Sorrento Therapeutics, Inc.
Form 8-K
September 09, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d)

of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): September 8, 2015

SORRENTO THERAPEUTICS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**001-36150**	**33-0344842**
(State or other jurisdiction of incorporation or organization)	**(Commission File Number)**	**IRS Employer Identification No.)**

9380 Judicial Drive

San Diego, CA 92121

(Address of principal executive offices)

Registrant s telephone number, including area code: (858) 210-3700

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

¨ Written communication pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 8.01 Other Items.

On September 8, 2015, Sorrento Therapeutics, Inc. (the Company) issued a press release announcing that Dr. Henry Ji, President and Chief Executive Officer, will be presenting at several upcoming conferences. A copy of the press release is attached as Exhibit 99.1 and incorporated herein by reference.

Item 9.01 Financial Statements and Exhibits.

Exhibit No.	Description
99.1	Press release dated September 8, 2015.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: September 9, 2015

SORRENTO THERAPEUTICS, INC.

By: /s/ Henry Ji
Name: Henry Ji
Title: President and Chief Executive Officer

e Company's 2002 fiscal year. All Other Fees Ernst & Young LLP has billed the Company $77,857 in the aggregate, for professional services rendered by Ernst & Young LLP for all services other than those services covered in the section captioned "Audit Fees" for the Company's 2002 fiscal year. These other services include (i) tax planning and assistance with the preparation of returns, (ii) employee benefit plan services and (iii) consultations on the effects of various accounting issues and changes in professional standards. In making its recommendation to ratify the appointment of Ernst & Young LLP as the Company's independent accountants for the fiscal year ending June 30, 2003, the Audit Committee has considered whether the provision of non-audit services provided by Ernst & Young LLP is compatible with maintaining the independence of Ernst & Young LLP. THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG LLP AS INDEPENDENT ACCOUNTANT OF THE COMPANY FOR THE FISCAL YEAR ENDING JUNE 30, 2003. 8 Security Ownership of Certain Beneficial Owners and Management The following table sets forth as of June 30, 2002, certain information regarding the beneficial ownership of the Company's outstanding Common Stock and Series B Senior Convertible Preferred Stock held by (i) each person known by the Company to be a beneficial owner of more than five percent (5%) of any outstanding class of the Company's capital stock, (ii) each of the Company's directors and director nominees, (iii) the Named Executive Officers (as identified in the Summary Compensation table of this proxy statement) and (iv) all directors and executive officers of the Company as a group: Amount and Nature of Beneficial Percentage Ownership of Class/(1)/ --------- ------------ Name and Address of Beneficial Owners: Series B Senior Convertible Preferred Stock Astrium N.V. .... 1,333,334 100% Common Stock Dimension Fund Advisors .... 692,700/(2)/ 5.7% Mitsubishi Corporation. .... 614,582/(3)/ 5.1% SPACEHAB Taiwan, Inc. .... 791,666/(4)/ 6.9% Special Situations Fund III, L.P .... 700,000/(5)/ 5.8% Special Situations Technology Fund, L.P .... 200,000/(5)/ 1.7% Special Situations Cayman Fund, L.P .... 200,000/(5)/ 1.7% State of Wisconsin Investment Board .... 1,497,400/(6)/ 12.3% Non-Employee Directors: Hironori Aihara .... 40,000/(7)/ * Melvin D. Booth .... 25,000/(8)/ * Dr. Edward E. David, Jr. .... 41,000/(9)/ * Richard Fairbanks .... 105,000/(10)/ * Josef Kind .... 10,000/(11)/ * Gordon S. Macklin .... 75,000/(12)/ * James R. Thompson .... 40,000/(13)/ * Named Executive Officers: Daniel A. Bland .... 114,343/(14)/ * Dr. Shelley A. Harrison .... 477,743/(15)/ 3.8% Michael E. Kearney .... 165,248/(16)/ 1.4% John M. Lounge .... 153,967/(17)/ 1.3% Julia A. Pulzone .... 64,914/(18)/ * Travis D. Robinson .... 29,568/(19)/ * John B. Satrom .... 51,967/(20)/ * All Directors and Executive Officers as a Group (14 persons). 1,403,750 10.7% __________________ (*) Indicates beneficial ownership of less than 1% of the outstanding shares of Common Stock. (1) Calculated pursuant to Rule 13d-3(d) of the Securities Exchange Act of 1934. Under Rule 13d-3(d), shares not outstanding which are subject to options, warrants, rights or conversion privileges exercisable within 60 days are deemed outstanding for the purpose of calculating the number and percentage owned by a person, but not deemed outstanding for the purpose of calculating the number and percentage owned by any other person listed. As of June 30, 2002, the Company had 12,154,495 shares of Common Stock outstanding. 9 (2) Represents 692,700 shares of Common Stock held by Dimension Fund Advisors in discretionary accounts for the benefit of its clients. This holder disclaims beneficial ownership of all shares of Common Stock held by it. This holder's address is 1299 Ocean Avenue, Santa Monica, California 90401. (3) Represents 614,582 shares of Common Stock beneficially owned by Mitsubishi Corporation and its affiliates. The address of Mitsubishi Corporation is 3-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo, Japan. (4) Except for its ownership of shares of Common Stock, SPACEHAB Taiwan, Inc. has no other affiliation with the Company. Its address is 14/th/ Floor No. 180, Chang-Shiao E. Road, Sec. 4, Taipei, Taiwan, R.O.C. (5) Represents a total of 1,100,000 shares held by Special Situations, L.P., Special Situations Technology Fund, L.P. and Special Situations Cayman Fund, L.P., collectively the "Special Situations Funds". Austin W. Marxe and David M. Greenhouse are the primary owners of the investment advisory general partner of each of the Special Situations Funds. Special Situations Funds disclaims beneficial ownership of all shares of Common Stock held by it. Special Situations Funds' address is 153 East 53rd Street, New York, New York 10022. The principal address of Special Situations Cayman Fund, L.P. is c/o CIBA Bank and Trust Company (Cayman) Limited, CIBC Bank Building, P.O. Box 694, Grand Cayman, Cayman Islands, British West Indies. (6) Includes an aggregate of 1,497,400 shares of Common Stock held by State of Wisconsin Investment Board in discretionary accounts for the benefit of its clients. Its address is P.O. Box 7842, Madison, Wisconsin 53707. (7) Represents options to purchase 40,000 shares of Common Stock. Excludes 614,582 shares of Common Stock held by Mitsubishi Corporation and its affiliates. Mr. Aihara is currently President and Chief Executive Officer of Mitsubishi International Corporation. Mr. Aihara disclaims beneficial ownership of all shares of Common Stock held by Mitsubishi Corporation and its affiliates. (8) Includes options to purchase 25,000 shares of Common Stock. (9) Includes options to purchase 40,000 shares of Common Stock. (10) Includes options to purchase 25,000 shares of Common Stock. (11) Includes options to purchase 10,000 shares of Common Stock. (12) Represents (i) 35,000 shares of Common Stock held in the Gordon S. Macklin Family Trust, and (ii) options to purchase 40,000 shares of Common Stock. (13) Includes options to purchase 35,000 shares of Common Stock. (14) Includes options to purchase 87,076 shares of Common Stock and 27,267 shares of Common Stock purchased through the Company's 1997 Employee Stock Purchase Plan. (15) Includes (i) 28,238 shares of Common Stock; (ii) options to purchase 367,214 shares of Common Stock; and (iii) 82,291 shares of Common Stock held by Harrison Enterprises, Inc., of which Dr. Harrison is a director and officer and retains sole voting and investment power with respect to such shares. (16) Includes options to purchase 109,575 shares of Common Stock and 55,673 shares of Common Stock purchased through the Company's 1997 Employee Stock Purchase Plan. (17) Includes options to purchase 140,656 shares of Common Stock and 13,311 shares of Common Stock purchased through the Company's 1997 Employee Stock Purchase Plan. (18) Includes options to purchase 57,500 shares of Common Stock and 7,414 shares of Common Stock purchased through the Company's 1997 Employee Stock Purchase Plan. (19) Includes options to purchase 19,000 shares of Common Stock and 10,568 shares of Common Stock purchased through the Company's 1997 Employee Stock Purchase Plan. 10 (20) Includes options to purchase 19,000 shares of Common Stock and 32,967 shares of Common Stock purchased through the Company's 1997 Employee Stock Purchase Plan. Executive Compensation Summary Compensation Table The following table summarizes the compensation paid by the Company for the last three fiscal years to its Chief Executive Officer and the Company's four other most highly compensated executive officers other than the Chief Executive Officer. These officers are referred to in this proxy statement as the Named Executive Officers. Long-Term Compensation ------------------ Annual Compensation Awards --- Name and Securities Fiscal Year Salary($) Bonus($)/(1)/ Underlying Other Annual Principal Position Option/SARs Compensation (#) ($) --- Dr. Shelley A. Harrison 2002 444,500 49,450 30,000 -- Chairman and Chief Executive 2001 433,851 36,366 41,000 -- Officer 2000 414,733 117,401 200,000 -- Michael E. Kearney 2002 261,539 36,000 10,000 -- President and Chief Operating 2001 233,683 47,559 33,000 -- Officer 2000 214,532 55,623 40,000 -- Daniel A. Bland 2002 198,770 21,965 6,000 -- Senior Vice President, 2001 184,263 28,805 26,000 -- Flight Services 2000 153,324 27,203 26,250 -- John M. Lounge/(2)/ 2002 230,155 16,170 6,000 -- Senior Vice President, 2001 220,964 18,528 20,000 -- Enterprise Program 2000 207,133 45,768 60,832 -- Julia A. Pulzone 2002 205,046 34,406 -- -- Senior Vice President, Finance 2001 191,314 41,507 20,000 -- and Chief Financial Officer 2000 185,000 19,553 20,000 -- ________________ (1) Except as indicated, no executive named in the above table received Other Annual Compensation in an amount in excess of the lesser of either $60,000 or 10% of the total of salary and bonus reported for him or her in the two preceding columns. (2) Mr. Lounge was employed by the Company during fiscal year 2002. His employment terminated on July 31, 2002. 11 Option Grants in Fiscal Year 2002 The following table sets forth information relating to the grant of stock options by the Company during fiscal year 2002 to the Named Executive Officers under the Company's 1994 Stock Incentive Plan. The Company did not grant any stock appreciation rights in fiscal year 2002. Individual Grants --- % of Total Potential Realizable Value Options at Assumed Annual Rates of Number of Granted to Exercise Stock Price Appreciation Securities Employees Price Per For Option Underlying in Fiscal Share Term/(1)/ Name Options(#)/(2)/ 2002 ($/sh) Expiration Date 5% 10% ---- ------- ----- ---- ------ -------------- ------------------------- Dr. Shelley A. Harrison 30,000 57.7% 2.31 July 23, 2011 43,582 110,446 Michael E. Kearney 10,000 19.2% 2.31 July 23, 2011 14,527 36,815 Daniel A. Bland 6,000 11.5% 2.31 July 23, 2011 8,716 22,089 John M. Lounge 6,000 11.5% 2.31 July 23, 2011 8,716 22,089 Julia A. Pulzone -- -- -- -- -- -- ______________ (1) The indicated dollar amounts are the result of calculations based on the exercise price of the options and assume five and ten percent appreciation rates set by the Securities and Exchange Commission and, therefore, are not intended to forecast possible future appreciation, if any, of the Company's stock price. (2) The Options vest ratably over a four-year period commencing July 23, 2002. 12 Aggregated Option Exercises in Fiscal 2002 and Fiscal Year End Values The following table sets forth the number of shares covered by stock options held by the Named Executive Officers at June 30, 2002, and also shows the value of "in-the-money" options (market price of the Company's stock less the exercise price) at that date. Except as listed in the table, no other Named Executive Officer exercised any Company stock options or beneficially owned unexercised Company stock options. Number of Securities Value of Unexercised Underlying Unexercised Options In-the-Money Options at June at June 30, 2002 30, 2002 /(1)/ (#) ($) Name Exercisable Unexercisable Exercisable Unexercisable ---- ----------- ------------- ----------- ------------- Dr. Shelley A. Harrison 285,178 189,822 0 0 Michael E. Kearney 84,200 62,750 0 0 Daniel A. Bland 68,951 44,999 0 0 John M. Lounge 117,924 53,000 0 0 Julia A. Pulzone 47,500 67,500 0 0 (1) Based on the difference between the closing market price on June 30, 2002 for the Common Stock, which was $1.05 per share, and the option exercise price. The above valuations may not reflect the actual value of unexercised options, as the value of unexercised options will fluctuate with market activity. Employment Agreements On April 1, 1997, the Company entered into an employment agreement with Dr. Harrison, which was amended on January 15, 1998 and was further amended and restated on January 15, 1999 and March 31, 2002, respectively. The agreement provides that Dr. Harrison will serve the Company as Chief Executive Officer through March 31, 2003, subject to earlier termination as provided in the agreement. Thereafter, Dr. Harrison's employment term will automatically renew for consecutive one-year terms unless notice is delivered, by Dr. Harrison or the Company, 90 days prior to the expiration of such term. The agreement sets forth a minimum base salary for Dr. Harrison of $275,000, $300,000, $325,000, $350,000 and $375,000 for the first five years, respectively, of the agreement's term. Dr. Harrison is entitled to participate in the employee benefit plans of the Company and is eligible for the grant of stock options, in the sole discretion of the Compensation Committee, under the Company's 1994 Stock Incentive Plan. In addition, pursuant to the agreement, the Company agreed to grant 60,000 additional options to Dr. Harrison in October 1997 at an exercise price of $11.00. In the event of a transaction constituting a change in control of the Company (as defined in the agreement), Dr. Harrison is also entitled to a special bonus equal to three times the highest of his last three annual bonuses. The agreement includes provisions that are effective upon termination of Dr. Harrison's employment under certain circumstances. Pursuant to the agreement, following a termination of his employment other than for "cause" or a "material breach" (each as defined in the agreement), Dr. Harrison is entitled to continuation of his base salary and medical coverage and certain other benefits for thirty months and immediate vesting of all unvested options. Also pursuant to the agreement, if Dr. Harrison's employment is terminated following a change in control of the Company other than for "cause" or a "material breach", Dr. Harrison will be entitled to a lump-sum amount equal to three times the sum of his then-current base salary plus the average of his last three annual bonuses, and Dr. Harrison 13 will also be entitled to continuation of medical coverage and certain other benefits for thirty-six months. On August 1, 2000, the Company entered into an employment agreement with Mr. Bland. The agreement provides that Mr. Bland will serve as Senior Vice President, Space Flight Services for a term of one year, subject to automatic annual renewal for one year periods thereafter unless notice is delivered, by Mr. Bland or the Company, 60 days prior to the expiration of such term. The agreement sets forth a minimum base salary of $190,000 per year for its term, subject to increase at the sole discretion of the Compensation Committee of the Board of Directors. Mr. Bland is also eligible to receive at the sole discretion of the Compensation Committee an annual performance based bonus. Mr. Bland is entitled to participate in the employee benefit plans of the Company and is eligible for the grant of stock options, in the sole discretion of the Compensation Committee, under the Company's 1994 Stock Incentive Plan. The agreement includes provisions that are effective upon the termination of Mr. Bland's employment under certain circumstances. In general, Mr. Bland is entitled to continuation of his base salary and medical coverage and certain other benefits for six months following a termination of employment by the Company other than for "cause" or a "material breach". On January 1, 2001, the Company entered into an employment agreement with Mr. Kearney which was amended on October 30, 2001. The agreement provides that Mr. Kearney will serve as the Company's President and Chief Operating Officer for a term of two years, subject to automatic annual renewal for one year periods thereafter unless notice is delivered, by Mr. Kearney or the Company, 60 days prior to the expiration of such term. The agreement sets forth a minimum base salary of $250,000 per year for its term, subject to increase at the sole discretion of the Compensation Committee of the Board of Directors. Mr. Kearney is also eligible to receive at the sole discretion of the Compensation Committee an annual performance based bonus. Mr. Kearney is entitled to participate in the employee benefit plans of the Company and is eligible for the grant of stock options, in the sole discretion of the Compensation Committee, under the Company's 1994 Stock Incentive Plan. The agreement includes provisions that are effective upon the termination of Mr. Kearney's employment under certain circumstances. In general, Mr. Kearney is entitled to continuation of his base salary and medical coverage and certain other benefits for six months following a termination of employment by the Company other than for "cause" or a "material breach". On February 14, 2000, the Company entered into an employment agreement with Ms. Pulzone which was further amended on October 30, 2001. That agreement provides that Ms. Pulzone will serve the Company as Senior Vice President, Finance and Chief Financial Officer through July 1, 2002 subject to automatic annual renewal for one-year terms thereafter, unless notice is delivered, by Ms. Pulzone or the Company, 90 days prior to the expiration of such term. The agreement sets forth a minimum base salary of $185,000 per year, subject to increase at the sole discretion of the Compensation Committee of the Board of Directors. Ms. Pulzone is also eligible to receive at the sole discretion of the Compensation Committee an annual performance based bonus and is also entitled to participate in the employee benefit plans of the Company and is eligible for the grant of stock options, in the sole discretion of the Compensation Committee, under the Company's 1994 Stock Incentive Plan. Ms. Pulzone's employment agreement includes provisions under certain circumstances that are effective upon the termination of Ms. Pulzone's employment. In general, Ms. Pulzone is entitled to continuation of her base salary and medical coverage and certain other benefits for a period of six months following a termination of employment by the Company other than for "cause" or a "material breach". 14 On April 10, 1997, the Company entered into an employment agreement with Mr. Lounge. That agreement provides that Mr. Lounge will serve the Company as Vice President, Operations for a term of three years, subject to earlier termination as provided in his agreement. The agreement sets forth a minimum base salary of $125,000 per year for its term, subject to increase at the sole discretion of the Compensation Committee of the Board of Directors. Mr. Lounge is also eligible to receive, at the sole discretion of the Compensation Committee, an annual performance-based bonus. Mr. Lounge is entitled to participate in the employee benefit plans of the Company and is eligible for the grant of stock options, in the sole discretion of the Compensation Committee, under the Company's 1994 Stock Incentive Plan. The agreement includes provisions that are effective upon the termination of Mr. Lounge's employment under certain circumstances. In general, Mr. Lounge is entitled to continuation of his base salary and medical coverage and certain other benefits for six months following a termination of employment by the Company other than for "cause" or a "material breach" (each as defined in the agreement). His employment terminated on July 31, 2002, and Mr. Lounge received termination benefits in accordance with the terms and conditions of his employment agreement. The employment agreements for each of Dr. Harrison, Mr. Bland, Mr. Kearney, Ms. Pulzone and Mr. Lounge include certain restrictive covenants for the benefit of the Company relating to non-disclosure by the officers of the Company's confidential business information, the Company's right to inventions and technical improvements of the officers, and noncompetition by the officers with the Company's business for a period of six months following termination of employment under Mr. Bland's, Mr. Kearney's, Ms. Pulzone's and Mr. Lounge's employment agreement, and twelve months following termination of Dr. Harrison's employment under his employment agreement. Indemnification Agreements The Company has entered into indemnification agreements with each of its directors and certain Named Executive Officers and other officers and senior managers. The agreements provide that the Company shall indemnify and hold harmless each indemnitee from liabilities incurred as a result of such indemnitee's status as a director, officer or employee of the Company, subject to certain limitations. Compensation Committee Report on Executive Compensation Compensation of the Company's executives is subject to review and approval by the Compensation Committee of the Company's Board of Directors. The Compensation Committee consists of two non-employee directors, James R. Thompson (Chairman) and Dr. Edward E. David, Jr., and the Chairman and Chief Executive Officer of the Company, Dr. Shelley A. Harrison. Compensation Philosophy In determining executive compensation policies, the Compensation Committee has four primary objectives: (1) to attract, motivate and retain key executive talent; 15 (2) to balance the flexibility to reward individuals' skills with the need to structure compensation for defined roles; (3) to ensure that executive compensation is competitive with that of other leading companies in related fields; and (4) to provide incentives to achieve corporate objectives, thereby contributing to the overall goal of enhancing stockholder value. The Compensation Committee's compensation policies discussed below are designed to achieve the foregoing objectives. The Compensation Committee expects to review and refine the Company's compensation practices as necessary and appropriate to respond to a changing business environment. In order to evaluate and establish appropriate compensation practices, the Company has historically consulted multiple sources of information. The Compensation Committee generally uses data from benchmark companies within the aerospace and similar high technology industries to assess the Company's performance and compensation operations, product lines, revenues and markets served. The Compensation Committee seeks to set its executive compensation levels competitively with the benchmark companies, to the extent such targets are consistent with the Compensation Committee's objectives. Elements of Executive Compensation The Company's executive compensation program has three components: (1) annual cash compensation in the form of base salary and incentive bonus payments, (2) long-term incentive compensation in the form of stock options granted under the Company's 1994 Stock Incentive Plan and (3) other compensation and employee benefits generally available to all employees of the Company, such as health insurance and retirement plan contributions. Annual cash compensation is primarily designed to reward current performance. Long-term incentives and other compensation and employee benefits are primarily designed to create performance incentives over the long term for executive officers and employees. Base Salary. The base salary of each executive officer is set at a level deemed sufficient to attract and retain qualified executive officers. The Compensation Committee has generally determined target base salaries according to the average base salaries paid by benchmark aerospace and similar high technology companies. Aggregate base salary increases are intended to maintain compensation levels that are in line with leading companies in related fields, while individual base salary increases are set to reflect individual performance levels. The base salaries of certain executive officers are subject to minimums set forth in individual employment agreements. Incentive Bonuses. Annual cash bonuses are designed to provide incentives based on individual contribution to the achievement of the Company's annual business goals. Bonus payments have generally been reflective of the Company's performance in achieving revenues, profitability and other operating and corporate objectives, as well as the scope of an executive officer's responsibilities. The Compensation Committee makes a determination as to incentive bonus payments at the end of each year based on a subjective evaluation of the contributions of individual executive officers to the achievement of the Company's annual business goals. The award of annual incentive bonuses is based on achieving corporate goals. The amount of individual 16 incentive bonus payments is determined by percentage ranges established annually by the Compensation Committee and derived from management recommendations. Stock Options. The grant of stock options is the Company's current method for providing long-term incentive compensation to its employees. The Compensation Committee believes that the use of stock options attracts and retains qualified personnel for positions of substantial responsibility and also serves to motivate its executive officers to promote the success of the Company's business and maximize stockholder value. Compensation of Chief Executive Officer The Compensation Committee based the Chief Executive Officer's compensation for fiscal year 2002 on the policies described above. Dr. Shelley A. Harrison served as Chairman and CEO of the Company throughout the fiscal year. During fiscal year 2002, Dr. Harrison received a total of $493,950 for his services. Dr. Harrison's compensation for fiscal year 2002 was deemed by the Compensation Committee to be appropriate given Dr. Harrison's qualifications and contributions to meeting the Company's objectives. In fiscal 2002, Dr. Harrison received a grant of options to purchase 30,000 shares of the Company's common stock at an exercise price of $2.31 per share. These options vest over a four-year period from the date of grant. This grant is intended to continue to maintain the overall competitiveness of Dr. Harrison's compensation package and strengthen the alignment of Dr. Harrison's interests with those of the stockholders. Tax Deductibility of Executive Compensation Section

162(m) of the Tax Code disallows corporate deductibility for certain compensation paid in excess of $1 million to the Company's Chief Executive Officer and to each of the four other most highly paid executive officers of publicly-held companies. "Performance-based compensation," as defined in Section 162(m), is not subject to the deductibility limitation provided certain stockholder approval and other requirements are met. The Company believes that the stock options granted in fiscal year 2002 and prior years satisfied the requirements of federal tax law and thus compensation recognized in connection with such awards should be fully deductible. It is the Company's intention to maximize the deductibility of compensation paid to its officers, to the extent consistent with the best interests of the Company. During fiscal year 2002, the Company did not exceed the $1 million deductibility cap with respect to any officer covered by Section 162(m). COMPENSATION COMMITTEE, James R. Thompson, Chairman Dr. Edward E. David, Jr. Dr. Shelley A. Harrison Notwithstanding any statement to the contrary in any of the Company's previous or future filings with the Securities and Exchange Commission, the Report of the Compensation Committee and the accompanying Performance Graph shall not be deemed to be incorporated by reference as a result of any general incorporation by reference of this proxy statement or any part thereof into any such filings. 17 AUDIT COMMITTEE REPORT The information contained in this report shall not be deemed to be "soliciting material" or "filed" or incorporated by reference in future filings with the Securities and Exchange Commission, or subject to the liabilities of Section 18 of the Exchange Act, except to the extent that the Company specifically incorporates it by reference into a document filed under the Securities Act of 1933, as amended, or the Exchange Act. The Audit Committee has reviewed and discussed with the Company's management and Ernst & Young LLP the audited consolidated financial statements of the Company contained in the Company's Annual Report on Form 10-K for the Company's 2002 fiscal year. The Audit Committee has also discussed with Ernst & Young LLP the matters required to be discussed pursuant to SAS No. 61 (Codification of Statements on Auditing Standards, AU Section 380), which includes, among other items, matters related to the conduct of the audit of the Company's consolidated financial statements. The Audit Committee has received and reviewed the written disclosures and the letter from Ernst & Young LLP required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and has discussed with Ernst & Young LLP its independence from the Company. Based on the review and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for its 2002 fiscal year for filing with the Securities and Exchange Commission. AUDIT COMMITTEE, Gordon S. Macklin, Chairman Richard Fairbanks James R. Thompson 18 STOCK PERFORMANCE GRAPH Set forth below is a line graph comparing the Company's cumulative total stockholder return on its Common Stock since June 30, 1997, (as measured by dividing the difference between the Company's share price at the beginning and the end of the measurement period by the share price at the beginning of the measurement period) with (i) the cumulative total return of the Nasdaq Stock Market Index of U.S. Companies, (ii) the cumulative total return of the Standard & Poor's Aerospace/Defense Index (SAERO) and (iii) the cumulative total return of the Standard & Poor's Aerospace/Defense Index (S5AEROX). Pursuant to applicable rules under the Securities and Exchange Act of 1934 relating to Proxy Statements, the Company is required to include in the performance graph below an index relating to a published industry or line-of-business. In the proxy statement for fiscal year 2001, the Company included the Standard & Poor's Aerospace/Defense Index (SAERO) to meet this requirement. In this proxy statement, the Company has included the Standard & Poor's Aerospace/Defense Index (S5AEROX) to meet this requirement. This change was required because the Standard and Poor's Aerospace/Defense Index (SAERO) was no longer published as of January 1, 2002. Comparison of Cumulative Total Return* [GRAPH] 19 Standard & Poor's Standard & Poor's NASDAQ Aerospace/Defense Aerospace/Defense U.S. Company Index Index SPACEHAB, Inc. Index (SAERO) (S5AEROX) ------------- ----------- ---------------- ---------------- June 30, 1997 $ 100.00 $ 100.00 $ 139.98 $ 100.00 June 30, 1998 $ 130.28 $ 131.66 $ 130.13 $ 99.67 June 30, 1999 $ 57.75 $ 189.58 $ 118.69 $ 112.97 June 30, 2000 $ 50.70 $ 280.04 $ 102.72 $ 76.59 June 30, 2001 $ 25.35 $ 151.79 $ 144.58 $ 97.00 June 30, 2002 $ 11.83 $ 103.38 $ ** $ 106.95 ----------------- * Assumes that the value of an investment in the Company's Common Stock, the Nasdaq Stock Market Index of U.S. Companies, the Standard & Poor's Aerospace Defense Index (ticker: SAERO) and the Standard and Poor's Aerospace/Defense Index (ticker: S5AEROX) was $100 on June 30, 1997 and that all dividends were reinvested. ** No data is presented for June 30, 2002, because the Standard and Poor's Aerospace/Defense Index (SAERO) was no longer published as of January 1, 2002. Independent Public Accountants On September 7, 2000, the Company engaged Ernst & Young LLP to audit the Company's consolidated financial statements. Ernst & Young LLP replaced KPMG LLP as the principal accountants to audit the

Company's consolidated financial statements. Ernst & Young LLP has served as the Company's principal accountants since 2000. Ernst & Young LLP's reports on the Company's consolidated financial statements for fiscal year 2002 contained an unqualified opinion. During the Company's two most recent fiscal years and the subsequent interim period through September 23, 2002, (i) there were no disagreements between the Company and Ernst & Young LLP on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure which, if not resolved to the satisfaction of Ernst & Young LLP, would have caused Ernst & Young LLP to make reference to the subject matter of the disagreement in connection with its reports and (ii) there were no events of the kind that are described in Item 304(a)(1)(v) of Regulation S-K under the Securities Act of 1933, as amended. Representatives of Ernst & Young LLP are expected to be present at the Annual Meeting and will have the opportunity to make such statements as they may desire. They are also expected to be available to respond to appropriate questions from the stockholders present at that meeting. Information Regarding Change of Independent Public Accountants On September 7, 2000, SPACEHAB, Incorporated (the "Company") dismissed KPMG LLP as the independent public accountants of the Company. The decision to change accountants was recommended by the Audit Committee and approved by the Company's Board of Directors acting through its Executive Committee. The reports of KPMG LLP on the financial statements of the Company for the fiscal years ended June 30, 1999 and 2000, contained no adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope, or 20 accounting principles. During the Company's fiscal years ended June 30, 1999 and 2000 and through September 13, 2000 (the date that the Company filed a Current Report on Form 8-K disclosing its decision to no longer engage KPMG LLP) there were no disagreements with KPMG LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements if not resolved to the satisfaction of KPMG LLP would have caused it to make reference to the subject matter of the disagreements in its report on the financial statements of the Company for such years and the Company had no reportable events (as defined in Item 304 (a) (1) (v) of Regulation S-K). OTHER MATTERS The Board of Directors of the Company knows of no matters to be presented at the Annual Meeting other than those described in this proxy statement. In the event that other business properly comes before the meeting, the persons named as proxies will have discretionary authority to vote the shares represented by the accompanying proxy in accordance with their own judgment. Proxy Solicitation Expense The cost of the solicitation of proxies will be borne by the Company. In addition to solicitation by mail, directors, officers and employees of the Company and its subsidiaries, without receiving any additional compensation, may solicit proxies personally or by telephone or facsimile. The Company has retained American Stock Transfer & Trust Company to request brokerage houses, banks and other custodians or nominees holding stock in their names for others to forward proxy materials to their customers or principals who are the beneficial owners of shares and will reimburse them for their expenses in doing so. The Company does not anticipate that the costs and expenses incurred in connection with this proxy solicitation will exceed those normally expended for a proxy solicitation for those matters to be voted on in the Annual Meeting. Compliance with Section 16(a) of the Securities Exchange Act of 1934 Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and executive officers and persons who beneficially own more than 10% of the Company's Common Stock to file reports of ownership and changes in ownership with the Securities and Exchange Commission, or SEC. Such directors, executive officers and greater than 10% stockholders are required by SEC regulation to furnish to the Company copies of all Section 16(a) forms they file. The Company believes that during fiscal year 2002, all Section 16(a) filing requirements were satisfied on a timely basis, except that due to a clerical error the Form 4 to reflect the 5,000 share annual grant of options for each director who is not also an employee of the Company was filed on Form 5 on August 13, 2002, rather than immediately following the grant dates November 20, 2001 and March 13, 2002. Deadline for Submission of Stockholder Proposals for Next Year's Annual Meeting The proxy rules adopted by the Securities and Exchange Commission provide that certain stockholder proposals must be included in the proxy statement for the Company's 2003 Annual Meeting. For a proposal to be considered for inclusion in the Company's proxy materials for the Company's Annual Meeting of Stockholders, it must be received in writing by the Company on or 21 before May 15, 2003 at its principal office, 300 D Street, SW, Suite 801, Washington, D.C. 20024, Attention: Secretary. The Company's Annual Report on Form 10-K, including the Company's audited financial statements for the year ended June 30, 2002, is being mailed herewith to all stockholders of record on the record date. By Order of the Board of Directors, Julia A. Pulzone Senior Vice President, Finance and Chief Financial Officer Secretary and Treasurer Washington, D.C. September 30, 2002 Each stockholder, whether or not he or she expects to be present in person at the Annual Meeting, is requested to MARK, SIGN, DATE and RETURN THE ENCLOSED PROXY CARD in the accompanying envelope as promptly as possible. A stockholder may revoke his or her proxy at any time prior to voting. 22 ANNEX A AUDIT COMMITTEE CHARTER The Audit Committee of the Board of Directors shall be comprised of three or more independent directors who are not officers or employees of the Company or any entity controlling, controlled by or under common control of the Company. All members of the Audit Committee shall have a working familiarity with basic financial and accounting practices. The Board of Directors shall designate one of the members of the Audit Committee as its Chairman. The Audit Committee shall meet at least three times a year, or more frequently as circumstances dictate. The Audit Committee shall report all proceedings to the Board of Directors. The Audit Committee shall keep regular minutes of its meetings. The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities. In this regard the Audit Committee shall (1) recommend for approval by the Board of Directors, the selection of independent public accountants, to be accountable to the Board of Directors and to the Audit Committee, (2) require the independent public accountants to annually declare relationships and/or services which may impact on their objectivity and independence, (3) ensure that appropriate internal controls and procedures regarding accounting, financial and legal compliance are in place, (4) review the results of independent audits with management including the scope, plan and results of any audits completed by the external auditors, (5) review with the Company's outside counsel any legal and regulatory matters that may have a material impact on the Company's financial statements, (6) meet with the management, independent accountants and outside counsel in separate executive sessions to discuss any matters that the Committee or each of these groups believe should be discussed privately, (7) review with the Board of Directors the performance of the independent auditors, (8) approve other, non-audit services to be provided by the Company's independent public accountants, (9) appoint counsel and accountants, independent of those representing the Company generally, as is determined to be necessary by the Committee and (10) perform any other activities consistent with the Company's charter, by-laws and applicable laws and regulations as the Board of Directors deems necessary or appropriate. 23 SPACEHAB, INCORPORATED THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS ANNUAL MEETING OF STOCKHOLDERS - November 12, 2002 P The undersigned hereby appoints Dr. Shelley A. Harrison and Michael E. Kearney, and each of them, as proxies of the undersigned, each with R full power to act without the other and with full power of substitution and re-substitution, to vote all the shares of Common O Stock of SPACEHAB, Incorporated that the undersigned is entitled to vote at the Annual Meeting of Stockholders to be held on November 12, X 2002, at 9:00 am. (local time), at the offices of Dewey Ballantine LLP, 1775 Pennsylvania Avenue, N.W., Washington, D.C. 20006, and at Y any postponements or adjournments thereof, with all the powers the undersigned would have if personally present, as follows: The Board of Directors recommends a vote FOR the following items: (1) To elect to the Board of Directors the following nominees for the term indicated in the proxy statement. FOR all nominees listed below (except as marked to the contrary by lining out or striking through below). [_] Hironori Aihara Richard Fairbanks Gordon S. Macklin Melvin D. Booth Dr. Shelley A. Harrison James R. Thompson Dr. Edward E. David, Jr. Michael E. Kearney [_] FOR [_] AGAINST [_] ABSTAIN INSTRUCTION: To withhold authority to vote for any individual nominee, write that nominee's name in the space provided below: ____ (2) Ratification of the appointment by the Board of Directors of Ernst & Young LLP as independent public accountants for fiscal year 2003. [_] FOR [_] AGAINST [_] ABSTAIN In their discretion, the proxies are authorized to vote upon such other matters as may properly come before the meeting, all in accordance with the accompanying Notice and proxy statement, receipt of which is hereby acknowledged. IF THIS PROXY IS PROPERLY EXECUTED AND TIMELY RETURNED, THE SHARES REPRESENTED THEREBY WILL BE VOTED. IF A CHOICE IS SPECIFIED BY THE STOCKHOLDER, THE SHARES WILL BE VOTED ACCORDINGLY. IF NOT OTHERWISE SPECIFIED, THE SHARES REPRESENTED BY THIS PROXY WILL BE VOTED FOR ITEMS 1 and 2. Dated ________________________________ 2002 ____ ____ Sign exactly as name appears hereon. When signing in a representative capacity, please give full title. Joint owners (if any) should each sign. THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS