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SPACEDEV INC
Form POS AM
June 07, 2006

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON June 7, 2006

Registration Statement No. 333-131778

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

POST EFFECTIVE AMENDMENT NO. 1
FORM SB-2
REGISTRATION STATEMENT
UNDER THE SECURITIES ACT OF 1933

SPACEDEV, INC.
(Exact name of registrant as specified in its charter)

COLORADO	3761	84-1374613
(State or other jurisdiction of incorporation or organization)	(Primary standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

13855 STOWE DRIVE
POWAY, CALIFORNIA 92064
(858) 375-2000

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

RICHARD B. SLANSKY
PRESIDENT AND CHIEF FINANCIAL OFFICER
SPACEDEV, INC.
13855 STOWE DRIVE
POWAY, CALIFORNIA 92064
(858) 375-2030

(Name, address, including zip code, and telephone number, including area code, of agent for service)

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC:
FROM TIME TO TIME AFTER THE EFFECTIVE DATE OF THIS REGISTRATION STATEMENT AS DETERMINED BY MARKET CONDITIONS AND OTHER FACTORS.

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. []

IF THIS FORM IS A POST-EFFECTIVE AMENDMENT FILED PURSUANT TO RULE 462(C) UNDER

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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. []

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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.

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THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. THE SELLING SHAREHOLDERS MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT AMENDMENT 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 _____, 2006

SPACEDEV, INC.

PROSPECTUS

12,140,280 shares of common stock

This prospectus relates to the sale of up to 12,140,280 shares of our common stock by the selling shareholders identified in this prospectus. The prices at which the selling shareholders 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 May 31, 2006 was \$1.26 .

AN INVESTMENT IN OUR COMMON STOCK INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" BEGINNING ON PAGE 7 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.

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The date of this prospectus is June 7, 2006.

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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 shareholders are offering to sell, and are 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 Colorado corporation, unless the context otherwise requires and references to the "combined company" refer to SpaceDev and Starsys Research Corporation, following the merger of the two companies which occurred on January 31, 2006.

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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 is engaged in the conception, design, development, manufacture, integration and operation of space technology systems, products and services. SpaceDev is currently focused on the commercial and military development of low-cost microsatellites, nanosatellites and related subsystems, hybrid rocket

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propulsion for space, launch and human flight vehicles as well as associated engineering and technical services, which are provided primarily to government agencies, and specifically the Department of Defense. SpaceDev's products and solutions are sold, mainly on a project-basis, directly to these customers and include sophisticated micro- and nano-satellites, hybrid rocket-based launch vehicles, maneuvering and orbital transfer vehicles and safe sub-orbital and orbital hybrid rocket-based propulsion systems. Although SpaceDev believes there will be a commercial market for its microsatellite and nanosatellite products and services in the future, virtually all of its current work is for branches of the United States military. SpaceDev is also developing commercial hybrid rocket motors for use in small launch vehicles, targets and sounding rockets, and small, high-performance space vehicles and subsystems for commercial customers.

Starsys Research Corporation was acquired by SpaceDev on January 31, 2006 in a tax-free forward triangular merger, renamed Starsys, Inc., and is now a wholly-owned subsidiary of SpaceDev. Starsys is engaged in the design and manufacture of mechanical and electromechanical subsystems and components for spacecraft. Starsys' subsystems enable critical spacecraft functions such as pointing solar arrays and communication antennas and restraining, deploying and actuating moving spacecraft components. Starsys manufactures a wide range of products that include bi-axis gimbals, flat plate gimbals, solar array pointing mechanisms, deployable booms, separation systems, thermal louvers, actuators, restraint devices and cover systems. Starsys' products are sold both as "off-the-shelf" catalog products, which represent previously qualified devices with spaceflight history, and as custom systems that are developed for specific applications. Starsys' products are typically sold directly to spacecraft manufacturers. Starsys' customer base is segregated into three major segments: (1) domestic and international commercial spacecraft (communication and imaging satellites), (2) civil spacecraft (NASA) that are primarily scientific in nature and (3) defense spacecraft that support the United States' military capability. Starsys also offers products to non-space customers, including aerospace, maritime, and industrial customers.

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

PRINCIPAL EXECUTIVE OFFICES

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

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THE OFFERING

This prospectus relates to the following shares:

OCTOBER 2005 PRIVATE PLACEMENT

- 2,032,520 shares of common stock we sold to The Laurus Master Fund, Ltd. ("Laurus") at \$1.23 per share pursuant to a securities purchase agreement we entered into in October 2005, which we refer to as the 2005 purchase agreement;
- 450,000 shares of common stock issued or issuable to Laurus and its assigns upon the exercise of warrants at an exercise price of \$1.93 per share granted pursuant to the 2005 purchase agreement; **JANUARY 2006 PRIVATE PLACEMENT**
- 4,523,652 shares of common stock issued or issuable to a small syndicate of

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institutional investors or their assigns upon the conversion or redemption of shares of our Series D-1 Preferred Stock that we sold to the investors pursuant to a securities purchase agreement we entered into in January 2006, which we refer to as the 2006 purchase agreement;

- 1,475,678 shares of common stock issued or issuable to the institutional investors and their assigns upon the exercise of warrants at an exercise price of \$1.51 per share granted pursuant to the 2006 purchase agreement;

- 1,756,757 shares of common stock issued or issuable to the institutional investors and their assigns upon conversion or redemption of shares of Series D-1 Preferred Stock which may be issued upon the exercise of preferred stock unit warrants issued to the investors and their assigns that were granted pursuant to the 2006 purchase agreement. Alternatively, such shares of common stock may be issued pursuant to our exercise of an additional investment option set forth in the 2006 purchase agreement;

- 573,078 shares of common stock issuable to the institutional investors and their assigns upon exercise of warrants which may be issued upon exercise of preferred stock unit warrants issued to the investors and their assigns that were granted pursuant to the 2006 purchase agreement;

- 1,192,886 shares of common stock that may be issued as dividends to the holders of the Series D-1 Preferred Stock for a period of three years from January 2006; and,

- 135,709 shares of common stock that may be issued by us upon conversion or redemption of shares of Series D-1 Preferred Stock that may be issued as liquidated damages for specified breaches of the registration rights agreement entered into among us and the investors, which we refer to as the registration rights agreement.

Each of the January 2006 private placement share amounts listed above have been increased by 30%, as required by the registration rights agreement.

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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

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SPACEDEV AND STARSYS HAVE EXPERIENCED LOSSES FROM OPERATIONS IN PRIOR PERIODS AND HAVE BEEN REQUIRED TO SEEK ADDITIONAL FINANCING TO SUPPORT THEIR BUSINESSES.

In prior years, both SpaceDev and Starsys have experienced operating losses and, in some periods, revenues from operations have not been sufficient to fund their respective operations. On a pro forma basis, the combined company would have had a net loss from operations of approximately \$5.0 million for the year ended December 31, 2004 and \$2.9 million for the year ended December 31, 2005, assuming the merger had occurred on January 1, 2004. The success of the combined company's business depends upon our ability to generate revenue from existing contracts, to execute programs cost-effectively, to attract and complete successfully additional government and commercial contracts, and 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 AND FUTURE GROWTH OPPORTUNITIES.

Our future capital requirements will depend upon many factors, including but not limited to sales and marketing efforts, the development of new products and services, the successful completion of existing projects, possible future strategic acquisitions, the progress of our research and development efforts, and the status of competitive products and services. As of March 31, 2006 and 2005, we had a working capital of \$2,646,002, and \$5,126,732, respectively, and an accumulated deficit of \$14,710,427 and \$14,846,800, respectively. As of those dates, we had \$1,142,595 and \$5,412,949, respectively, in cash and cash equivalents and \$5,769,883 and \$620,048, respectively, of accounts receivable, net of allowance for doubtful accounts.

In the past, both SpaceDev and Starsys have relied upon cash from financing activities to fund part of the cash requirements of their respective businesses. We may need additional financing to fund our projected operations. Additional financing may not be available to us on acceptable terms, or at all. Any financing may cause additional dilution to existing shareholders. 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 our ability to pay dividends to shareholders. SpaceDev has not paid dividends on its common stock in the past and does not anticipate paying dividends on its common stock in the foreseeable future.

SOME OF OUR GOVERNMENT CONTRACTS ARE STAGED AND WE CANNOT GUARANTEE THAT ALL STAGES OF THE CONTRACTS WILL BE AWARDED TO US.

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, including but not limited to the Missile Defense Agency contract, are not awarded to us, it could have a material adverse effect on our financial position and results of operations.

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WE PROVIDE OUR PRODUCTS AND SERVICES PRIMARILY THROUGH FIXED-PRICE AND COST PLUS FIXED FEE CONTRACTS. STARSYS HAS EXPERIENCED SIGNIFICANT LOSSES ON FIXED-PRICE CONTRACTS. COST OVERRUNS MAY RESULT IN FURTHER LOSSES AND, IF

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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. Starsys has experienced significant cost overruns on development projects under its fixed-price contracts, resulting in estimated losses on uncompleted contracts of \$2.7 million for Starsys' fiscal 2004, and an additional \$2.5 million for the twelve months ended December 31, 2005. As of December 31, 2005, based on a formal evaluation process, Starsys reserved approximately \$1.5 million for potential risks on these remaining development projects. Fixed-price contracts may provide for sharing 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. We bear the entire risk of cost overruns in excess of the negotiated maximum amount of unexpected costs to be shared. Any significant overruns in the future could materially impair our liquidity and operations.

Under cost plus fixed fee contracts, we are reimbursed for allowable incurred costs plus a fee, which may be fixed or variable. There is no guarantee as to the amount of fee we will be awarded under a cost plus fixed fee 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.

IF WE FAIL TO INTEGRATE OUR OPERATIONS EFFECTIVELY, THE COMBINATION OF SPACEDEV AND STARSYS WILL NOT REALIZE ALL THE POTENTIAL BENEFITS OF THE MERGER AND MAY BE COUNTER PRODUCTIVE.

The integration of SpaceDev and Starsys is ongoing and may be time consuming and expensive and may disrupt the combined company's operations if it is not completed in a timely and efficient manner. If this integration effort is not successful, the combined company's results of operations could be harmed. In addition, the combined company may not achieve anticipated synergies or other benefits of the merger. The combined company may encounter difficulties, costs and delays involved in integrating their operations, including but not limited to the following:

- failure to successfully manage relationships with customers and other important relationships;
- failure of customers to accept new services or to continue using the products and services of the combined company;
- difficulties in successfully integrating the management teams and employees of the two companies;
- potential incompatibility of business cultures;
- 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; and,

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- potential difficulties integrating and harmonizing financial reporting systems.

If the combined company's operations do not meet the expectations of existing customers of either company, these customers may reduce the amount of business or cease doing business with the combined company altogether, which would harm the results of operations and financial condition of the combined company.

If the anticipated benefits of the merger are not realized or do not meet the expectations of financial or industry analysts, the market price of SpaceDev common stock may decline. This could occur if, among other reasons:

- the integration of the two companies is unsuccessful;
- the combined company does not achieve the expected benefits of the merger as quickly as anticipated or the costs of or operational difficulties arising from the merger are greater than anticipated;
- the combined company's financial results after the merger are not consistent with the expectations of management or financial or industry analysts;
- the anticipated operating and product synergies of the merger are not realized; or
- the combined company experiences the loss of significant customers or employees as a result of the merger.

IF WE FAIL TO INTEGRATE STARSYS, INC., OUR NEW WHOLLY OWNED SUBSIDIARY, OUR CASH FLOW AND OPERATING RESULTS COULD BE ADVERSELY AFFECTED.

We recently acquired Starsys, Inc., as a subsidiary of SpaceDev. Starsys which was insolvent at the time of the merger and we have begun making post-acquisition cash investments into Starsys. As stated previously, SpaceDev and Starsys have experienced losses from operations in prior periods, requiring that we seek additional financing to support our businesses. Our operating plans assume revenue and cash growth from SpaceDev and Starsys. If we are unable to effectively integrate our new subsidiary, or if we are unable to create positive cash flow within SpaceDev or Starsys, our cash flow and operating results could be adversely affected.

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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.

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 prior to the time we recognize our projected revenue. Many contracts are awarded in phases where future phases are not guaranteed to us. 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

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contracts may:

- include provisions that allow the government agency to terminate the contract without penalty under some circumstances;
- 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.

SPACEDEV COMMON SHAREHOLDERS WILL EXPERIENCE DILUTION IF OUR PREFERRED STOCK IS CONVERTED OR OUR OUTSTANDING WARRANTS AND OPTIONS ARE EXERCISED.

As of May 1, 2006, SpaceDev is obligated to issue 9,776,177 shares of SpaceDev common stock if all of SpaceDev's outstanding warrants are exercised and shares of preferred stock converted. In addition, as of May 1, 2006, SpaceDev has outstanding stock options to purchase an aggregate of 11,012,142 shares of SpaceDev common stock, of which 10,312,142 are currently vested. The total number of shares, issuable upon the exercise or conversion of currently vested warrants, options and preferred stock (20,088,319 shares) represents approximately 70% of SpaceDev's issued and outstanding shares of common stock as of May 1, 2006.

OUR HISTORIC SPACEDEV BUSINESS' LIMITED OPERATING HISTORY AND LACK OF EXPERIENCE IN OUR NEW OR PROPOSED LINES OF BUSINESS MAKES IT DIFFICULT TO PREDICT OUR FUTURE PROSPECTS.

We have a limited operating history and, as a result, our historical financial information is of limited value in projecting our future success in these markets. We launched our first microsatellite, CHIPSat, in January 2003 and, in June, September and October, 2004, our hybrid rocket technology was first utilized in connection with SpaceShipOne. We hope to sell an increasing percentage of our products and services in commercial markets, but virtually all of our historical work has been from government contracts and government-related work. We recently announced our intention to enter the launch services market by providing a microsat bus, integration services, and a launch vehicle as a package. We will be dependent on the performance of Space Exploration Technologies, a small company with limited operating history which has not yet had a successful launch, for our first launch vehicle. Our microsatellites, nanosatellites and launch services may not achieve market acceptance, and our future prospects are therefore difficult to evaluate.

WE MAY NOT SUCCESSFULLY OR TIMELY DEVELOP PRODUCTS.

Many of our products and technologies are currently under 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. Our ongoing and future product development will depend, in part, on the ability to timely complete our projects within estimated cost parameters and ultimately deploy the product in a cost-effective manner. In addition, Starsys has 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

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additional payments from the 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 the customers under the contracts, our results of operations will be harmed.

THE MARKETPLACE FOR OUR TECHNOLOGY AND PRODUCTS IS UNCERTAIN.

The demand for our technology, products and services 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 for microsatellites and electromechanical systems for spacecraft with a long-term commercial market developing for private manned and unmanned space exploration. Microsatellites 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 developing new product areas such as large deployable structures, solar array drives, slip rings and precision scanning assemblies for spacecraft. 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 products and services, 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 FLUCTUATE OR 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;
- the timing of new technological advances and product announcements or introductions by us and our competitors;
- changes in the terms of our arrangements with customers or suppliers;
- our current reliance on a few customers for a significant portion of our net sales;

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- the failure of our key suppliers to perform as expected;
- general political conditions that could affect spending for the products that we offer;
- delays or failures to satisfy our obligations under our contracts on a timely basis;
- the failure of our products to successfully launch or operate;
- the uncertain market for our technology and products;
- the availability and cost of raw materials and components for our products; and
- the potential loss of key personnel.

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As a result of these factors, period-to-period comparisons of our operating results may not be meaningful, and you should not rely on them as an indication of our future performance. In addition, our operating results may fall below the expectations of public market analysts or investors. In this event, our stock price could decline significantly.

WE FACE SIGNIFICANT COMPETITION AND MANY OF OUR COMPETITORS HAVE GREATER RESOURCES 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 and marketing. Given the sophistication inherent in our 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 produce products or services that compete with our products or services, including new mechanisms and electromechanical subsystems using new technology which could render our 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 PRODUCTS AND SERVICES MAY NOT FUNCTION WELL UNDER CERTAIN CONDITIONS.

Most of our products are technologically advanced and tested, but sometimes are not space qualified for performance under demanding operating conditions. Our products may not be successfully launched or operated, or perform as intended. Like most organizations that have launched satellite programs, we have experienced and in the future will likely experience some product and service failures, cost overruns, schedule delays, and other problems in connection with our products. Our products and services 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.

LAUNCH FAILURES COULD HAVE SERIOUS ADVERSE EFFECTS ON OUR BUSINESS.

Launch failures or delays of our microsattellites could have serious adverse effects on our business. Microsatellite launches are subject to significant risks, the realization of which can cause disabling damage to or total loss of a microsatellite as well as damage to our reputation among actual and potential customers. Delays in the launch could also adversely affect our net sales. Delays could be caused by a number of factors, including:

- designing, constructing, integrating, or testing the microsatellite, microsatellite components, or related ground systems;
- delays in receiving the license necessary to operate the microsatellite systems;
- delays in obtaining the customer's payload;

- delays related to the launch vehicle;
- weather; and
- other events beyond our control.

Delays and the perception of potential delay could negatively affect our marketing efforts and limit our ability to obtain new contracts and projects.

OUR U.S. GOVERNMENT CONTRACTS ARE SUBJECT TO AUDITS THAT COULD RESULT IN A MATERIAL ADVERSE AFFECT 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 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. THE JANUARY 2006 IMPLEMENTATION OF FAS 123(R) AND THE RELATED DECEMBER 2005 ACCELERATION OF VESTING ALL OUTSTANDING STOCK OPTIONS REDUCED THE EFFECTIVENESS OF THE STOCK OPTIONS AS A RETENTION DEVICE.

Our success will be dependent upon the efforts of key members of our management and engineering team, including our chairman and chief technology officer, James W. Benson, our chief executive officer and vice-chairman, Mark N. Sirangelo, our president and chief financial officer, Richard B. Slansky, our vice president of engineering, Frank Macklin, our vice president of programs and new business development, Randall K. Simpson, the managing director of SpaceDev, Scott Tibbitts, the president of Starsys, Inc. Robert Vacek, and certain other SpaceDev 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.

One device we have historically used to enhance our ability to retain and incentivize key personnel is the grant of stock options which are subject to vesting. If the employee leaves us before the vesting period has been completed, he must forfeit a portion of the stock options. In December 2005, in order to avoid adverse financial reporting effects in future years under FAS 123(R), a new accounting standard, we eliminated all future vesting requirements on all of our 8,031,036 stock options then outstanding in the hands of employees, officers, and directors.

OUR GROWTH MAY NOT BE MANAGEABLE AND OUR BUSINESS COULD SUFFER AS A RESULT.

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Even if we are successful in obtaining new business, failure to manage the growth could adversely affect our operations. We may experience extended periods of very rapid growth, 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.

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WE MAY NOT ADDRESS SUCCESSFULLY THE PROBLEMS ENCOUNTERED IN CONNECTION WITH ANY POTENTIAL FUTURE ACQUISITIONS.

We expect to consider opportunities to acquire or make investments in other technologies, products and businesses that could enhance our capabilities, complement our current products or expand the breadth of our markets or customer base. We have limited experience in acquiring other businesses and technologies; the Starsys 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 our core business;
- adverse effects on existing business relationships with suppliers and customers;
- risks associated with entering new markets in which we have no or limited prior experience;
- potential loss of key employees of acquired businesses; and
- increased legal and accounting costs as a result of the newly adopted 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.

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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 launch vehicle and satellite operations, accidental damage to high value customer hardware during the manufacturing process and damages to customer spacecraft caused by our products 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 place insurance for certain 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.

SEVERAL YEARS OF LOW DEMAND AND OVERCAPACITY IN THE COMMERCIAL SATELLITE MARKET HAVE RESULTED IN SLOW GROWTH IN DEMAND FOR SPACE PRODUCTS.

The commercial satellite market has experienced pricing pressures due to excess capacity in the telecommunications industry and weakened demand over the past several years. Satellite demand, and thus subsystem and component orders, have also been impacted by the business difficulties encountered by the commercial satellite services industry. This has resulted in a reduction in the

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total market size in the near term. While the market appears to be making a recovery, growth in the demand for our products may be limited.

OUR COMPETITIVE POSITION WILL 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 technology. We rely on a combination of patents, trade secrets and contracts to establish and protect our proprietary rights in our technology. 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 technology and products, our competitive position will be significantly harmed because it will be much easier for competitors to sell products similar to ours. Alternatively, a competitor may independently develop or patent technologies that are substantially equivalent to or superior to our technology. 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 product line or develop new uses for our products, these products 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 products 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 for our existing or new products, these patents may not provide meaningful protection. In some countries outside of the United States,

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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 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 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 proprietary rights against our products 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. If any of our products were found to infringe on another company's intellectual property rights, we could be required to redesign our products or license such rights and/or pay damages or other compensation to such other company. If we were unable to redesign our products or license such intellectual property rights used in our products, we could be prohibited from 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 are 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.

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WE ARE SUBJECT TO SUBSTANTIAL REGULATION, SOME OF WHICH PROHIBITS 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 regulation 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 or, "ITAR." Exports of our products, services and technical information require either 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

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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.

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, which we refer to as the ITU. In the United States, the Federal Communications Commission, which we refer to as the FCC, and the National Telecommunications Information Agency, which we refer to as 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 regulating 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.

SPACEDEV'S 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 SpaceDev 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;
- changes in our markets, including decreased government spending or the entry of new competitors;
- our inability to obtain financing necessary to operate our business and consummate the merger;

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- changes in technology;

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- potential loss of key personnel;
- short selling;
- changes in market valuations of similar companies and stock market price;
- the Starsys merger; and
- volume fluctuations generally, including re-sales by former Starsys stockholders or by Laurus .

OUR NET OPERATING LOSS CARRYFORWARDS MAY BE SUBJECT TO AN ANNUAL LIMITATION ON THEIR UTILIZATION, WHICH MAY INCREASE OUR TAXES AND DECREASE NET INCOME AND CASH FLOWS.

We had a net deferred tax asset of approximately \$2,484,000 and \$2,075,000 at March 31, 2006 and 2005, respectively, which consisted primarily of the income tax benefits from net operating loss and capital loss carryforwards, amortization of deferred gain on sale of building and research and development credits. Deferred income taxes represent temporary differences in recognizing certain income and expense items for financial and tax reporting purposes. A valuation allowance has been recorded to fully offset the deferred tax asset as it is more likely than not that the assets will not be utilized. The valuation allowance increased from \$2,075,000 at March 31, 2005 to \$2,484,000 at March 31, 2006.

We had federal and state tax net operating loss and capital loss carryforwards of approximately \$4,214,000 and \$2,316,000 at March 31, 2006 and 2005, respectively. The federal tax loss carryforwards will expire in 2023 and the state tax loss carryforwards will expire in 2013, unless previously utilized.

CHANGES IN STOCK OPTION ACCOUNTING RULES MAY ADVERSELY AFFECT OUR REPORTED OPERATING RESULTS PREPARED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, OUR STOCK PRICE AND OUR EFFORTS IN RECRUITING ADDITIONAL EMPLOYEES.

Technology companies, in general, and our company in particular, depend upon and use broad based employee stock option programs to hire, incent and retain employees in a competitive marketplace. Through fiscal 2005, we did not recognize compensation expense for stock options issued to employees or directors, except in limited cases involving modifications of stock options, and we instead disclosed in the notes to our financial statements information about what such charges would be if they were expensed. An accounting standard setting body has adopted a new accounting standard that will require 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 are now recording these expenses beginning with the first quarter of 2006. The change in accounting rules will lead to a decrease in reported earnings, if we have earnings, or an increased loss, if we do not have earnings. This may negatively impact our future stock price. In addition, this change in accounting rules could impact our ability to utilize broad based employee stock plans to reward employees and could result in a competitive disadvantage to us in the employee marketplace.

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 May 1, 2006, our executive officers and directors together beneficially owned approximately 50.27% of the issued and outstanding shares of our common stock. As a result, these persons could have the ability to exert significant influence over matters concerning us, including the election

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of directors, changes in the size and composition of the board of directors, and mergers and other business combinations involving us. In addition, 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 could have the effect of delaying or preventing a change in control of our company, even if the change in control would benefit our shareholders. 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.

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 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 revolving credit facility with Laurus Master Fund Ltd. and 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 shareholders.

OUR EXPANSION INTO OTHER NEW LINES OF BUSINESS MAY DIVERT MANAGEMENT'S ATTENTION FROM OUR EXISTING OPERATIONS AND PROVE TO BE TOO COSTLY.

Our current business plan contemplates the migration of SpaceDev's technology from projects into products for microsatellites and hybrid rocket motors over the next several years. In the meantime, we are investigating other applications of our technology and other markets for our technologies and prospective products. Our expansion into new lines of business may be difficult for us to manage because they may involve different disciplines and require different expertise than our core business. Consequently, this expansion may divert management's time and attention away from our core business, and we may need to incur significant expenses in order to develop the expertise, and reputation we desire. Any revenues generated by new lines of business may not be significant enough to offset the expenditures required to enter such business, or provide the anticipated return on investment.

SPACEDEV COMMON SHAREHOLDERS WILL EXPERIENCE DILUTION IF OUR PREFERRED STOCK IS CONVERTED OR OUR OUTSTANDING WARRANTS AND OPTIONS ARE EXERCISED.

As of May 1, 2006, SpaceDev is obligated to issue 9,776,177 shares of SpaceDev common stock if all of SpaceDev's outstanding warrants are exercised and shares of preferred stock converted. In addition, as of May 1, 2006, SpaceDev has outstanding stock options to purchase an aggregate of

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11,012,142 shares of SpaceDev common stock, of which 10,312,142 are currently vested. The total number of shares, issuable upon the exercise of currently vested warrants, options and preferred stock (20,088,319 shares) represents approximately 70% of SpaceDev's issued and outstanding shares of common stock as of May 1, 2006.

FUTURE SALES OF OUR COMMON STOCK MAY DEPRESS THE PRICE OF THE COMMON STOCK.

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Sales by SpaceDev's current and future shareholders of a substantial number of shares, including sales by the Starsys shareholders following the merger, or the expectation that such sales may occur, could significantly reduce the market price of our common stock. As described in the immediately preceding risk factor, SpaceDev has a significant number of shares that are issuable upon exercise of options and warrants or upon conversion of shares of preferred stock. All of these shares are either registered with the SEC and may be sold without restriction (except for volume limitations applicable to our officers, directors and significant shareholders with respect to their option shares, and contractual lockup restrictions obtained from some of the Starsys shareholders) or have registration rights requiring us to register these shares with the SEC. In the future, we may issue additional shares of common stock, convertible securities, options and warrants.

CHANGES IN STOCK OPTION ACCOUNTING RULES MAY ADVERSELY AFFECT OUR REPORTED OPERATING RESULTS PREPARED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, OUR STOCK PRICE AND OUR EFFORTS IN RECRUITING ADDITIONAL EMPLOYEES.

Technology companies, in general, and our company in particular, depend upon and use broad based employee stock option programs to hire, incentivize and retain employees in a competitive marketplace. Currently, we do not recognize compensation expense for stock options issued to employees or directors, except in limited cases involving modifications of stock options, and we instead disclose in the notes to our financial statements information about what such charges would be if they were expensed. An accounting standard setting body has recently adopted a new accounting standard that will require 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 are required to record these expenses beginning with the first quarter of the year ending December 31, 2006. The change in accounting rules will lead to a decrease in reported earnings, if we have earnings, or an increased loss, if we do not have earnings. This may negatively impact our future stock price. In addition, this change in accounting rules could impact our ability to utilize broad based employee stock plans to reward employees and could result in a competitive disadvantage to us in the employee marketplace.

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 continue to evolve and may become increasingly stringent in the future. In particular, we will be required to include management and independent registered public accounting firm reports on internal controls as part of our annual report for the year ending December 31, 2007 pursuant to Section 404 of the Sarbanes-Oxley Act. We are in the process of evaluating our control structure 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 comply 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 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.

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We are is authorized to issue up to 10,000,000 shares of preferred stock in one or more series. We currently have 248,460 outstanding shares of its Series C Convertible Preferred Stock and 5,150 shares of its Series D-1 Preferred Stock. Our board of directors may determine the terms of future preferred stock offerings without further action by our shareholders. If we issue additional preferred stock, it could affect your rights or reduce the

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value of your 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 our common stock with respect to dividends and liquidation and have other important preferred rights .

BECAUSE SPACEDEV COMMON STOCK IS SUBJECT TO THE SEC'S PENNY STOCK RULES, BROKER-DEALERS MAY EXPERIENCE DIFFICULTY IN COMPLETING CUSTOMER TRANSACTIONS AND TRADING ACTIVITY IN SPACEDEV SECURITIES MAY BE ADVERSELY AFFECTED.

Transactions in SpaceDev 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 SpaceDev 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 SpaceDev securities may be adversely affected. As a result, the market price of SpaceDev securities may be depressed, and you may find it more difficult to sell our securities.

RISKS RELATED TO THE MERGER WITH STARSYS RESEARCH CORPORATION

IF SPACEDEV AND STARSYS FAIL TO INTEGRATE THEIR OPERATIONS EFFECTIVELY, THE COMBINED COMPANY WILL NOT REALIZE ALL THE POTENTIAL BENEFITS OF THE MERGER.

The integration of SpaceDev and Starsys is ongoing and may be time consuming and expensive and may disrupt the combined company's operations if it is not completed in a timely and efficient manner. If this integration effort is not successful, the combined company's results of operations could be harmed, employee morale could decline, key employees could leave, customers could cancel existing orders or choose not to place new ones and the combined company could

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have difficulty entering into new contracts with customers and complying with regulatory requirements. In addition, the combined company may not achieve anticipated synergies or other benefits of the merger. The combined company may encounter difficulties, costs and delays involved in integrating their operations, including the following:

- failure to successfully manage relationships with customers and other important relationships;
- failure of customers to accept new services or to continue using the products and services of the combined company;
- 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 technologies and systems;
- potential difficulties integrating and harmonizing financial reporting systems; and
- potential incompatibility of business cultures.

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If the combined company's operations do not meet the expectations of existing customers of either company, these customers may reduce the amount of business or cease doing business with the combined company altogether, which would harm the results of operations and financial condition of the combined company.

If the anticipated benefits of the merger are not realized or do not meet the expectations of financial or industry analysts, the market price of SpaceDev common stock may decline. This could occur if, among other reasons:

- the integration of the two companies is unsuccessful;
- the combined company does not achieve the expected benefits of the merger as quickly as anticipated or the costs of or operational difficulties arising from the merger are greater than anticipated;
- the combined company's financial results after the merger are not consistent with the expectations of management or financial or industry analysts;
- the anticipated operating and product synergies of the merger are not realized; or
- the combined company experiences the loss of significant customers or employees as a result of the merger.

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that involve risks and uncertainties. These statements relate to future events or our future financial performance. We have attempted to identify forward-looking statements by terminology including "anticipates," "believes," "can," "continue," "could," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," or "should" or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks outlined under "Risk Factors" and other sections of this prospectus, that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels or activity, performance or achievements expressed or implied by these forward-looking statements.

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. We are not under any duty to update any of the forward-looking statements after the date of this prospectus to conform these statements to actual results, unless required by law.

USE OF PROCEEDS

This prospectus relates to shares of our common stock that may be offered and sold from time to time by selling shareholders. 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 up to an additional \$4.45 million in gross cash proceeds upon the exercise of the warrants, the preferred stock warrants, and the warrants included as part of the units to be issued upon the exercise of the preferred stock warrants or the additional investment option, as described in this prospectus. Any such proceeds we may receive are not allocated for a specific purpose, and will be used for general corporate and working capital purposes.

ACQUISITION OF SECURITIES BY SELLING SHAREHOLDERS

OCTOBER 2005 PRIVATE PLACEMENT

On October 31, 2005, we entered into a Securities Purchase Agreement, which we refer to as the 2005 purchase agreement, with Laurus Master Fund, Ltd. pursuant to which we issued and sold 2,032,520 shares of our common stock to Laurus for an aggregate purchase price of \$2,500,000 or \$1.23 per share. The price per share represented 80% of the 20-day volume weighted average price of our common stock through October 28, 2005. We also issued to Laurus a warrant to purchase up to 450,000 shares at \$1.93 per share. The warrant is exercisable from October 31, 2005 until October 31, 2010.

JANUARY 2006 PRIVATE PLACEMENT

On January 11, 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 and also including Laurus. On January 13, 2006, we issued and sold to these investors 5,150 shares of our Series D-1 Amortizing Convertible Perpetual Preferred Stock, par value \$0.0001 per share, which we refer to as Series D-1 Preferred Stock, under the 2006 purchase agreement for an aggregate purchase price of \$5,150,000, or

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\$1,000 per share. We also issued various warrants to these investors under the 2006 purchase agreement, as described below.

Series D-1 Preferred Stock. The 2006 purchase agreement contemplates the authorization and issuance by SpaceDev of numerous series of preferred stock, all of which are substantially similar to the Series D-1 Preferred Stock. We refer to each series individually as Series D-X Preferred Stock, where X represents a sequential number, and generically as Series D Preferred Stock. The relative rights, preferences, limitations and other terms of the series of Series D-1 Preferred Stock are described below under the caption "Description of Capital Stock - Series D-1 Preferred Stock" below.

Additional Investment Option. Under the 2006 purchase agreement, from February 15, 2006, which we refer to as the effective date, until the one-year anniversary of that date, if (1) on any trading day during such period the volume weighted average price of our common stock for each of the 20 trading days immediately prior to such date exceeds \$1.63 and (2) the average daily trading volume of our common stock exceeds \$100,000 on each of those days, then we have the option, subject to a number of additional conditions, to sell to the investors up to 2,000 "units" for an aggregate purchase price of up to \$2,000,000 (or a lesser amount to the extent the preferred stock warrants issued at the initial closing of the financing, which are described below, have been exercised to purchase these units). Each "unit" consists of one share of Series D Preferred Stock and a common stock warrant, which common stock warrants entitle the holders to purchase up to an aggregate of 440,829 shares of our common stock at an exercise price of \$1.51 and otherwise have the same terms as the warrants described in the following paragraph. We refer to this option as the additional investment option.

Common Stock Warrants. Certain warrants that we issued to the investors at the closing entitle the investors to purchase up to an aggregate of 1,135,138 shares of our common stock at an exercise price of \$1.51 per share. 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 by surrendering shares subject to the warrant with a market value equal to the exercise price. However, this right is available only if a registration statement or prospectus covering the shares subject to the warrant is not available at any time after one year from the date of grant. The warrants also have 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. We refer to these warrants as the common stock warrants.

Preferred Stock Unit Warrants. We also issued certain other warrants to the investors at the closing, which we refer to as the preferred stock unit warrants. These warrants entitle the holder to purchase an aggregate number of 2,000 "units," which are identical to the "units" described above, at an exercise price of \$1,000 per unit. The preferred stock unit warrants are exercisable from the effective date until the one-year anniversary of that date. If any units subject to the preferred stock unit warrants remain unsold after (1) their expiration date and (2) the exercise of the additional

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investment option described in the preceding paragraph, if applicable, and any holder of a preferred stock unit warrant issued in the financing has exercised the warrant in full, then the preferred stock unit warrant grants that holder the right to purchase a proportionate share of the unsold units.

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Prior Relationships with Investors. Laurus Master Fund, Ltd. is the investor under the 2005 purchase agreement and is one of the investors participating in the January 2006 private placement. We issued and sold to Laurus 2,032,520 shares of our common stock and a warrant to purchase an additional 450,000 shares of our common stock on October 31, 2005, as described above under the caption "October 2005 Private Placement." In addition, we have also entered into the following transactions with Laurus:

- On August 25, 2004, we issued and sold to Laurus 250,000 shares of our Series C Cumulative Convertible Preferred Stock, par value \$0.001, which we refer to as the Series C Preferred Stock, and a warrant to purchase up to 487,000 shares of common stock, as described in the Form 8-K filed with the SEC on August 30, 2004.

- On June 3, 2003, we entered into a secured revolving credit facility with Laurus and issued warrants to Laurus to purchase up to an aggregate of 200,000 shares of our common stock, as described in the Form 8-K filed with the SEC on July 18, 2003. The facility will expire on June 3, 2006.

- In June 2004, we issued warrants to acquire 50,000 shares of our common stock to Laurus in connection with the revolving credit facility. These warrants were exercised in April 2005 at an exercise price of approximately \$1.06 per share.

- In August 2004, we issued warrants to acquire an additional 50,000 shares of common stock to Laurus at an exercise price per share equal to \$1.93 per share in connection with the revolving credit facility. In connection with the January 2006 private placement, Laurus consented to and waived certain preemptive and other rights under the SpaceDev Series C Preferred Stock, the aforementioned agreements and certain related agreements in respect of the authorization and issuance of one or more series of Series D Preferred Stock and the other transactions described herein, and certain other transactions. SpaceDev paid Laurus Capital Management, L.L.C., the manager of Laurus, \$87,000 in connection with Laurus' delivery of the consent and \$1,000 to Laurus' counsel for their related fees.

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SELLING SHAREHOLDERS

The term "selling shareholder" includes the shareholders 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 shareholders as of May 31, 2006, on which date 28,815,109 shares of common stock were outstanding. This information is based upon information provided by the selling shareholders. The selling shareholders 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. Except as described above under "Acquisition of Shares by Selling Shareholders" or as provided below, none of the selling shareholders nor any of its 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. None of the selling shareholders is, or is affiliated with, a registered broker-dealer.

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Maximum Shares Offered Hereby
Number
12,140,280

Name Of Selling Shareholder	Maximum Shares Offered Hereby Number	Total Shares of Common Stock Beneficially Owned Before Offering (1) Number	Percentage	Total Shares of Common Stock Beneficially Owned Number
Laurus Master Fund, Ltd.	(2) 7,920,868	3,152,749 (3)	9.99% (3)	1,813,136
Omicron Master Trust	(4) 1,875,293	1,244,087	4.19%	-
The Tail Wind Fund, Ltd.	(5) 1,125,177	746,453	2.56%	-
Bristol Investment Fund Ltd.	(6) 750,119	497,636	1.72%	-
Nite Capital, LP	(7) 468,823	311,022	1.08%	-
Total	12,140,280	5,951,947		1,813,136

(1) Beneficial ownership calculations exclude an amount equal to 30% of each of the shares numbers set forth in the column entitled "Maximum Shares Offered Hereby" that are underlying the Series D-1 Preferred Stock and warrants issued in the January 2006 private placement or may otherwise be issued pursuant to the agreements and instruments executed in connection with the January 2006 private placement. As discussed in the following footnotes, the number of shares set forth in the column "Maximum Shares Offered Hereby" that are underlying shares of Series D-1 Preferred Stock and warrants issued in the January 2006 private placement have been increased by 30% as required under the 2006 registration rights agreement.

(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) 2,032,520 shares of common stock issued in the October 2005 private placement, (B) 450,000 shares of common stock underlying warrants issued in the October 2005 private placement, (C) 1,959,460 shares of common stock issued or issuable upon conversion or redemption of shares of Series D-1 Preferred Stock, assuming in the case of redemption, that the ten-day volume weighted average price of the common stock remains constant at \$1.48 per share; (D) 639,203 shares of common stock issued or issuable upon exercise of warrants; (E) 760,955 shares of common stock issued or issuable upon conversion or redemption of shares of Series D-1 Preferred Stock that may be issued upon exercise of preferred stock warrants, assuming, in the case of redemption, that the ten-day volume weighted average price of the common stock remains constant at \$1.48; (F) 248,234 shares of common stock issued or issuable upon exercise of warrants that may be issued upon exercise of preferred stock warrants; (G) 516,709 shares of common stock

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issued or issuable as dividends on shares of our outstanding Series D-1 Preferred Stock for a period of three years from January 13, 2006, in the case of shares of Series D-1 Preferred Stock outstanding as of such date, and from February 10, 2006, in the case of shares of Series D-1 Preferred Stock that may be issued pursuant to the exercise of preferred stock unit warrants (or upon the exercise by us of the additional investment option), assuming in each case, that the ten-day volume weighted average price of the common stock remains constant at \$1.48 per share; (H) 58,784 shares of common stock issued or issuable upon conversion of shares of Series D-1 Preferred Stock that may be issued as liquidated damages upon the occurrence or failure to occur of specified events in the 2006 registration rights agreement

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(representing 56.3% of the aggregate liquidated damages payable to all investors assuming the liquidated damages were payable for a total of two months). As required by the 2006 registration rights agreement, the aggregate number of shares of common stock described in (C) through (H) above has been increased by 30%.

(3) Under the terms of the certificate of designations for the Series D-1 Preferred Stock and the warrants issued in the January 2006 private placement, holders of such Series D-1 Preferred Stock and warrants may not convert their 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. In addition, the terms of the certificate of designations for the Series C Preferred Stock and other warrants held by Laurus similarly limit conversions and exercises to the extent that, after giving effect to any such conversion or exercise, Laurus would beneficially own more than 4.99% of our outstanding common stock.

(4) Omicron Capital, L.P., a Delaware limited partnership ("Omicron Capital"), serves as investment manager to Omicron Master Trust, a trust formed under the laws of Bermuda ("Omicron"), Omicron Capital, Inc., a Delaware corporation ("OCI"), serves as general partner of Omicron Capital, and Winchester Global Trust Company Limited ("Winchester") serves as the trustee of Omicron. By reason of such relationships, Omicron Capital and OCI may be deemed to share dispositive power over the shares of our common stock owned by Omicron, and Winchester may be deemed to share voting and dispositive power over the shares of our common stock owned by Omicron. Omicron Capital, OCI and Winchester disclaim beneficial ownership of such shares of our common stock. Omicron Capital has delegated authority from the board of directors of Winchester regarding the portfolio management decisions with respect to the shares of common stock owned by Omicron and, as of February 9th, 2006, Mr. Olivier H. Morali and Mr. Bruce T. Bernstein, officers of OCI, have delegated authority from the board of directors of OCI regarding the portfolio management decisions of Omicron Capital with respect to the shares of common stock owned by Omicron. By reason of such delegated authority, Messrs. Morali and Bernstein may be deemed to share dispositive power over the shares of our common stock owned by Omicron. Messrs. Morali and Bernstein disclaim beneficial ownership of such shares of our common stock and neither of such persons has any legal right to maintain such delegated authority. No other person has sole or shared voting or dispositive power with respect to the shares of our common stock being offered by Omicron, as those terms are used for purposes under Regulation 13D-G of the Securities Exchange Act of 1934, as amended. Omicron and Winchester are not "affiliates" of one another, as that term is used for purposes of the Securities Exchange Act of 1934, as amended, or of any other person named in this prospectus as a selling stockholder. No person or "group" (as that term is

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used in Section 13(d) of the Securities Exchange Act of 1934, as amended, or the SEC's Regulation 13D-G) controls Omicron and Winchester. The shares set forth in the first column include (A) 675,676 shares of common stock issued or issuable upon conversion or redemption of shares of Series D-1 Preferred Stock, assuming in the case of redemption, that the ten-day volume weighted average price of the common stock remains constant at \$1.48 per share; (B) 220,415 shares of common stock issued or issuable upon exercise of warrants; (C) 262,398 shares of common stock issued or issuable upon conversion or redemption of shares of Series D-1 Preferred Stock that may be issued upon exercise of preferred stock unit warrants, assuming, in the case of redemption, that the ten-day volume weighted average price of the common stock remains constant at \$1.48; (D) 85,598 shares of common stock issued or issuable upon exercise of warrants that may be issued upon exercise of preferred stock warrants; (E) 178,176 shares of common stock issued or issuable as dividends on shares of our outstanding Series D Preferred Stock for a period of three years from January 13, 2006, in the case of shares of Series D-1 Preferred Stock outstanding as of such date, and from February 10, 2006, in the case of shares of Series D-1 Preferred Stock that may be issued pursuant to the exercise of preferred stock unit warrants (or upon the exercise by us of the additional investment option), assuming in each case, that the ten-day volume weighted average price of the common stock remains constant at \$1.48 per share; (F) 20,270 shares of common stock issued or issuable upon conversion of shares of Series D-1 Preferred Stock that may be issued as liquidated damages upon the occurrence or failure to occur of specified events in the 2006 registration rights agreement (representing 19.4% of the aggregate liquidated damages payable to all investors assuming the liquidated damages were payable for a total of two months). As required by the 2006 registration rights agreement, the aggregate number of shares of common stock described in (A) through (F) above has been increased by 30%.

(5) Tail Wind Advisory & Management Ltd., a UK corporation authorized and regulated by the Financial Services Authority of Great Britain ("TWAM"), is the investment manager for The Tail Wind Fund Ltd., and David Crook is the chief executive officer and controlling shareholder of TWAM. Each of TWAM and David Crook expressly disclaims any equitable or beneficial ownership of the shares being registered hereunder and held by The Tail Wind Fund Ltd. The shares set forth in the first column include (A) 405,406 shares of common stock issued or issuable upon conversion or redemption of shares of Series D-1 Preferred Stock, assuming in the case of redemption, that the ten-day volume weighted average price of the common stock remains constant at \$1.48 per share; (B)

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132,249 shares of common stock issued or issuable upon exercise of warrants; (C) 157,439 shares of common stock issued or issuable upon conversion or redemption of shares of Series D-1 Preferred Stock that may be issued upon exercise of preferred stock unit warrants, assuming, in the case of redemption, that the ten-day volume weighted average price of the common stock remains constant at \$1.48 (D) 51,359 shares of common stock issued or issuable upon exercise of warrants that may be issued upon exercise of preferred stock unit warrants; (E) 106,905 shares of common stock issued or issuable as dividends on shares of our outstanding Series D Preferred Stock for a period of three years from January 13, 2006, in the case of shares of Series D-1 Preferred Stock outstanding as of such date, and from February 10, 2006, in the case of shares of Series D-1 Preferred Stock that may be issued pursuant to the exercise of preferred stock warrants (or upon the exercise by us of the additional investment option), assuming in each case, that the ten-day volume weighted average price of the common stock remains constant at \$1.48 per share; (F) 12,162 shares of common stock issued or issuable upon conversion of shares

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of Series D-1 Preferred Stock that may be issued as liquidated damages upon the occurrence or failure to occur of specified events in the 2006 registration rights agreement (representing 11.7% of the aggregate liquidated damages payable to all investors assuming the liquidated damages were payable for a total of two months). As required by the 2006 registration rights agreement, the aggregate number of shares of common stock described in (A) through (F) above has been increased by 30%.

(6) Bristol Capital Advisors, LLC ("BCA") is the investment advisor to Bristol Investment Fund, Ltd. ("Bristol"). Paul Kessler is the manager of BCA and as such has voting and investment control over the securities held by Bristol. Mr. Kessler disclaims beneficial ownership of these securities. The shares set forth in the first column include (A) 270,271 shares of common stock issued or issuable upon conversion or redemption of shares of Series D-1 Preferred Stock, assuming in the case of redemption, that the ten-day volume weighted average price of the common stock remains constant at \$1.48 per share; (B) 88,167 shares of common stock issued or issuable upon exercise of warrants; (C) 104,959 shares of common stock issued or issuable upon conversion or redemption of shares of Series D-1 Preferred Stock that may be issued upon exercise of preferred stock unit warrants, assuming, in the case of redemption, that the ten-day volume weighted average price of the common stock remains constant at \$1.48; (D) 34,239 shares of common stock issued or issuable upon exercise of warrants that may be issued upon exercise of preferred stock warrants; (E) 71,270 shares of common stock issued or issuable as dividends on shares of our outstanding Series D Preferred Stock for a period of three years from January 13, 2006, in the case of shares of Series D-1 Preferred Stock outstanding as of such date, and from February 10, 2006, in the case of shares of Series D-1 Preferred Stock that may be issued pursuant to the exercise of preferred stock unit warrants (or upon the exercise by us of the additional investment option), assuming in each case, that the ten-day volume weighted average price of the common stock remains constant at \$1.48 per share; (F) 8,108 shares of common stock issued or issuable upon conversion of shares of Series D-1 Preferred Stock that may be issued as liquidated damages upon the occurrence or failure to occur of specified events in the 2006 registration rights agreement (representing 7.8% of the aggregate liquidated damages payable to all investors assuming the liquidated damages were payable for a total of two months). As required by the 2006 registration rights agreement, the aggregate number of shares of common stock described in (A) through (F) above has been increased by 30%.

(7) Keith Goodman, Manager of Nite Capital, LLC, the General Partner of Nite Capital, LP, has voting and investment power of the shares held by Nite Capital, LP. Mr. Goodman disclaims beneficial ownership of the shares held by Nite Capital, LP. The shares set forth in the first column include (A) 168,919 shares of common stock issued or issuable upon conversion or redemption of shares of Series D-1 Preferred Stock, assuming in the case of redemption, that the ten-day volume weighted average price of the common stock remains constant at \$1.48 per share; (B) 55,104 shares of common stock issued or issuable upon exercise of warrants; (C) 65,600 shares of common stock issued or issuable upon conversion or redemption of shares of Series D-1 Preferred Stock that may be issued upon exercise of preferred stock unit warrants, assuming, in the case of redemption, that the ten-day volume weighted average price of the common stock remains constant at \$1.48; (D) 21,399 shares of common stock issued or issuable upon exercise of warrants that may be issued upon exercise of preferred stock unit warrants; (E) 44,544 shares of common stock issued or issuable as dividends on shares of our outstanding Series D-1 Preferred Stock for a period of three years from January 13, 2006, in the case of shares of Series D-1 Preferred Stock outstanding as of such date, and from February 10, 2006, in the case of shares of Series D Preferred Stock that may be issued pursuant to the exercise of preferred stock unit warrants (or upon the exercise by us of the additional investment option), assuming in each case, that the ten-day volume weighted average price of the common stock remains constant

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at \$1.48 per share; (F) 5,068 shares of common stock issued or issuable upon conversion of shares of Series D-1 Preferred Stock that may be issued as liquidated damages upon the occurrence or failure to occur of specified events in the 2006 registration rights agreement (representing 4.9% of the aggregate

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liquidated damages payable to all investors assuming the liquidated damages were payable for a total of two months). As required by the 2006 registration rights agreement, the aggregate number of shares of common stock described in (A) through (F) above has been increased by 30%.

* Less than one percent.

PLAN OF DISTRIBUTION

The selling shareholders 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 Over-the-Counter 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. A selling shareholder 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 shareholders 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 shareholders may also sell shares under Rule 144 under the Securities Act, if available, rather than under this prospectus.

Broker-dealers engaged by the selling shareholders may arrange for other brokers dealers to participate in sales. Broker-dealers may receive commissions or discounts from the selling shareholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be

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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 NASDR Rule 2440; and in the case of a principal transaction a markup or markdown in compliance with NASDR IM-2440.

In connection with the sale of the common stock or interests therein, the selling shareholders 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 shareholders 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 shareholders 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 shareholders 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 shareholder 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%).

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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 shareholders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act.

Because selling shareholders 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. Each selling shareholder 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 shareholders.

We agreed to keep this prospectus effective until the earlier of (i) the date on which the shares of common stock included in the registration statement in which this prospectus is included, which we refer to as the resale shares, may be resold by the selling shareholders without registration and without regard to any volume restrictions pursuant to Rule 144(k) under the Securities Act or (ii) all of the resale shares have been sold pursuant to the prospectus or Rule 144 under the Securities Act or any other rule of similar effect. 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.

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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 shareholders 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 shareholders or any other person. We will make copies of this prospectus available to the selling shareholders and have informed them 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

SpaceDev common stock has been traded on the Over-the-Counter Bulletin Board ("OTCBB") since August 1998 under the symbol "SPDV" or "SPDV.OB." The following table sets forth the trading history of SpaceDev common stock on the OTCBB for each quarter from the first quarter of fiscal 2004 through March 31, 2006 as reported by Yahoo! Finance Historical Prices (www.finance.yahoo.com). The quotations reflect inter-dealer prices, without retail mark-up, markdown or commission and may not represent actual transactions.

QUARTER ENDING	QUARTERLY HIGH	QUARTERLY LOW
3/31/2004	\$1.85	\$0.92
6/30/2004	\$2.38	\$1.04
9/30/2004	\$2.46	\$1.43
12/31/2004	\$2.42	\$1.51
3/14/2005	\$1.97	\$1.55
6/30/2005	\$1.75	\$1.51
9/30/2005	\$1.70	\$1.43
12/31/2005	\$1.65	\$1.36
3/31/2006	\$1.52	\$1.10

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HOLDERS OF RECORD

As of May 1, 2006, there were approximately 600 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.

We accrued dividends on our Series C Cumulative Convertible Preferred Stock from August 25, 2004 through December 31, 2004 of approximately \$61,000 and approximately \$171,000 for the year ended December 31, 2005. The original accrued dividends of \$61,000 became payable in January 2005 and were converted into shares of SpaceDev common stock at a conversion rate of \$1.54 per share.

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Approximately \$114,000 of the 2005 accrued dividends were satisfied by the issuance of our common stock during the twelve months ended December 31, 2005. We also paid dividends of approximately \$98,900 on our Series C Cumulative Convertible Preferred Stock on April 1, 2006. Payment of future dividends on SpaceDev's Series C Preferred Stock may be in cash or shares of common stock, provided that the payment of cash dividends on the Series C Preferred Stock is prohibited in the event of our noncompliance with our obligations under the certificate of designations for any series of Series D Preferred Stock.

We first issued shares of Series D-1 Preferred Stock on January 13, 2006. We paid our first dividends of approximately \$98,700 for the Series D-1 Preferred Stock on March 31, 2006.

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 2005 Form 10-KSB and quarterly 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.

OVERVIEW

Historic SpaceDev Business

We are engaged in the conception, design, development, manufacture, integration and operation of space technology systems, products and services. Our historic SpaceDev operations are currently focused on the commercial and military development of low-cost microsatellites, nanosatellites and related subsystems, hybrid rocket propulsion for space, launch and human flight vehicles as well as associated engineering and technical services which are provided primarily to government agencies, and specifically the Department of Defense. Our products and solutions are sold, mainly on a project-basis, directly to these customers and include sophisticated micro- and nanosatellites, hybrid rocket-based launch vehicles, maneuvering and orbital transfer vehicles and safe sub-orbital and orbital hybrid rocket-based propulsion systems. Although we believe there will be a commercial market for our microsatellite and nanosatellite products and services in the future, virtually all of our current

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work is for branches of the United States military. We are also developing commercial hybrid rocket motors for use in small launch vehicles, targets and sounding rockets, and small, high-performance space vehicles and subsystems for commercial customers.

We acquired Starsys Research Corporation on January 31, 2006 in a tax-free forward triangular merger, renamed the company Starsys, Inc., and now hold it as a wholly-owned subsidiary of SpaceDev. Starsys is engaged in the design and manufacture of mechanical and electromechanical subsystems and components for spacecraft. Starsys' subsystems enable critical spacecraft functions such as pointing solar arrays and communication antennas and restraining, deploying and actuating moving spacecraft components. Starsys manufactures a wide range of products that include bi-axis gimbals, flat plate gimbals, solar array pointing mechanisms, deployable booms, separation systems, thermal louvers, actuators, restraint devices and cover systems. Starsys' products are sold both as "off-the-shelf" catalog products, which represent previously qualified devices with spaceflight history, and as custom systems that are developed for specific applications. Starsys' products are typically sold directly to spacecraft manufacturers. Starsys' customer base is segregated into three major segments:

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(1) domestic and international commercial spacecraft (communication and imaging satellites), (2) civil spacecraft (NASA) that are primarily scientific in nature and (3) defense spacecraft that support the United States' military capability. Starsys also offers products to non-space customers, including aerospace, maritime, and industrial customers.

Starsys' engineering and manufacturing capabilities position the company to provide both mechanical and electromechanical subsystems for spacecraft. Starsys' strategy is to identify opportunities to develop products from custom mechanical and electromechanical subsystems. To extend the product life cycle, Starsys has developed and expanded a "product platforms" business model. Product platforms are subsystems for which non-recurring and development engineering have been completed and for which there is continued customer demand. Starsys' product offerings currently include High Output Paraffin ("HOP") actuators, hinges, battery bypass switches, thermal louvers, bi-axial gimbals and solar array drives, among others. The product life cycle for this type of product within the space industry is approximately 15 years.

The acquisition of Starsys fundamentally changed our profile. Starsys is a mature operating company with 2005 revenues of approximately \$18 million and 2005 losses of approximately \$3.4 million. We believe there are numerous potential synergies between the historic SpaceDev business, and Starsys' business, including but not limited to providing SpaceDev with a production capability as its technologies migrate from advanced systems to products, access to quality facilities and a strong market of aerospace engineers, a diversification of customers and revenues, and the ability to bid on larger and more vertically integrated programs and projects.

Our historic SpaceDev business approach is to provide smaller spacecraft - generally 250 kg (550 pounds) mass and less - and cleaner, safer hybrid propulsion systems to commercial, government, university and limited international customers. We are developing smaller spacecraft and miniaturized subsystems using proven, lower cost, high-quality off-the-shelf components. Our space products are modular and reproducible, which allows us to create affordable space solutions for our customers. By utilizing our innovative technology and experience, and space-qualifying commercial industry-standard hardware, software and interfaces, we provide increased reliability with reduced costs and risks.

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We have been awarded, have successfully concluded or are successfully concluding contracts from such esteemed government, university and commercial customers as the Air Force Research Laboratory, Boeing, the California Space Authority, the Defense Advanced Research Projects Agency, NASA's Jet Propulsion Laboratory, Lockheed Martin, Lunar Enterprise Corporation, Malin Space Science Systems, the Missile Defense Agency (formerly the "Ballistic Missile Defense Organization"), the National Reconnaissance Office, Scaled Composites and the University of California at Berkeley via NASA.

During the first three months of 2006, 85% of our net sales were generated from direct government contracts, 7% was generated from government-related work through subcontracts with others, and 8% was generated from commercial contracts. For the same three month period in 2005, approximately 95% of our net sales were generated by government or government-related work. We will continue to seek both government and commercial business and anticipate that net sales from government sources will continue to represent in excess of 80% of our net sales for the next several years. 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 technology, products and services. Although we are interested in exploring increased international revenue and contract opportunities, 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 on some of our products.

At this time, over 70% of our forecasted sales for 2006 are under contract or near contract award. We may not be able to win enough new business to achieve our targeted growth projection or to maintain a positive cash flow position. During the first three months of 2006 we submitted approximately twenty-five bids for government or commercial programs ranging from \$25,000 to \$350 million and continued our work with the United States Congress to identify directed funding for our programs.

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In order to perform the Missile Defense Agency contract (described below) on schedule and successfully execute other existing and new business opportunities, we must substantially increase our staff and hire new engineers or subcontract the work to third parties. We are actively seeking to hire spacecraft and propulsion engineers, and we are investigating various partnership arrangements to increase resource availability.

SELECTION OF SIGNIFICANT CONTRACTS

On July 18, 2005, we were awarded a subcontract to provide scientific, engineering, development and programmatic support to the development and demonstration of innovative SSA (space situational awareness) nanosatellite
(