting principles (GAAP), which require management to make estimates and assumptions, including estimates of future contract costs and earnings. Such estimates and assumptions affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and earnings during the current reporting period. Management periodically assesses and evaluates the adequacy and/or deficiency of estimated liabilities recorded for various reserves, liabilities, contract risks and uncertainties. Actual results could differ from these estimates. All financial amounts are stated in U.S. dollars unless otherwise indicated.

(d) Accounts receivable and allowances for uncollectible accounts

Accounts receivable are stated at the historical carrying amount net of write-offs and allowances for uncollectible accounts as well as costs and estimated earnings in excess of billings on uncompleted contracts which represents approximately \$1.4 million and \$1.7 million at December 31, 2007 and 2006, respectively. The Company establishes an allowance for uncollectible accounts based on historical experience and any specific customer collection issues that the Company has identified. Uncollectible accounts receivable are written-off when a settlement is reached for an amount that is less than the outstanding balance or when the Company has determined that balance will not be collected. At December 31, 2007 and 2006, the allowance for uncollectible accounts was approximately \$62,000 and \$75,000, respectively.

## (e) Revenue, expense, and profitability recognition

The Company's revenues in 2007 and 2006 were derived primarily from United States government cost-plus fixed-fee (CPFF) contracts, United States government, government related and non-government firm fixed price (FFP) contracts, and some commercial sales of component and subsystem products. In 2007, approximately 53% of revenues from U.S. government contracts were derived from cost-plus fixed-fee contracts, 44% from firm fixed price contracts, and 3% from time-and-material contracts compared to approximately 51%, 48%, and 1% in 2006, respectively. The Company's government and government related revenue was approximately 73% of total revenue in 2007. The remaining 27% of total revenue in 2007 was comprised of commercial or non-governmental revenue. SpaceDev considers the United States government ("Government") a major customer. Government revenue is revenue generated directly by contracts with an agency of the federal government, i.e., where the Company is the prime contractor. Government related revenue is revenue generated by contracts where the Company's customer is a prime contractor or subcontractor to the government and the Company is a subcontractor to them, i.e., the ultimate customer is a government agency.

The portion of the Company's revenue which is based on fixed price contracts are calculated on a proportional performance basis (also referred to herein as "percentage-of-completion") based upon assumptions regarding the estimated total costs for each contract. Such revenues are recorded based on the percentage that costs incurred to date bear to the most recent estimates of total costs to complete each contract. Estimating future costs and, therefore, revenues and profits, is a process requiring a high degree of management judgment, including management's assumptions regarding future operations as well as general economic conditions. In the event of a change in total estimated contract cost or profit, the cumulative effect of such change is recorded in the period the change in estimate occurs. Frequently, the period of performance of a contract extends over a long period of time and, as such, revenue recognition and the Company's profitability from a particular contract may be adversely affected to the extent that estimated cost to complete or incentive or award fee estimates are revised, delivery schedules are delayed or progress under a contract is otherwise impeded. Accordingly, the Company's recorded revenues and gross profits from period to period can fluctuate.

The output from the Company's contracts is generally based on milestones or performance targets set by the Company and its customers. The Company's contracts are negotiated with milestone payments that may not coincide with level of effort or output measurement; thereby, creating the potential for a mismatch of costs and revenues on the front side or back side of the project. An example might be a contract with a large up-front milestone payment for simply establishing a program plan. The Company attempts to appropriately match revenue with expense, so in this instance, it would be inappropriate to recognize a milestone payment as revenue, since the proportional level of effort or cost incurred would have not yet been expended.

Certain contracts include provisions for increased or decreased revenue and profit based on performance against established targets. When the Company has incentive and award fees, they are included in estimated contract revenue at the time the amounts can be reasonably determined and are reasonably assured based upon historical experience and other objective criteria. If performance under such contracts were to differ from previous assumptions, current period revenues and profits would be adjusted and could therefore fluctuate significantly.

Revenues from CPFF contracts are recognized as expenses are incurred. Estimated contract profits are taken into earnings in proportion to revenues recorded. Time-and-material revenues are recognized as services are performed and costs incurred.

Recognition of losses on projects are taken as soon as the loss is reasonably determinable and accrued on the balance sheet in other accrued liabilities. The current accrual for potential losses on existing projects represents approximately \$316,000. The accrual is adjusted as projects move toward completion and more accurate estimates are established. Changes in job performance, job conditions, and estimated profitability, including those arising from contract penalty provisions (when applicable), and final contract settlements may result in revisions to costs and income, and are recognized in the period in which the revisions are determined. Contract costs include all direct material, direct labor and subcontractor costs, and other costs such as supplies, tools and travel which are specifically related to a particular contract. All other selling, general and administrative costs are expensed as incurred.

The majority of the Company's revenue is derived from United States Government Contracts. Such contracts have certain risks which include dependence on future appropriations and administrative allotment of funds and changes in government policies. Costs incurred under United States Government Contracts are subject to audit. The Company believes that the results of such audits will not have a material effect on its financial position or its results of operations.

(f) Fixed assets

Fixed assets, which include property, plant and equipment, are stated at cost. Major improvements are capitalized while expenditures for maintenance, repairs and minor improvements are charged to expense. When assets are retired or otherwise disposed of, the assets and related accumulated depreciation and amortization are eliminated from the accounts and any resulting gain or loss is reflected in operations. Depreciation expense is determined using the straight-line method based on their estimated useful lives of three-to-fifteen years.

(g) Research and development

The Company is engaged in design and development activities with its commercial and government customers. The Company has Small Business Innovation Research ("SBIR") grants from the government and continues to seek new SBIR opportunities. Costs incurred under SBIR grants are charged against revenues received under SBIR grants. Non-reimbursable research and development expenditures relating to possible future products are expensed as incurred. The Company incurred approximately \$300,000 and \$284,000 in non-reimbursable research and development costs during 2007 and 2006, respectively.

(h) Income taxes

The Company accounts for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are recorded for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a tax rate change on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. The Company records valuation allowances to reduce net deferred tax assets to the amount considered more likely than not to be realized. Changes in estimates of future taxable income can materially change the amount of such valuation allowances.

(i) Stock-based compensation

Prior to January 1, 2006, the Company accounted for stock-based compensation to employees in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Under this method, no compensation expense was recognized as long as the exercise price equaled or exceeded the market price of the underlying stock on the measurement date of the grant. The Company also followed the disclosure requirements of Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation. As of January 1, 2006, the Company adopted SFAS No. 123(R), Share-Based Payment. During fiscal 2007 and 2006, the Company expensed stock options based on a calculation using the minimum value method as prescribed by SFAS No. 123(R), otherwise known as the Black-Scholes method. Under this method, the Company used a risk-free interest rate at the date of grant, an expected volatility, an expected dividend yield and an expected life of the options to determine the fair value of options granted. The risk-free interest rate ranged from 3.03% to 4.79%, expected volatility ranged from 59.99% to 90.8% at the time all options were granted, the dividend yield was assumed to be zero, and the expected life of the options was assumed to be four years based on the average vesting period of options granted. For the years ended December 31, 2007 and 2006, the Company expensed approximately \$408,000 and \$133,000 of stock option expenses due to SFAS No. 123(R) in its financial statements.

(j) Net income (loss) per common share

Basic earnings per share are calculated using the weighted average number of shares outstanding, according to the rules of SFAS No. 128, Earnings per Share during the periods. Diluted earnings per share include the weighted-average effect of all dilutive securities outstanding during the periods. Diluted net loss per share was not computed in 2007 or 2006, as the computation would result in anti-dilution. The total amount of all dilutive securities not included in the earnings per share calculation were 19,264,658 and 19,473,030 which includes all options, warrants and convertible preferred shares outstanding at December 31, 2007 and 2006, respectively. Of the 19,264,658 and 19,473,030 dilutive securities not included in the earnings per share calculation 16,865,901 and 17,047,530 were exercisable at December 31, 2007 and 2006, respectively.

(k) Financial instruments

The Company's financial instruments consist primarily of cash, short-term notes receivable, accounts receivable, capital leases, accounts payable, and notes payable. These financial instruments are recorded on the balance sheet at their respective carrying values, which approximate their fair values.

(l) Segment reporting

The Company currently operates in one business segment dedicated to space technology. The Company does not report revenues by segment because it is not practical for it to do so at this time.

(m) New accounting standards

In September 2006, the FASB issued FASB Statement No. 157, Fair Value Measurements. This statement defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It provides a framework for measuring fair value and requires additional disclosures about fair value measurements. This statement applies only to fair value measurements already required or permitted by other statements; it does not impose additional fair value measurements. This statement is effective for fair value measurements in fiscal years beginning after November 15, 2007. Currently, management does not expect this statement to have a material impact on its financial condition or results of operations.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities - including an amendment of FASB Statement No. 115 (SFAS No. 159). SFAS No. 159 expands opportunities to use fair value measurements in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. Upon adoption of SFAS No. 159, an entity may elect the fair value option for eligible items that exist at the adoption date. Subsequent to the initial adoption, the election of the fair value option should only be made at initial recognition of the asset or liability or upon a re-measurement event that gives rise to new-basis accounting. SFAS No. 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value nor does it eliminate disclosure requirements included in other accounting standards. SFAS No. 159 is effective for the Company on January 1, 2008. The Company is currently assessing the impact of SFAS No. 159 on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations, and SFAS No. 160, Noncontrolling interests in Consolidated Financial Statements, an amendment of ARB No. 51. The new standards require that a noncontrolling interest in a consolidated subsidiary be displayed in the consolidated statement of financial position as a separate component of equity. The new standards also indicate gains and losses should not be recognized on sales of noncontrolling interests in subsidiaries but that differences between sale proceeds and the consolidated basis of accounting should be accounted for as charges or credits to consolidated additional paid-in-capital. However, in a sale of a subsidiary's shares that results in the deconsolidation of the subsidiary, a gain or loss would be recognized for the difference between the proceeds of that sale and the carrying amount of the interest sold. Also, a new fair value in any remaining noncontrolling ownership interest is established. These statements are effective for the first annual reporting period on or after December 15, 2008. The Company is currently evaluating the provisions of SFAS No. 141 (R) and SFAS No. 160 and does not expect there to be an impact to the Company's current financial statements, however future acquisitions could be impacted.

(n) Other assets  
Other Current Assets

Other current assets consist of a variety of prepaid and other cash advances for items which are expected to occur within the next year. The following is a listing of items that constitute the Company's other current assets at December 31, 2007 and 2006.

Other Current  
Assets

- December 31,	2007	2006
Financing fees	\$ 421,986	\$ 303,174
Software prepaid license	152,219	93,009
Insurance prepaid	27,585	60,435
Property tax prepayment	2,647	3,210
Rental prepaid short term	78,573	40,103
All other deposits	19,110	99,634
Total other current assets	\$ 702,120	\$ 599,565



## Other Assets

Other assets consist of prepaid and other cash advances for items which are expected to occur at a date beyond twelve months into the future. The following is a listing of items that constitute the Company's other assets at December 31, 2007 and 2006.

Other Assets	2007	2006
- December 31,		
Louisville facility letter of credit	\$ 535,669	\$ -
Deposits	339,683	321,290
Deferred expenses	169,920	116,666
Prepaid Rent	-	188,130
Total other assets	\$ 1,045,272	\$ 626,086

## (o) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and highly liquid investments with original maturities of three months or less.

## (p) Warranties

In 2006, the Company instituted a warranty policy to assume obligations in connection with certain customer contracts. The Company records a liability for the expected costs to service estimated warranty claims. Activity in the warranty liability consisted of the following (See Note 8(b)):

	2007	2006
Balance at January 1	\$ 76,000	\$ -
Accruals during the year	557,187	76,000
Reductions during the year	(127,203)	-
Balance at December 31	\$ 505,984	\$ 76,000

## (q) Inventory

Inventory is valued based on the lower-of-cost-or-market method and is disbursed on a First-In, First-Out (FIFO) basis, unless required by customer contract to be distributed by specific identification for lot control purposes. Inventory includes raw material inventory, finished goods inventory, and work-in-process inventory. Work-in-process inventory includes, but is not limited to, program costs in excess of customer requirements to pay. In those cases, costs may be held in work-in-process while the Company negotiates for contract modifications to cover those costs. If the negotiations result in revenues in excess of those costs, the Company records a profit at the conclusion of the program. If the negotiations result in revenues not in excess of those costs or no additional funding, the Company records the full estimated program loss at the time of the notification. The amount of such program costs held in work-in-process inventory on December 31, 2007 was approximately \$289,000. The Company inventory detail follows:



	At December 31,	
	2007	2006
Inventory		
Raw Material	\$ 570,432	\$ 309,205
Work in Progress	528,614	-
Finished Goods	62,183	-
Subtotal	1,161,229	309,205
Inventory Allowance	(155,000)	-
Inventory, Net	\$ 1,006,229	\$ 309,205

Inventories are reviewed for estimated obsolescence or unusable items and, if appropriate, are written down to the net realizable value based upon assumptions about future demand and market conditions. If actual future demand or market conditions are less favorable than those the Company projects, additional inventory write-downs may be required. These are considered permanent adjustments to the cost basis of the inventory. In 2007, the Company established an inventory reserve of \$155,000 to cover such estimated obsolete items. The Company will evaluate the inventory allowance on a regular basis and make adjustments to its estimates as new information and experience dictate.

(r) Billings in excess of costs and deferred revenue

Billings in excess of costs incurred and estimated earnings represent the excess of amounts billed over the amounts called for to be billed under the contractual billing terms. At December 31, 2007 and 2006 billings in excess of costs represented approximately \$2.4 million and \$2.8 million, respectively. Costs in excess of billings represent the excess of actual costs incurred to the amount that is billed to date and is included in accounts receivable. (See Note 1(d), Accounts receivable and allowances for uncollectible accounts.)

The Company occasionally receives cash from customers in excess of revenues recognized on certain contracts. These cash receipts are reported as deferred revenues on the balance sheet.

(s) Correction of an Error in Previously Issued Financial Statements

In 2003, the Company entered into a ten year non-cancelable building lease with the buyer in conjunction with the sale of its headquarters facility in Poway, CA. (See Note 4(a), Building and settlement notes, and Note 8(c), Building Lease.) The Company identified in 2007 that it had incorrectly expensed the deferred rent per SFAS No. 13, Accounting for Leases, whereby the Company used its monthly expense instead of the straight-line method to account for rental expenses over the term of the lease. However, after detailed quantitative and qualitative review using both the “rollover” and “iron curtain” approaches, as detailed in Staff Accounting Bulletin (SAB) 108, the Company concluded that the differences between the actual monthly expense and the straight-line amount were immaterial based on the financial impact these deferred charges would have had on its operating results in those years, taking into consideration the net losses and net income recognized in those years.

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Quantitative Income Statement Analysis of Deferred Rent Adjustment (2003-2006)

Years Ended December 31,	Net Income (Loss)	% of Revenue	Deferred Rent Adjustment	Adjusted Net Income (Loss)	% of Revenue	Difference
2003	\$ (1,246,067)	-42.15%	\$ 48,904	\$ (1,294,971)	-43.80%	1.65%
2004	\$ (3,027,054)	-61.89%	\$ 43,464	\$ (3,070,518)	-62.78%	0.89%
2005	\$ 501,264	5.57%	\$ 32,334	\$ 468,930	5.21%	0.36%
2006	\$ (952,372)	-2.93%	\$ 20,813	\$ (973,185)	-2.99%	0.06%

Furthermore, the Company believes the impact to its balance sheet is immaterial. Differences in the deferred rent would not be expected to change an investor's evaluation of the Company's operations or its financial condition. As shown in the table below, the differences were less than 5% in 2003 and less than 2% in each of the following years.

Quantitative Balance Sheet Analysis of Deferred Rent Adjustment (2003-2006)

Years Ended December 31,	Total Assets	Total Liabilities	% Total Liabilities to Total Assets	Accrued Value of Deferred Rent Adjustments	Total Adjusted Liabilities	% Adjusted Liabilities to Total Assets	Difference
2003	\$ 1,084,819	\$ 3,157,447	291.06%	\$ 48,904	\$ 3,206,351	295.57%	4.51%
2004	\$ 6,090,434	\$ 1,754,777	28.81%	\$ 92,368	\$ 1,847,145	30.33%	1.52%
2005	\$ 11,008,649	\$ 3,039,436	27.61%	\$ 124,702	\$ 3,164,138	28.74%	1.13%
2006	\$ 26,130,885	\$ 9,115,261	34.88%	\$ 145,515	\$ 9,260,776	35.44%	0.56%

To correct this error, the Company adjusted beginning retained earnings on its December 31, 2006 balance sheet by approximately \$125,000, without amending prior filings. The Company restated its comparative balance sheets and income statements for the fiscal year ended December 31, 2006. The impact on the Company's financial statements going forward will be to reduce the deferred rental accrual by the difference between the rental expense actually paid by the Company and the rental expense calculated on a straight line basis using SFAS No. 13. (See Note 8(c))

2. Fixed Assets, Net

Fixed assets consisted of the following:

December 31,	2007	2006
Capital leases	\$ 642,079	\$ 452,481
Computer equipment	1,981,425	952,895
Building improvements	1,228,630	1,959
Furniture and fixtures	3,398,825	2,546,039
Rocket motor test center	1,374,683	1,205,468
	8,625,642	5,158,842
Less accumulated depreciation and amortization	(4,205,622)	(1,365,478)

\$ 4,420,020 \$ 3,793,364

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Depreciation and amortization expense for fixed assets was approximately \$1.2 million and \$1.0 million for the years ended December 31, 2007 and 2006, respectively. Of the above depreciation, approximately \$50,000 and \$20,000, for the years ended December 31, 2007 and 2006, respectively, was for depreciation on equipment under capital leases.

### 3. Acquisitions

On January 31, 2006, the Company completed the acquisition of Starsys Research Corporation by reverse triangular merger.

The following is a schedule of the goodwill incurred in the Starsys acquisition.

Starsys Research Total Assets	\$ (7,851,494)
Starsys Research Total Liabilities	13,054,140
Cash to Starsys Stockholders Equity to Starsys Stockholders	410,791
Fees Associated with Acquisition	5,576,846
Total Goodwill	\$ 12,246,362

In 2006, the Company reduced its Goodwill from approximately \$12.2 million to approximately \$11.2 million by identifying approximately \$1.0 million in fixed assets and intangible assets, which are being amortized over their estimated useful lives. The weighted average amortization period for these intangible assets is approximately 10 years.

Starsys shareholders received approximately \$411,000 in cash and approximately 3.8 million shares of the Company's common stock at the consummation of the merger. The Company also paid approximately \$705,000 in Starsys transaction expenses connected to the merger, and reclassified from Other Assets to Investment in Subsidiaries approximately \$500,000 in certain legal and accounting expenses incurred during the merger. In addition, the Company recognized approximately \$350,000 of deferred tax liability associated with the acquisition of intangible assets.

On September 8, 2005, the Company made a secured loan in the principal amount of \$1.2 million to Starsys Research Corporation. The loan accrued interest at 8% per annum and matured on January 31, 2006 upon the closing of the acquisition. No principal or interest payments were made before maturity. The loan was secured by a security interest in all of the assets of Starsys. In addition, Starsys had agreed to pay the Company a placement agent fee and to reimburse the Company expenses in the aggregate amount of \$120,000. The principal amount, as well as the other amounts listed above, was deemed forgiven when the loan became an inter-company account at the closing of the merger.

Following the merger, the pre-merger Starsys shareholders were potentially entitled to receive additional performance consideration, based on the achievement by the Starsys business of specific financial performance criteria for fiscal years 2005, 2006 and 2007. This consideration could have originally consisted of up to an aggregate of \$1,050,000 in cash and shares of the Company's common stock valued at up to \$18 million, subject to reduction for some merger related expenses and to escrow arrangements, as follows:

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For the fiscal year ended December 31, 2005, up to \$350,000 in cash and up to an aggregate number of shares of the Company's common stock equal to (A) up to \$3.0 million divided by (B) the volume weighted average price of the Company's common stock for the 20 trading days preceding the date of the audit opinion for the fiscal year ended December 31, 2005, but not less than \$2.00 per share. This portion of the additional performance consideration was not earned;

For the fiscal year ended December 31, 2006, up to \$350,000 in cash and up to an aggregate number of shares of the Company's common stock equal to (A) up to \$7.5 million divided by (B) the volume weighted average price of the Company's common stock for the 20 trading days preceding the date of the audit opinion for the fiscal year ended December 31, 2006, but not less than \$2.50 per share. This portion of the additional performance consideration was not earned; and,

For the fiscal year ending December 31, 2007, up to \$350,000 in cash and up to an aggregate number of shares of the Company's common stock equal to (A) up to \$7.5 million divided by (B) the volume weighted average price of the Company's common stock for the 20 trading days preceding the date of the audit opinion for the fiscal year ending December 31, 2007, but not less than \$3.00 per share. This portion of the additional performance consideration was not earned.

Although Starsys was insolvent at the time of acquisition, the Company believed Starsys had a real value in excess of book value. If not for Starsys' liquidity and profitability problems, its fair value would have been even greater. The Company entered into a competitive negotiation on purchase price with Starsys in the late summer and early fall of 2005. Starsys had defaulted on a bank loan with Vectra Bank. Starsys had engaged an investment banker to find a solution. SpaceDev was one of four interested parties, and the Company's offer turned out to be the most attractive, in part, due to the ability for Starsys to remain a separate entity, at least for the period of the earn out. The Company developed the above pricing formula for the acquisition based on an enterprise value of a healthy aerospace company, which included Starsys' expectation of future performance. The Company originally agreed to a cash payment (\$1.5 million), an amount of SpaceDev common stock (\$7.5 million) and debt relief at closing followed by future years potential earn out.

Based on Starsys' projections, earn out criteria were established and an enterprise value of approximately \$32 million was established. The Company arrived at this from several calculations, including a multiple of revenues, industry comparables, discounted cash flow analyses and the desire for a competitive bid. The enterprise value assumptions included Starsys reaching revenue and EBITDA goals in 2005, 2006 and 2007 that Starsys had proposed. The assumptions were based on Starsys' ability to overcome their historical cash flow and profitability problems related to certain fixed price development contracts. It was the Company's determination that the purchase price of Starsys was fair and reasonable at the time of the acquisition, with sufficient protection in the earn out structure to provide value to the Starsys shareholders (if the earn out was reached) and yet protection to the SpaceDev shareholders (if the earn out was not reached).

Starsys shareholders may be entitled to receive additional performance consideration for a particular fiscal year if the Company breaches specified covenants of the merger agreement and is unable to cure the breach within the applicable cure period set forth in the merger agreement.

Approximately one-half of the shares issued to Starsys shareholders at the closing were placed in escrow to satisfy any indemnification obligations of the Starsys shareholders under the merger agreement and to pay reasonable expenses of the shareholder agent. In June 2007, shares in the amount of 1,729,666 (out of a total of the 1,797,746 shares in escrow) were released to the former Starsys shareholders and the remaining 68,080 shares of SpaceDev common stock are being held in escrow to pay reasonable expenses of Mr. Scott Tibbitts, the shareholder representative.



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The following condensed balance sheet at January 26, 2006, which was used as the opening balance sheet for the acquisition at January 31, 2006, illustrates the amount of goodwill specifically allocated and assigned to major tangible and intangible assets. The remaining amount of goodwill of approximately \$11.2 million is recorded as a long term asset and is evaluated by the Company each year for possible impairment.

Starsys Research Corporation			
(Audited)			
	January 26, 2006	Adjustments	January 26, 2006
<b>Assets</b>			
<b>Current Assets</b>			
Cash and Accounts Receivable	\$ 5,293,867		\$ 5,293,867
Other current assets	620,829		620,829
Fixed Assets - Net	1,903,825	97,420	2,001,245
Intangible Assets	-	927,978	927,978
Goodwill	-	11,233,665	11,233,665
Other Assets	32,972	-	32,972
<b>Total Assets</b>	<b>\$ 7,851,493</b>	<b>\$ 12,259,063</b>	<b>\$ 20,110,556</b>
<b>Liabilities and Net Assets Acquired</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued expenses	\$ 1,704,690	\$ -	\$ 1,704,690
Notes payable	5,983,300	-	5,983,300
Capitalized lease obligations	31,555	-	31,555
Accrued payroll, vacation and related taxes	993,066	-	993,066
Billings in excess of costs and deferred revenue	1,531,280	-	1,531,280
Provision for anticipated loss	1,596,250	-	1,596,250

Other accrued liabilities	1,556,059	-	1,556,059
Total Liabilities	13,396,200	-	13,396,200
Net Assets Acquired	\$ (5,544,707)	\$ 12,259,063	\$ 6,714,356

Through this acquisition, the Company purchased approximately \$928,000 of intangible assets subject to amortization; these assets were given a weighted average amortization period of approximately 10 years, and the values assigned were as follows:

- Ø \$ 25,000 was assigned to non-compete agreements;
- Ø \$153,000 was assigned to patents;
- Ø \$150,000 was assigned to trademarks;
- Ø \$500,000 was assigned to trade secrets; and
- Ø \$100,000 to customer lists.

The current amount of intangible assets is \$746,392, net, as reported in the Company's Consolidated Financial Statements. The Company also concluded that no one asset was deemed sufficient to warrant separate classification within the footnotes. The Company recorded no intangible assets not subject to amortization other than goodwill. Both goodwill and the deferred tax liability associated with the acquisition mentioned above were approximately \$11.2 million and \$350,000, respectively.

## 4. Notes Payable

## (a) Building and settlement notes

In 2007, the Company entered into a three-year licensing and financing agreement with Microsoft, totaling approximately \$188,000, related to certain business software and equipment. The note called for monthly payments over a three year term with interest of 2.53% per annum. At December 31, 2007, the outstanding balance on this obligation was approximately \$156,000.

In addition, a Deferred Compensation Agreement was recorded stemming from an agreement with a former employee entered into during 2005 for a royalty that was to be calculated based on several factors including length of service and revenue related to a specific design that was developed for the Company. At December 31, 2007, the calculated obligation was approximately \$22,000 with scheduled payments to be made in January 2008.

The following represents the combined notes payable totals as of December 31, 2007 and 2006:

December 31,	2007	2006
Financing Agreement	\$ 156,219	\$ -
Deferred Compensation Agreement	21,988	50,193
Total Notes Payable	\$ 178,207	\$ 50,193
Less current portion	\$ (86,385)	\$ -
Long term portion	\$ 91,822	\$ 50,193

## (b) Revolving credit facility

On September 29, 2006, the Company entered into a \$5.0 million financing arrangement with Laurus Master Fund, Ltd. (“Laurus”). The financing is effected through a revolving note for up to \$5.0 million, although the exact principal balance at any given time will depend on draws made by the Company on the facility. The Company borrows against the facility under an investment formula based on accounts receivable at an advance rate equal to 90% of eligible receivables and the lesser of: (a) 50% of eligible inventory (calculated on the basis of the lower-of-cost-or-market, on a first-in-first-out basis); or (b) \$1.0 million, provided, however, that no more than \$500,000 of such eligible inventory may be in the form of work-in-process inventory. There was no balance on this revolving credit facility at December 31, 2007 and the balance at December 31, 2006 was approximately \$805,000.

The facility bears interest at a rate equal to prime plus 2%. This rate increases or decreases on the date the Prime Rate adjusts. Interest is payable monthly. Interest is due on the first business day of each month from October 2006 through maturity. The term of the facility is scheduled to end on September 29, 2009. At inception, Laurus received, as a loan fee, 310,009 unregistered shares of the Company’s common stock valued at \$350,000 plus cash fees of \$175,000. The value of these shares was determined based on the \$1.13 average trading price for the stock during the preceding ten business days and was expensed over the first year of the note. Laurus received an additional 283,286 unregistered shares of the Company’s common stock valued at \$200,000 at the first anniversary of the facility. The value of these shares was determined based on the average trading price for the stock during the preceding ten business days, which was \$0.72 per share, and the expense will be amortized over the second year of the note. The Company will issue additional restricted shares of its common stock worth, in the aggregate, \$200,000 to Laurus on the second anniversary date of the facility, if the facility remains in place. The pricing of these additional shares will be based on the applicable preceding ten business day average trading price.

Laurus agreed that when it can resell the unregistered shares under Rule 144, its resale on any one day cannot exceed 10% of the daily trading volume. The 310,009 and 283,286 shares previously granted under this revolving credit facility, and referenced above, were registered for resale on a registration statement, which was declared effective on February 14, 2008. The facility is not convertible into any class of the Company's securities at any time during its term. In addition, Laurus is strictly prohibited from engaging in any short sales of the Company's common stock during the term of the facility.

The facility is a secured debt, collateralized by substantially all of the Company's and its subsidiaries' assets. The facility contains certain default provisions. In the event of a default by the Company, the Company will be required to pay an additional fee per month until the default is cured. Laurus has the option of accelerating the entire principal balance and requiring the Company to pay a premium in the event of an uncured default.

The facility requires the Company to deposit all funds (other than certain refundable deposits and proceeds from financings) into a lockbox that will be swept on a daily basis to reduce any outstanding facility balance. Any funds in excess of any outstanding facility balance are transferred to the Company on a daily basis.

The Company paid to certain persons designated by Laurus the amount of \$9,500 for legal fees and expenses in structuring the facility, conducting due diligence and escrow fees. In addition, the Company paid a finder's fee in the amount of \$35,000 and paid Laurus a facility fee of 3.5%, or approximately \$140,000, of the facility amount, which facility fee is being expensed over the life of the note.

## 5. Income Taxes

At December 31, 2007, the Company had federal and state tax net operating loss carryforwards ("NOL") of approximately \$9,380,000 and \$9,590,000, respectively. These amounts include acquired federal and state NOL's of Starsys of \$3,810,000 and \$5,700,000. The federal and state tax loss carryforwards will begin to expire in 2019 and 2011, respectively, unless previously utilized.

At December 31, 2007, the Company had federal and state research and development tax credit carryforwards of approximately \$2,640,000 and \$40,000, respectively. The federal research tax credits will begin to expire in 2018. The state research tax credits will carryforward indefinitely.

The future utilization of the Company's net operating loss and research and development credit carryforwards to offset future taxable income may be subject to an annual limitation as a result of ownership changes that may have occurred previously or that could occur in the future. The Company has not yet determined whether such an ownership change has occurred; however the Company is in the process of completing a Section 382 analysis regarding the possible limitation of the net operating loss and research and development credits. Management has projected that any Section 382 limitation would exceed \$1,000,000, and, based on this projection, believes that the related deferred tax assets will continue to exist. When the Section 382 analysis is completed, the Company plans to update its unrecognized tax benefits under FIN 48. The Company expects the Section 382 analysis to be completed within the next twelve months.

Pursuant to Internal Revenue Code Sections 382 and 383, the Company's use of its net operating loss and tax credit carryforwards relating to Starsys will be limited as a result of cumulative changes in ownership of more than 50% over a three-year period which occurred in 2006. The Section 382 limitation relating to Starsys amounts to \$241,707.

In June 2006, the FASB issued Interpretation No. 48, or FIN 48, Accounting for Uncertainty in Income Taxes — an Interpretation of FAS 109. FIN 48 provides clarification for the financial statement measurement and recognition of tax positions that are taken or expected to be taken in a tax return. The Company adopted FIN 48 effective January 1, 2007 and is in the process of completing a FIN 48 analysis. The adoption of FIN 48 is not expected to impact the Company's financial condition, results of operations or cash flows for the year ended December 31, 2007.

As a result of the adoption of SFAS No. 123(R), the Company will recognize excess tax benefits associated with the exercise of stock options directly to stockholders' equity only when realized. Accordingly, deferred tax assets are not recognized for net operating loss carryforwards resulting from excess tax benefits. As of December 31, 2007, deferred tax assets do not include \$255,000 of these excess tax benefits from employee stock option exercises that are a component of the Company's net operating loss carryforwards. Additional paid in capital will be increased up to \$255,000 if such excess tax benefits are realized.

The Company also recorded a valuation allowance of \$4,500,000 related to federal and state loss and tax credit carryforwards and other temporary differences of Starsys. The tax benefit of these carryforwards, if and when realized, will first reduce the existing value of goodwill up to a total of \$4,500,000, then, if applicable, remaining amounts will be applied first to other intangible assets with any excess amount recognized as an income tax benefit.

Significant components of the Company's deferred tax assets are shown below. A valuation allowance has been established to offset the deferred tax assets, as realization of such assets has not met the more likely than not threshold required under SFAS No. 109.

December 31,	2007	2006
Current deferred tax assets:		
Accrued vacation	\$ 242,000	\$ 246,500
Deferred gain on sale of building	38,700	38,700
Reserve for loss on contracts	118,100	285,000
Warranty reserve	259,100	29,400
Other	66,103	166,100
Total current deferred tax assets	724,003	765,700
Non-current deferred tax assets		
Net operating loss carryforwards	3,624,800	3,715,800
	203,900	252,300

Deferred gain on sale of building		
Tax credit carryforwards	2,689,300	3,537,700
Total non-current deferred tax assets	6,518,000	7,505,800
Non-current deferred tax liabilities:		
Fixed Assets and Intangibles	(205,600)	(744,600)
Other	(255,303)	(241,500)
Total net non-current deferred tax assets	6,057,097	6,519,700
Total deferred tax assets	6,781,100	7,285,400
Valuation allowance	(6,781,100)	(7,285,400)
	\$ -	\$ -

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Significant components of the provision for income taxes for the years ended December 31, 2007 and 2006 are as follows:

	2007	2006
<b>Current</b>		
Federal	\$ (10,863)	\$ 15,000
State	1,054	4,290
	(9,809)	19,290
<b>Deferred</b>		
Federal	-	-
State	-	-
Income tax (benefit) expense	\$ (9,809)	\$ 19,290

Reconciliation of the statutory federal income tax benefit to the Company's effective tax benefit:

Years Ended December 31,	2007	2006
Statutory U.S. federal rate	35.00%	35.00%
State income taxes - net of federal benefit	-1.89%	3.79%
Permanent differences	-53.37%	-14.42%
NOL and tax credit prior year true up	-160.99%	-15.99%
Other	2.94%	.82%
Tax Credits	0.00%	91.18%
Federal refund received	3.83%	0.00%
Change in valuation allowance	177.94%	-100.38%
Provision for income taxes	3.46%	0.00%

## 6. Employee Benefit Plans

### (a) Profit sharing 401(k) plan

The Company's amended 401(k) retirement savings plan allowed each eligible employee to voluntarily make pre-tax salary contributions up to 93% of their compensation or statutory limits per year, whichever is lower, for the years ended December 31, 2007 and 2006. The Company has elected to make a matching contribution of 10% of employee contributions, which matching portion vests over five years as specified in the plan amendment. During 2007 and 2006, the Company contributed \$19,257 and \$24,698 to the Plan, respectively.

Upon the merger with Starsys, the Company assumed responsibility for the Starsys 401(k) retirement saving plan, which allows each eligible Starsys employee to make elective deferrals to the Plan and elect to reduce his or her compensation in an amount of 2% up to a maximum of 100% of compensation (to the maximum allowable contribution permitted by IRS Code which was \$15,500 for 2007), for contributions to this Plan as an elective deferral. There is a four year vesting period for the Company's match (25% each year for four years). The Company elected to make matching contributions on employee contributions at a rate of 25% on the first 4% of employee contributions. During 2007 and 2006, the Company contributed \$68,757 and \$76,218 to the Plan.

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(b) Stock option plans

In 1999, the Company adopted a stock option plan under which its Board of Directors had the ability to grant its 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 provided for preferential tax treatment, were only available to employees, including Officers and affiliates, and were not issued to non-employee Directors. The exercise price of the Incentive Stock Options is 100% of the fair market value of the stock on the date the options are granted. Pursuant to the plan, the exercise price for the non-statutory stock options was to be not less than 95% of the fair market value of the stock on the date the option was granted.

In 2000, the Company amended the 1999 Stock Option Plan, increasing the number of shares eligible for issuance under the Plan to 30% of the then outstanding common stock to 4,184,698 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 has not made any such adjustment since.

In 2004, the Company adopted the 2004 Equity Incentive Plan authorizing options on 2,000,000 shares. It was first amended in August 2005 increasing the authorized options under the plan by 2,000,000 for a total of 4,000,000 shares and was further amended on January 31, 2006 increasing the authorized options by 3,000,000 for a total of 7,000,000 under the plan. As of December 31, 2007, 11,184,698 shares were authorized for issuance under both the 1999 and 2004 plans, 7,358,726 of which were subject to outstanding options and awards and 1,610,199 of which have been exercised for the Company's common stock.

During 2007, the Company issued non-statutory options to purchase an aggregate of 50,000 shares; 10,000 shares to each of its five independent Directors as partial compensation for their 2007 service. In addition, the Company issued non-statutory options to purchase 50,000 shares to a new independent member of the board as a one-time grant.

(c) Employee stock purchase plan

In 1999, the Company adopted the 1999 Employee Stock Purchase Plan with 1,000,000 shares reserved under the plan and authorized the Board of Directors to make twelve consecutive semiannual offerings of common stock to its employees. The first shares of common stock were issued under the Plan in February 2004. The exercise price for the Employee Stock Purchase Plan will not be less than 95% of the fair market value of the stock on the date the stock is purchased. During 2007 and 2006, the Company converted approximately \$93,000 and \$134,000 of employee contributions under the Employee Stock Purchase Plan, and approximately 126,000 and 105,000 shares were issued under the plan as of December 31, 2007 and 2006, respectively. The 1999 Employee Stock Purchase Plan was to expire in June 2005; however, the Board of Directors extended the plan until June 30, 2010 or until all of the shares have been bought under the plan, whichever comes first.

7. Stockholders' Equity

a) Series C Preferred Stock.

On August 25, 2004, the Company issued 250,000 shares of its Series C Non-Redeemable Convertible Preferred Stock, par value \$0.001 per share (the "Series C Preferred Stock"), to Laurus for an aggregate purchase price of \$2.5 million or \$10.00 per share (the "Stated Value"). The Series C Preferred Stock was originally convertible into shares of the Company's common stock at a rate of \$1.54 per share. On September 21, 2007, the Company adjusted the fixed conversion price from \$1.54 to \$0.62 per share due to a common stock financing with OHB Technology AG and MT Aerospace AG (See Note 7(c) Common Stock below). The Company had not previously re-priced the Series C Preferred Stock when the Series D-1 Preferred Stock was issued and the June 2007 warrant offer to preferred stockholders was made due to Laurus' participation in those transactions. The Company has received verbal and written waivers from Laurus on these previous transactions.



The Company accrues quarterly, cumulative dividends on the Series C Preferred Stock at a rate of 6.85% per annum. As of December 31, 2007 and 2006, the Company declared dividends payable of approximately \$170,000 for each twelve month period to the holders of its Series C Preferred Stock. These dividends are payable in cash or shares of common stock at the holder's option with the exception that dividends may be paid in shares of common stock for up to 25% of the aggregate dollar trading volume if the fair market value of the Company's common stock for the 20-days preceding the conversion date exceeds 120% of the conversion rate. Accrued dividends were paid in cash during 2007 and 2006. On December 31, 2007, accrued but unpaid dividends were approximately \$43,000; these accrued dividends were paid in cash in January 2008.

The Series C Preferred Stock is redeemable by the Company in whole or in part at any time after issuance for (a) 115% of the Stated Value if the average closing price of the common stock for the 22 days immediately preceding the date of redemption does not exceed \$0.62 per share (adjusted in September 2007 related to the sale of common stock to OHB Technology AG and MT Aerospace AG) or (b) the Stated Value if the average closing price of the common stock for the 22 days immediately preceding the date of redemption exceeds \$0.62 per share (adjusted in September 2007 related to the sale of common stock to OHB Technology AG and MT Aerospace AG). The Series C Preferred Shares have a liquidation right equal to the Stated Value upon the Company's dissolution, liquidation or winding-up. The Series C Preferred Shares have no voting rights, except as required by law.

In conjunction with the Series C Preferred Shares, the Company issued a five-year common stock warrant to Laurus for the purchase of 487,000 shares of the Company's common stock at an exercise price of \$1.77 per share.

b) Series D-1 Preferred Stock.

On January 12, 2006, the Company entered into a Securities Purchase Agreement with a limited number of institutional accredited investors, including Tailwind Capital, Bristol Capital Management, Nite Capital, Laurus and Omicron Capital, (which has since transferred its preferred shares to Portside Growth & Opportunity Fund and Rockmore Investment Master Fund). On January 13, 2006, the Company issued and sold to these investors 5,150 shares of Series D-1 Amortizing Convertible Perpetual Preferred Stock, par value \$0.001 per share, for an aggregate purchase price of \$5.15 million, or \$1,000 per share. As of December 31, 2007, approximately 3,199 shares of Series D-1 Preferred Stock remain outstanding and approximately 1,951 shares of Series D-1 Preferred Stock had been repurchased through voluntary amortization, converted to the Company's common stock or redeemed by investor request at a discount. In total, 75 shares of Series D-1 Preferred Stock were converted into 50,676 shares of the Company's common stock, 1,709 shares of Series D-1 Preferred Stock have been repaid through voluntary amortization, as provided for in the Agreement, and 167 shares of Series D-1 Preferred Stock have been repurchased through an investor request at a 15% discount. The Company also issued various warrants to these investors as described below. The Company paid cash fees and expenses of approximately \$119,000 to a finder for the introduction of potential investors in this financing, and paid \$60,000 to the lead investor's counsel for legal expenses incurred in the transaction. The preferred shares are convertible into shares of the Company's common stock at a rate of \$1.48 per share and accrue quarterly, cumulative dividends at a rate of LIBOR plus 4% on the first day of the applicable quarter. As of December 31, 2007, the Company had accrued Series D-1 dividends of approximately \$76,000, which were paid in January 2008.

Certain warrants the Company issued to the Series D-1 investors at the closing entitled the investors to purchase up to an aggregate of 1,135,138 shares of the Company's common stock at an exercise price of \$1.51 per share. On May 31, 2007, the Company offered to the holders of these warrants the opportunity to exercise the warrants at a specially reduced price to be calculated as 80% times the volume weighted average price (VWAP) of its common stock for the 20 trading days preceding the warrant holder's acceptance of the offer. Although this written offer expired by its terms on June 15, 2007, the Company orally extended the offer to June 29, 2007 and Laurus accepted, exercising 500,000 of its 639,203 warrants of this series for \$290,000 cash. The VWAP for the 20 trading days preceding June 29, 2007 was \$0.725 per share making the strike price of the common stock warrant \$0.58 which is 80% of the \$0.725. Due to a ratchet anti-dilution provision in the warrants of this series, the exercise price of the remaining 635,138 warrants in the series (which includes 139,203 warrants still owned by Laurus) was reduced to \$0.58 per share as a result of this transaction, and otherwise the remaining warrants remain in full force and effect in accordance with their original terms. The warrants are exercisable for five years following the date of grant. The warrants feature a net exercise provision, which enables the holder to choose to exercise the warrant without paying cash. However, this right is available only if a registration statement or prospectus covering the shares subject to the warrant is not available. The warrants will continue to have the anti-dilution provisions reducing the warrant exercise price, if the Company issues equity securities (other than in specified exempt transactions) at an effective price below the warrant exercise price, to such lower exercise price. The Company refers to these warrants as the common stock warrants.

- The purchase agreement contains a number of covenants by the Company, which includes an agreement not to effect any transaction involving the issuance of securities convertible, exercisable or exchangeable for the Company's common stock at a price or rate per share which floats (i.e., which may change over time), without the consent of a majority of the Series D-1 preferred stockholders, so long as any shares of Series D-1 Preferred Stock are outstanding, subject to certain conditions.

In connection with the Series D-1 Preferred Stock financing, Laurus consented to and waived certain contractual rights. The Company paid Laurus Capital Management, L.L.C., and the manager of Laurus Master Fund, an amount of \$87,000 in connection with Laurus' delivery of the consent and waiver, and paid \$1,000 to Laurus' counsel for their related fees.

(c) Common stock

OHB and MT Aerospace

In September 2007, the Company raised \$4.4 million in cash by selling 7,095,566 shares of common stock to OHB Technology AG, a German space technology company, and MT Aerospace AG, a subsidiary of OHB Technology AG, in a private transaction at a purchase price of \$0.62 per share. The price was determined as a premium of 11% to the closing price of the Company's common stock on September 12, 2007, which was \$0.56 per share.

In addition, on December 19, 2007, the Company raised an additional \$658,000 in cash by selling 877,563 shares of the Company's common stock to OHB Technology AG and MT Aerospace AG at \$0.75 per share, in connection with a separate financing and their preemptive right to maintain a 19% ownership in the Company.

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The common stock issued is restricted. The Company also entered into a Stockholder Agreement with the investors, which provides the investors with the right, after one year, to demand that the Company file a registration statement with the Securities and Exchange Commission to cover re-sales of the common stock from time to time by the investors. In addition, subject to existing rights of other stockholders, the Company provided the investors with rights to participate in future financings.

The investors agreed not to solicit the Company's customers and clients in the United States for the same products and services provided by the Company. The investors agreed not to purchase additional shares of common stock or cause others to do so, except as expressly provided in the Stockholder Agreement. The Stockholder Agreement expires on the earlier of: (1) ten years, (2) a change of control of the Company, or (3) when the investors own less than 4.99% of the Company.

Also, pursuant to the Stockholder Agreement, the Company agreed to elect a qualified representative of OHB Technology AG (or any qualified replacement) to its Board of Directors and to nominate this representative of OHB Technology AG for election by the stockholders. This obligation will continue until the expiration of the Stockholder Agreement. Pursuant to this provision, the Company elected Hans Steininger to its Board of Directors on November 8, 2007. In addition, per the Stockholder Agreement, for two years OHB Technology AG and MT Aerospace AG agreed to vote their shares of common stock in favor of the nominees to the Company's Board of Directors that have been recommended for election by the Board of Directors. OHB Technology AG and MT Aerospace AG agreed to, following this two year period, continue voting their shares of common stock in favor of any nominees recommended by the Company's Board of Directors (1) if such nominee is a current member of the Board of Directors or (2) if the slate of nominees that is recommended for election by the Board of Directors includes the Stockholder's nominee.

#### Loeb Partners

On December 4, 2007, the Company and Loeb Partners Corporation entered into a Stock Purchase Agreement covering the issuance and sale of 3,750,000 shares of the Company's common stock at a purchase price of \$0.75 per share. The Company received gross proceeds from the sale of approximately \$2.8 million in cash.

The Common Stock is restricted. In addition, pursuant to a Stockholder Agreement, Loeb agreed not to sell the common stock for one year. The Company also provided Loeb with the right, after one year, to demand that the Company file a registration statement with the Securities and Exchange Commission to cover re-sales of the common stock from time to time by Loeb Partners. In addition, subject to existing rights of other stockholders, the Company provided Loeb Partners with rights to participate in future financings.

Pursuant to a Stockholder Agreement, for one year, Loeb Partners agreed to vote the common stock in favor of nominees recommended by the Company's Board of Directors and after one year, Loeb Partners has agreed to continue to vote the common stock in favor of current members of the Board of Directors. Further, Loeb has agreed not to purchase additional shares of common stock or cause others to do so, except as expressly provided in the Stockholder Agreement. The Stockholder Agreement expires on the earlier of: (1) ten years; (2) a change of control of the Company; or (3) when Loeb Partners owns less than 4.99% of the Company.

#### (d) Warrants

As of December 31, 2007, the Company had warrants outstanding issued as part of its private placements and other equity raising ventures, as well as for commercial services rendered, that allow the holders to purchase up to 1,922,138 shares of common stock at prices between \$0.58 and \$2.58 per share. The warrants expire at various times through January 11, 2011.

## (e) Stock options

On December 20, 2005, the Company entered into employment agreements and non-qualified stock option agreements with each of Mark N. Sirangelo, Richard B. Slansky and James W. Benson. Each employment agreement had an initial term of two years, and Mark N. Sirangelo's and Richard B. Slansky's employment agreements automatically renewed for a third year on December 20, 2007.

The employment agreement with Mr. Sirangelo sets forth the terms of his employment with the Company as Chief Executive Officer and provides for, among other matters: a base salary, performance-based cash bonuses based on the achievement of specific goals set forth in the agreement and an option to purchase up to 1,900,000 shares of the Company's common stock.

The employment agreement with Mr. Slansky amends and restates his employment agreement dated February 10, 2003. This agreement sets forth the terms of his continued employment with the Company as President and Chief Financial Officer and provides for, among other matters: a base salary, performance-based cash bonuses based on the achievement of specific goals set forth in the agreement and an option to purchase up to 1,400,000 shares of the Company's common stock.

The options granted to each executive under the 2005 agreements were fully vested and exercisable on the date of grant, have an exercise price of \$1.40 per share, which was the closing sale price, reported on the OTCBB on the date of grant, and will expire five years after the date of grant, unless they expire sooner as a result of termination of employment. Some of the shares subject to the options are subject to sale restrictions that expire upon the achievement of certain milestones or four years from the date of grant, whichever comes first. Subject to certain limitations, these options may be exercised by means of a net exercise provision by surrendering shares with a fair market value equal to the exercise price upon exercise.

James W. Benson resigned as Chairman and Chief Technology Officer in September 2006. Mr. Benson remains a member of the Company's Board of Directors. Most of the options granted to Mr. Benson, during his employment with the Company, expired on April 2, 2007. Non-plan options on 500,000 shares were vested prior to his departure and were not tied to any employment obligation and those options remain outstanding. Mr. Benson's vested outstanding options have an exercise price of \$1.00 and are scheduled to expire on January 18, 2010.

The following tables provide information regarding all plan and non-plan Company stock options:

	Options Outstanding	Weighted Average Exercise Price
Balance at January 1, 2006	10,322,560	\$ 1.27
Granted	3,307,000	1.17
Exercised	(230,281)	(0.83)
Expired	(1,004,181)	(1.35)
Balance at December 31, 2006	12,395,098	1.27
Granted	1,208,500	0.73
Exercised	(100,883)	(0.50)
Cancelled/Expired	(2,343,989)	(1.28)
Balance at December 31,	11,158,726	\$ 1.24

2007

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The weighted average fair value of options granted to employees under the 1999 Stock Option Plan and the 2004 Equity Incentive Plan during 2007 and 2006 were \$0.73 and \$1.17, respectively. At December 31, 2007 and 2006, there were 11,158,726 and 12,395,098 options outstanding at a weighted average exercise price of \$1.24 and \$1.27 per share, respectively. The weighted average remaining life of outstanding options under the plans at December 31, 2007 and 2006 was 2.75 years and 3.50 years, respectively. The aggregate intrinsic value of options exercised during 2007 and 2006 was approximately \$120,000 and \$145,000, respectively. The aggregate intrinsic value of options outstanding at December 31, 2007 and 2006 was approximately \$470,000 and \$184,000, respectively. The intrinsic value of options vested and exercisable at December 31, 2007 and 2006 was approximately \$311,000 and \$184,000, respectively.

Range of Exercise Price	Number of Options Outstanding	Weighted-Average Remaining Contractual Life of		Number of Options Exercisable	Weighted-Average Remaining Contractual Life of	
		Options Outstanding	Options Outstanding		Options Outstanding	Options Outstanding
\$ 0.42-0.50	235,000	0.72	235,000	\$ 0.46	0.72	
0.51-1.00	4,597,639	2.82	2,505,186	0.85	2.06	
1.01-1.50	5,170,365	2.87	4,864,061	1.38	2.88	
1.51-2.00	1,013,500	2.30	1,013,500	1.71	2.30	
2.01-2.50	102,222	2.73	102,222	2.11	2.73	
2.51-4.80	40,000	3.59	40,000	4.00	3.59	
	11,158,726	2.75	8,759,969	\$ 1.24	2.52	

The total fair value of options that vested during 2007 and 2006 was approximately \$408,000 and \$133,000, respectively.

## 8. Commitments and Contingencies

### (a) Capital leases

The Company leases certain equipment under non-cancelable capital leases, which are included in fixed assets as follows:

December 31,	2007	2006
Computer and office equipment	\$ 642,079	\$ 452,481
Less accumulated depreciation	(263,778)	(226,535)
	\$ 378,301	\$ 225,946



Future minimum lease payments are as follows:

Year Ended December 31,		
2008	\$	170,161
2009		194,442
2010		194,442
2011		156,247
2012		145,687
Thereafter		24,281
Total minimum lease payments		885,260
Amount representing interest		155,570
Present value of minimum lease payments		729,690
Total obligation		729,690
Less current portion		(137,410)
Long-term portion	\$	592,280

(b) Other accrued liabilities

Other accrued liabilities at December 31, 2007 and 2006 consisted of the following:

Other Accrued Liabilities			
- December 31,		2007	2006
Warranty accrual	\$	505,984	\$ 76,000
Customer deposits and other accruals		348,054	108,080
Provision for anticipated loss		315,544	719,125
Legal, royalty and customer accruals		125,664	316,231
Employee accruals		125,000	145,847
Dividend (Series D-1 preferred stock)		76,475	111,188
Dividend (Series C preferred)		42,899	42,898

stock)		
Deferred rent	37,483	-
Property and income tax accruals	30,993	30,730
Employee Stock Purchase Plan	24,672	52,462
Total other accrued liabilities	\$ 1,632,768	\$ 1,602,561

Other long term accrued liabilities at December 31, 2007 and 2006 consisted of the following:

Long Term Other Accrued Liabilities		
- December 31,	2007	2006
Long term portion of deferred rent	\$ 643,168	\$ 160,782

(c) Building lease

In January 2003, the Company sold its headquarters building (the land and building) at 13855 Stowe Drive, Poway, CA 92064. In conjunction with the sale, the Company entered into a ten (10) year non-cancelable operating lease agreement with the buyer to lease-back its facility. The base rent was approximately \$26,000 per month at lease inception and will increase by 3.5% per year. The Company is straight lining the remaining lease payments over the remainder of the lease per SFAS No. 13. Total expense for 2007 and 2006 amounted to approximately \$361,000 for both periods (See Note 1(s)).

The gain of \$1,172,720 on the sale of the facility was deferred and is being amortized on a straight-line basis over the ten (10) year term of the lease at the rate of \$117,272 per year. As of December 31, 2007 and 2006, the deferred gain was approximately \$596,000 and \$713,000, respectively. This amortization is included in the Company's non-operating income and expense and totaled approximately \$117,000 in 2007 and 2006.

Deferred Gain consisted of the following:

December 31,	2007	2006
Deferred		
Gain	\$ 1,172,720	\$ 1,172,720
Less		
Amortization		
to date	(576,587)	(459,315)
	\$ 596,133	\$ 713,405

In August 2006, the Company entered into a four month lease, (which was subsequently extended several times to June 30, 2008), on a fabrication and test facility. The additional facility is also located in Poway, California. It is approximately 11,000 square feet and is dedicated to fabrication of the Company's hybrid rocket motors. The cost to the Company was approximately \$39,000 in 2006 and \$121,000 in 2007. The Company was able to extend the facility lease on a short-term basis until June 30, 2007. Total monthly rent from January 2007 to June 2007 was approximately \$10,000 per month, for a total of approximately \$60,000 for the six month term ending on June 30, 2007. The facility lease was further extended in June 2007 on a short-term basis until December 31, 2007, and again in November 2007 until June 30, 2008. Total monthly rent from January 2008 to June 2008 is approximately \$11,000 per month, for a total of approximately \$66,000 for the six month term ending on June 30, 2008.

In August 2006, the Company entered into a ten-year lease on a 72,000 square foot development and manufacturing facility located in the Colorado Technology Center in Louisville, Colorado, for its subsidiary, Starsys, Inc. Starsys relocated from its facility in Boulder, Colorado in March 2007. The new facility is leased from RE Hill Properties, LLC and Quartz Mountain Properties, LLC. The lease calls for a base monthly payment of \$58,241 for the initial lease year of February 2007 through January 2008. Subsequent years include an escalation of 3% per year. Total lease payments will be approximately \$7.4 million over the remaining life of the lease.

In March 2007, the Company signed a new sixty-five (65) month lease for its Durham, North Carolina manufacturing operations one mile east of the prior location. In May 2007, the Company relocated the operations into the new facility which has approximately 13,500 square feet of usable office and laboratory space. The monthly lease payment is \$11,236 through April 2008 with an annual increase. The lease included a deferred rent clause that stipulated that the first five months from May 2007 to September 2007 did not require any payments. The total remaining lease obligation under the terms of the lease is approximately \$980,000.

Building Leases -  
Year Ending  
December 31,

2008	\$ 1,319,121
2009	1,309,071
2010	1,370,827
2011	1,421,777
2012	1,402,186
Thereafter	3,593,805
Total minimum lease payments	\$ 10,416,787

## 9. Concentrations

### (a) Credit risk

The Company maintains cash balances at various financial institutions primarily located in San Diego, California, Boulder, Colorado and New York, New York. The accounts at these institutions are secured by the Federal Deposit Insurance Corporation up to \$100,000. The Company has balances in excess of the insured amount; however, the Company has not experienced any losses in such accounts.

### (b) Customer

Currently, the Company's revenues are not grouped by similar products or services. For example, a customer purchasing a small satellite does not know (and the Company does not track internally) the part of the order that related to each product group (i.e., the customer purchases a small satellite system or a mission solution). A small satellite system could have propulsion, satellite bus technology and an electro-mechanical structure all in one customer order. During 2007 and 2006, the Company had one major customer, the U.S. government that accounted for sales of approximately \$25.4 million, or 73% of consolidated net sales, and \$28.6 million, or 88% of consolidated net sales, respectively. At December 31, 2007 and 2006, the amount receivable from these customers was approximately \$4.4 million and \$1.0 million, respectively.

## 10. Unaudited Pro Forma Combined Consolidated Statements of Operations

The following unaudited pro forma combined statements of operations give effect to the merger of SpaceDev and Starsys using the purchase method of accounting, as required by SFAS No. 141, Business Combinations. The Company acquired Starsys Research Corporation on January 31, 2006 and is the "accounting acquirer" for accounting purposes. Under this method of accounting, the combined company allocated the purchase price to the fair value of assets of Starsys deemed to be acquired, including identifiable intangible assets and goodwill. The unaudited pro forma combined statements of operations are based on respective historical consolidated financial statements and the accompanying notes of the Company.

The unaudited pro forma combined statement of operations for the year ended December 31, 2006 assumes the merger took place on January 1, 2006. The unaudited pro forma combined statements of operations should be read in conjunction with the related notes included in this Form 10-KSB and the consolidated audited financial statements of SpaceDev. The unaudited pro forma combined statements of operations are not necessarily indicative of what the actual results of operations and financial position would have been had the merger taken place on January 1 of the period presented and do not indicate future results of operations.

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SpaceDev, Inc. and Subsidiaries  
 Pro Forma Combined Consolidating and Consolidated Statement of Operations  
 (Restated and Unaudited)

For the Twelve Months Ended  
 December 31, 2006

	Consolidated	Pro Forma Adjustments	Consolidated Pro Forma	%
Net Sales	\$ 34,397,113	\$ (257,205)	\$ 34,139,909	100.00%
Cost of Sales *	27,087,542	(91,380)	26,996,162	79.08%
Gross Margin	7,309,572	(165,825)	\$ 7,143,747	20.92%
Operating Expenses				
Marketing and sales expense	2,430,673	(165,825)	2,264,848	6.63%
Research and development	279,063	-	279,063	0.82%
General and administrative	5,638,502	-	5,638,502	16.52%
Total Operating Expenses *	8,348,238	(165,825)	8,182,413	23.97%
Income/(Loss) from Operations	(1,038,666)	-	(1,038,666)	-3.04%
Non-Operating Income/(Expense)				
Interest income	111,668	-	111,668	0.33%
Interest expense	(88,196)	-	(88,196)	-0.26%
Non-cash interest expense	(114,600)	-	(114,600)	-0.34%
Gain on Building Sale	117,274	-	117,274	0.34%
Total Non-Operating Income/(Expense)	28,935	-	28,935	0.08%
Income (Loss) Before Income Taxes	(1,009,731)	-	(1,009,731)	-2.96%
Income tax provision	19,290	-	19,290	0.06%
Net Income (Loss)	\$ (1,029,021)	\$ -	\$ (1,029,021)	-3.01%
Less: Preferred Dividend Payments	(610,287)	-	(610,287)	
Adjusted Net Income (Loss) for EPS Calculation	(1,639,308)	-	(1,639,308)	
Net Income/(Loss) Per Share:	\$ (0.06)	-	\$ (0.06)	
Weighted-Average Shares Outstanding	28,666,059	-	28,666,059	
Fully Diluted Net Income/(Loss) Per Share:	\$ (0.06)	-	(0.06)	
Fully Diluted Weighted-Average	28,666,059	-	28,666,059	

## Shares Outstanding

\* The following table shows how the Company's amortization expense of stock options would be allocated to all expenses.

Cost of Sales	\$	24,339	\$	-	\$	24,339	0.07%
Marketing and sales		4,840		-		4,840	0.01%
Research and development		-		-		-	0.00%
General and administrative		104,201		-		104,201	0.31%
	\$	133,379	\$	-	\$	133,379	0.39%

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## 11. Related Party Transactions

James W. Benson, the Company's former chief technology officer and former Chairman of the Board of Directors, has personally guaranteed the building lease on the Company's Poway, California headquarters facility and has placed his home in Poway as collateral. Mr. Benson remained a member of our Board of Directors and one of our major shareholders. On September 26, 2006, Mr. Benson resigned from his role as our chief technology officer in order to launch a new independent venture, Benson Space Company, focused on the marketing of commercial space tourism. SpaceDev currently has a study contract with Benson Space Company which could lead to future business between the two entities.

## PART II

## INFORMATION NOT REQUIRED IN PROSPECTUS

## ITEM 24. INDEMNIFICATION OF DIRECTORS AND OFFICERS

The Company's (i.e. SpaceDev Delaware's) certificate of incorporation contains a provision which, in accordance with and subject to Delaware law, eliminates or limits the personal liability of directors of the Company for monetary damages for certain breaches of their duty of care or other fiduciary duties. It also contains a provision requiring the Company to provide indemnification of (and advancement of expenses to) its directors and officers, subject only to limits created by applicable Delaware law (statutory or non-statutory) with respect to actions for breach of duty to a corporation, its stockholders, and others. The Company believes these provisions are essential to maintain and improve its ability to attract and retain competent directors and officers. These provisions do not reduce the exposure of directors and officers to liability under federal and state securities laws, nor do they limit the stockholders' ability to obtain injunctive relief or other equitable remedies for a violation of a director's or officer's duty to the Company or its stockholders, although such equitable remedies may not be an effective remedy in certain circumstances.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers or persons controlling the Company pursuant to the foregoing provisions, the Company is informed that it is the opinion of the Securities and Exchange Commission that such indemnification is against public policy and therefore unenforceable.

## ITEM 25. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The estimated expenses of this offering in connection with the issuance and distribution of the securities being registered, all of which are to be paid by the registrant, are as follows:

SEC Registration Fee	\$ 505
Accounting Fees and Expenses	\$10,000
Legal Fees and Expenses	\$15,000
Miscellaneous	\$ 5,000
Total	\$30,500

## ITEM 26. RECENT SALES OF UNREGISTERED SECURITIES

Set forth below is information regarding the issuance and sales of the registrant's securities without registration under the Securities Act of 1933 during the past three years.

On October 31, 2005, we issued 2,032,520 shares of our common stock to Laurus for \$2,500,000, pursuant to our Securities Purchase Agreement with Laurus dated October 31, 2005. We also issued warrants to Laurus as part of this transaction. The shares were issued in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act.

On December 20, 2005, we issued non-plan options to purchase 4,400,000 shares of our common stock to three of our executive officers pursuant to the employment agreements dated December 20, 2005. The options were issued in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act.





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On January 13, 2006, we issued and sold to a limited number of institutional accredited investors, including Laurus Master Fund, Ltd., 5,150 shares of our Series D-1 Amortizing Convertible Perpetual Preferred Stock, par value \$0.001 per share, which we refer to as Series D-1 Preferred Stock, for an aggregate purchase price of \$5,150,000, or \$1,000 per share. We also issued various warrants to these investors under the 2006 purchase agreement. The shares were issued in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act.

On January 31, 2006 we issued 250,000 shares of our common stock to QS Advisors, LLC for advisory services provided in relation to the Starsys Merger. These securities were issued in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act.

On June 20, 2006, the registrant issued 1,500 shares of its common stock to three employees pursuant to an incentive performance award. The shares were issued in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act.

On August 14, 2006, the registrant issued 200,000 shares of its common stock when a holder of a warrant exercised their right to purchase the 200,000 shares for \$210,000 in cash. The shares were issued in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act.

On June 29, 2007, the registrant issued 500,000 shares of its common stock when a holder of a warrant exercised their right to purchase the 500,000 shares for \$290,000 in cash. The shares were issued in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act.

On July 12, 2007, the registrant issued 11,852 shares of its common stock as a monthly amortization payment with respect to its Series D-1 to a holder of the Series D-1 preferred stock. The shares were issued in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act.

On September 30, 2006, the registrant issued 310,009 shares of its common stock valued at \$350,000 to Laurus as a non-cash loan fee for the revolving credit facility that the registrant entered into with Laurus. The shares were issued in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act.

On September 14, 2007, the registrant issued 7,095,566 shares of Common Stock, to OHB Technology AG and MT Aerospace AG, at a purchase price of \$0.62 per share. The shares were issued in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act.

On October 25, 2007, the registrant issued 283,286 shares of its common stock valued at \$200,000 to Laurus as a further non-cash loan fee for the revolving credit facility that the registrant entered into with Laurus. The shares were issued in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act.

On November 14, 2007, the registrant issued 11,062 shares of its common stock as a monthly amortization payment with respect to its Series D-1 to a holder of the Series D-1 preferred stock. The shares were issued in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act.

On December 4, 2007, the registrant issued 3,750,000 shares of Common Stock, to Loeb Partners Corporation, at a purchase price of \$0.75 per share. The shares were issued in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act.

On December 19, 2007, the registrant issued 877,563 shares of Common Stock, to OHB Technology AG and MT Aerospace AG, at a purchase price of \$0.75 per share. The shares were issued in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act.

Exhibits. See Index to Exhibits.

Schedules. Schedules have been omitted since the information required is not applicable.

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ITEM 28                   UNDERTAKINGS.

(a) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) to include any prospectus required by Section 10(a)(3) of the Securities Act;

(ii) to reflect in the prospectus any facts or events that, individually or together, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement; and,

(iii) to include any additional or changed material information on the plan of distribution.

(2) For determining liability under the Securities Act, treat each such post-effective amendment as a new registration statement of the securities offered, and the offering of the securities at that time shall be deemed to be the initial bona fide offering.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered that remain unsold at the end of the offering.

(b) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Commission, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted against the registrant by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(c) The undersigned company hereby undertakes that each prospectus filed pursuant to Rule 424(b) as part of this registration statement shall be deemed to be part of and included in this registration statement as of the date it is first used after effectiveness; provided, however, that no statement made in this registration statement or prospectus that is part of this registration statement or made in a document incorporated or deemed incorporated by reference into this registration statement or prospectus that is part of this registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in this registration statement or prospectus that was part of this registration statement or made in any such document immediately prior to such date of first use.

## SIGNATURES

Pursuant to the requirements of the Securities Act of 1933 the registrant has duly caused this registration statement amendment to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of Poway, State of California, on April 14, 2008.

SPACEDEV, INC.

By: /s/Mark N. Sirangelo

Mark N. Sirangelo

Chief Executive Officer

## POWER OF ATTORNEY

Each person whose signature appears below hereby severally constitutes and appoints Mark N. Sirangelo and Richard B. Slansky, and each of them, his or her true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution for him or her and in his or her name, place and stead, in any and all capacities to sign any and all amendments (including post-effective amendments) to the registration statement, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Commission, granting unto said attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite or necessary fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent or his substitutes may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates indicated.

Name	Title	Date
/s/ Mark N. Sirangelo	Chief Executive Officer (Principal Executive Officer) and Chairman of the Board (Director)	April 14, 2008
Mark N. Sirangelo		
/s/ Richard B. Slansky	President, Chief Financial Officer (Principal Financial Officer, Principal Accounting Officer), Director and Corporate Secretary	April 14, 2008
Richard B. Slansky		
*		
Scott Tibbitts	Director	April 14, 2008
_____	Director	April 14, 2008
James W. Benson		
_____	Director	April 14, 2008
Curt Dean Blake		
*		
Howell M. Estes, III	Director	April 14, 2008
*		
G. Scott Hubbard	Director	April 14, 2008
*		
Scott McClendon	Director	April 14, 2008
*		
Hans Steininger	Director	April 14, 2008
*		
Robert S. Walker	Director	April 14, 2008
	* By Richard B. Slansky, Attorney-in-Fact	April 14, 2008
/s/ Richard B. Slansky		



## INDEX TO EXHIBITS

## ITEM 27. EXHIBITS

Exhibit No.	Description	Filed Herewith	Incorporated by Reference	Form	Date Filed with SEC	Exhibit No.
2.1	Agreement and Plan of Merger and Reorganization dated as of October 24, 2005		X	8-K	Oct. 26, 2005	2.1
2.2	Amendment No. 1 to the Agreement and Plan of Merger and Reorganization dated December 7, 2005		X	8-K	Dec. 13, 2005	2.1
2.3	Amendment No. 2 to the Agreement and Plan of Merger and Reorganization dated January 31, 2006		X	8-K	Feb. 6, 2006	2.3
2.4	Escrow Agreement dated as January 31, 2006		X	8-K	Feb. 6, 2006	2.4
3.1	Certificate of Incorporation dated June 19, 2007 – Delaware		X	8-K	Aug 24, 2007	3.1
3.2	Amended and Restated Bylaws dated November 8, 2007 – Delaware		X	8-K	Nov. 9, 2007	3.1
3.3	Form of Warrant issued to Laurus Master Fund August 25, 2004		X	8-K	Aug. 30, 2004	4.2
4.1	Form of Common Stock Certificate		X	POS-AM	Nov. 14, 2007	4.1
4.2	Laurus Secured Revolving Note dated as of September 29, 2006		X	8-K/A	Oct. 10, 2006	99.1
5.1	Opinion of Law Offices of Gretchen Cowen, APC regarding legality		X	POS AM	May 2, 2005	5.1
5.2	Opinion of Heller Ehrman LLP regarding legality		X	SB-2	Jan. 14, 2008	5.2
10.1	Sublease between Gateway and SpaceDev dated March 31, 2005		X	8-K	April 15, 2005	10.1
10.2	AFRL Contract with SpaceDev dated as of August 23, 2004		X	8-K	Sept. 1, 2004	10.1
10.3	AFRL Statement of Work dated August 23, 2004*		X	8-K	Sept. 1, 2004	10.2
10.4	AFRL SBIR "mini-mo" Contract extension with SpaceDev dated August 20,		X	10-QSB	Nov. 15, 2004	10.1

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10.5	2004* AFRL SBIR Small Satellite Bus Contract with SpaceDev dated September 28, 2004	X	10-QSB	Nov. 15, 2004	10.2
10.6	AFRL SBIR Phase II Small Launch Vehicle Contract with SpaceDev dated September 29, 2004	X	10-QSB	Nov. 15, 2004	10.3
10.7	MDA Second Task Order with SpaceDev dated October 20, 2004*	X	10-QSB	Nov. 15, 2004	10.4
10.8	Modification to Small Shuttle Compatible Propulsion Module contract with AFRL dated July 7, 2004	X	10-QSB	Aug. 9, 2004	10.2
10.9	Lunar Dish Observatory Contract between SpaceDev and Lunar Enterprises Corporation dated July 20, 2004	X	10-QSB	Aug. 9, 2004	10.3
10.10	Missile Defense Agency Contract with SpaceDev dated March 31, 2004	X	10-KSB	April 6, 2004	10.40
10.11	First Task Order Under Missile Defense Agency Contract with SpaceDev dated April 1, 2004	X	10-KSB	April 6, 2004	10.43
10.12	Common Stock Purchase Warrant issued June 3, 2003 by SpaceDev to Laurus Master Fund, Ltd.	X	8-K	June 18, 2003	10.3
10.13	Agreement of License and Purchase of Technology between SpaceDev and AMROC dated August 1998	X	10-SB	Jan. 18, 2000	6.4
10.14	1999 Stock Option Plan #	X	SB-2	July 25, 2003	4.8
10.15	First Amendment to 1999 Stock Option Plan #	X	SB-2	July 25, 2003	4.14
10.16	1999 Employee Stock Purchase Plan #	X	10-SB	Jan. 18, 2000	6.7
10.17	2004 Equity Incentive Plan #	X	S-8	Mar. 29, 2005	99.1
10.18	First Amendment to 1999 Employee Stock Purchase Plan #	X	10-KSB	Mar. 28, 2006	10.39
10.19	Executive Employment Agreement between SpaceDev, Inc. and Mark	X	8-K	Dec. 23, 2005	10.1



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	Sirangelo dated December 20, 2005 #			
10.20	Amended and Restated Executive Employment Agreement between SpaceDev, Inc., and Richard B. Slansky dated December 20, 2005 #	X	8-K	Dec. 23, 2005 10.2
10.21	Non-Plan Stock Option Agreement with Mark N. Sirangelo dated December 20, 2005 #	X	8-K	Dec. 23, 2005 10.4
10.22	Non-Plan Stock Option Agreement with Richard B. Slansky dated December 20, 2005 #	X	8-K	Dec. 23, 2005 10.5
10.23	Falcon Launch Services Agreement with Space Exploration Technologies Corporation dated November 15, 2005 *	X	8-K/A	Dec. 22, 2005 10.1
10.24	Statement of Work with Andrews Space, Inc. awarded June 27, 2005	X	10-QSB/A	Dec. 23, 2005 10.2
10.25	Securities Purchase Agreement dated January 12, 2006	X	8-K	Jan. 17, 2006 99.1
10.26	Registration Rights Agreement dated January 12, 2006	X	8-K	Jan. 17, 2006 99.2
10.27	Form of Series D Preferred Stock Warrant	X	8-K	Jan. 17, 2006 99.3
10.28	Form of Common Stock Warrant	X	8-K	Jan. 17, 2006 99.4
10.29	Executive Employment Agreement with Scott Tibbitts dated January 31, 2006 #	X	8-K	Feb. 6, 2006 99.1
10.30	Non-Competition Agreement with Scott Tibbitts dated January 31, 2006 #	X	8-K	Feb. 6, 2006 99.3
10.31	Amendment No. 2 to the SpaceDev 2004 Equity Incentive Plan #	X	8-K	Feb. 6, 2006 99.5
10.32	Security Agreement dated as of September 29, 2006	X	8-K/A	Oct. 10, 2006 99.2
10.33	Agreement and Plan of Merger SpaceDev Colorado and SpaceDev Delaware	X	8-K	Aug. 24, 2007 10.1
10.34		X	8-K	99.1

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	Stock Purchase Agreement with OHB Technology AG and MT Aerospace AG dated September 14, 2007			Sept. 19, 2007	
10.35	Stockholder Agreement with OHB Technology AG and MT Aerospace AG dated September 14, 2007	X	8-K	Sept. 19, 2007	99.2
10.36	Stock Purchase Agreement with Loeb Partners Corporation dated December 4, 2007	X	8-K	Dec. 10, 2007	99.1
10.37	Stockholder Agreement with Loeb Partners Corporation dated December 4, 2007	X	8-K	Dec. 10, 2007	99.2
10.38	Stock Purchase Agreement with OHB Technology AG and MT Aerospace AG dated December 19, 2007	X	8-K	Dec. 21, 2007	99.1
10.39	Amended Stockholder Agreement with OHB Technology AG and MT Aerospace AG dated December 19, 2007	X	8-K	Dec. 21, 2007	99.2
14.1	Code of Ethics	X	10-KSB	Mar. 28, 2003	10.15
21.1	List of Subsidiaries	X	10-KSB	Mar. 28, 2008	21.1
23.1	Consent of PKF	X			
23.2	Consent of Heller Ehrman LLP [included see in Exhibit 5.2 above]	X	SB-2	Jan. 14, 2008	5.2

\* Registrant requested confidential treatment pursuant to Rule 406 for a portion of the referenced exhibit and has separately filed such exhibit with the Commission.

# Management compensation plan or arrangement.