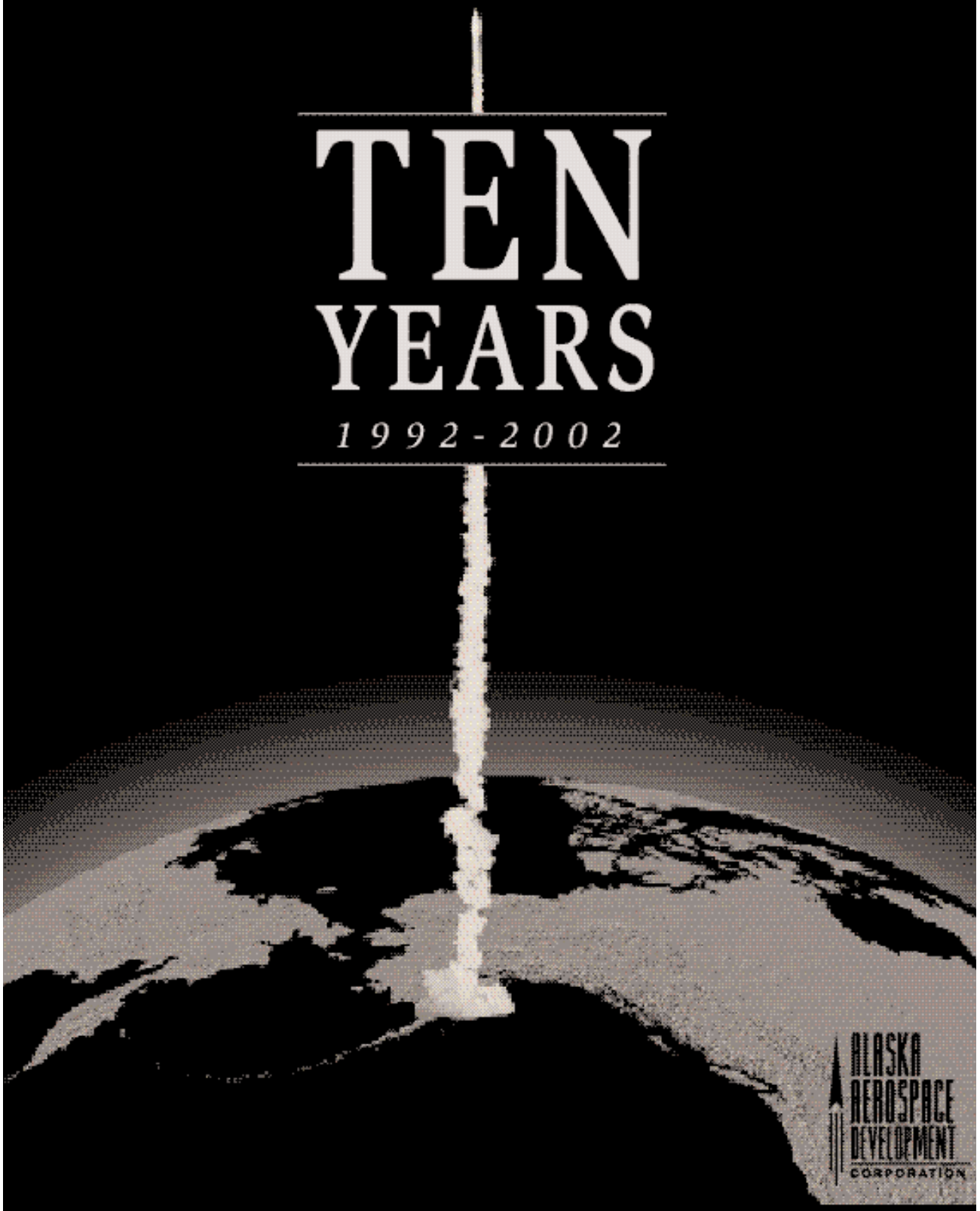
ALASKA AEROSPACE DEVELOPMENT CORPORATION

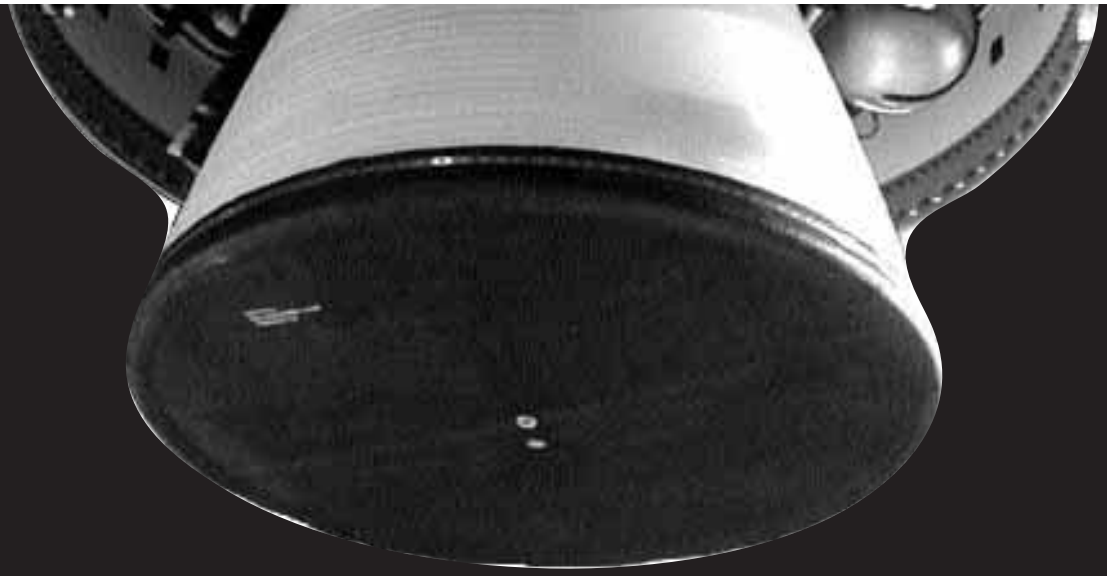
TEN YEARS

1992-2002



ALASKA AEROSPACE DEVELOPMENT CORPORATION

2002 ANNUAL REPORT



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ALASKA AEROSPACE DEVELOPMENT CORPORATION

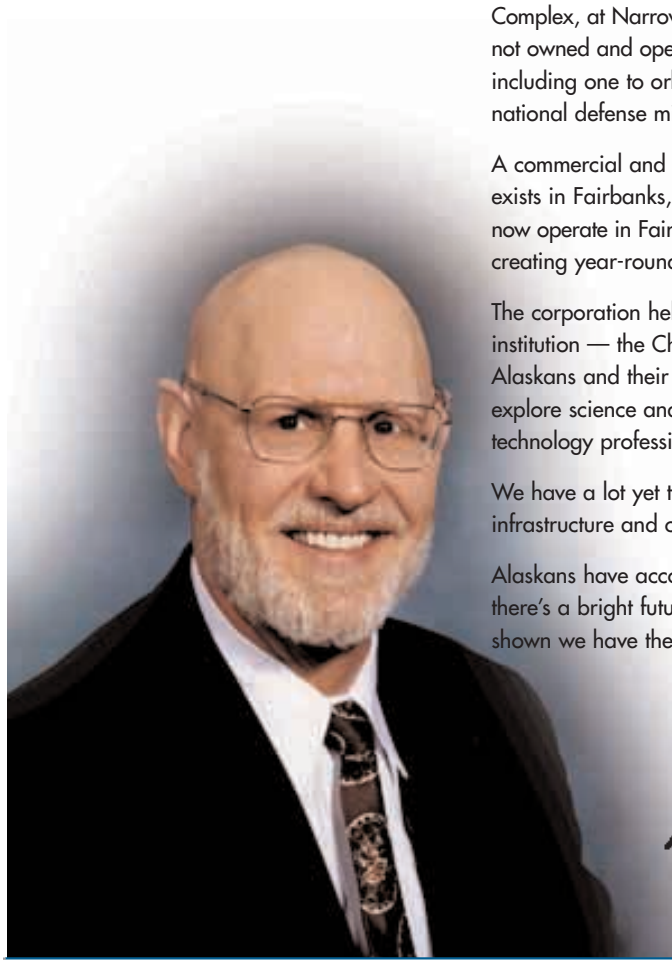
Mission Statement

The mission of the Alaska Aerospace Development Corporation (AADC) includes establishing and operating, in Alaska, a commercial launch facility promoting aerospace-related economic growth and developing corresponding technologies and support services. Concurrent goals are to strengthen the Alaskan technological infrastructure, assist in advancing science and engineering research and aerospace in polar disciplines at the University of Alaska and attract space-related businesses from outside the state to locate in Alaska.

From the Chairman

"It was a courageous call 10 years ago to embark on this journey, those who believed should be proud."

Mark Hamilton
Chairman,
AADC Board of Directors



To the Governor, Legislators and People of Alaska:

Who would have thought it possible?

In just 10 years, Alaskans have built a Spaceport. We have launched satellites to orbit for customers and test missiles in a vital support role to our Nation's Missile Defense program.

We are now positioned to support not only national defense but also the commercial aerospace industry as it grows and develops.

Through all of these activities we are creating a new high-technology industry for our state.

AADC is an independent state corporation. It operates with a lean staff and receives no state general funds. Its mission is to bring the high-technology space industry to Alaska, creating the potential for high-skill, well-paid jobs for Alaskans.

Alaska is succeeding. The aerospace industry has come to the state.

Since 1992, in its first decade, AADC has created the Kodiak Launch Complex, at Narrow Cape on Kodiak Island. It is the nation's first Spaceport not owned and operated by the federal government. Six successful launches, including one to orbit, have been conducted in support of science and national defense missions.

A commercial and scientific space data industry, small but growing, now exists in Fairbanks, a result of an AADC initiative. Several earth stations now operate in Fairbanks and on the University of Alaska Fairbanks campus, creating year-round jobs and enhancing the University's role in research.

The corporation helped inspire the creation of another important Alaska institution — the Challenger Learning Center in Kenai — where young Alaskans and their teachers from around the state are being challenged to explore science and math, the path to future opportunities in science and technology professions.

We have a lot yet to do. Our Corporation is now working to improve its infrastructure and capabilities, as our report for 2002 shows.

Alaskans have accomplished a lot with AADC in the last 10 years, and there's a bright future for Alaska in the support of space industry. We have shown we have the right stuff.

Sincerely,

Mark Hamilton
Chairman, AADC Board of Directors

From the President

Dear Governor Murkowski, Legislators and Alaskans:

Alaskans have accomplished something special in the last 10 years. The Alaska Spaceport, the Kodiak Launch Complex, was constructed. It is now operational, with six successful launches and more scheduled. Alaska is positioned to play a key role in testing the National Missile Defense system. The KLC has provided an opportunity for a new high-technology industry for our state.

The Alaska Aerospace Development Corporation's success is directly attributable to its employees, present and past. Acknowledgements are also made to Ernie Briel, Loyd Parker and Kevin Donnelley who were the team from industry that worked with us to obtain initial grants necessary to begin development of the Kodiak Launch Complex.

AADC's success would also not have been possible without the support of the corporation's Board of Directors, community leaders in Kodiak, the Legislature, Alaska's Congressional Delegation and a number of visionary supporters.

The KLC would never have become operational without the Air Force, NASA, and the Army taking a chance on a new launch complex, through the launching of missions. Finally, I want to thank the National Missile Defense Agency for making the KLC a part of the Extended Test Range for testing the Nation's Missile Defense system. This program will allow the KLC to achieve to a greater potential.

A special acknowledgement must go to former State Representative Tom Boyer of Fairbanks, who had the vision that an Alaska spaceport could support the burgeoning satellite market. He convinced the Legislature to create AADC to accomplish the task.

As I reflect back over a decade of work at the Alaska Aerospace Development Corporation, I realize that without Tom's vision and the commitment of other Alaskan visionaries we simply would not have been successful. They saw the possibilities of a space-related support industry for Alaska. In the face of many doubts, they remained supportive and they did not give up.

During the development of a project or organization there are always a great number of people who play key roles during key times. There is no way to list all of them for fear of leaving someone out. However, they know who they are and we thank you.

During the last 10 years I was very lucky to have a small group of people that I could confide in and lean on for encouragement when I felt overwhelmed and discouraged. Bill Bittner, Dave Woodruff, Courtney Stadd and John Sibert were always there to listen, provide encouragement, advice and counsel for me when I needed personal help. I thank you.

No one has been more important to AADC than Senator Ted Stevens. He held us to a strict standard and provided help to AADC only after we convinced him that our goals would benefit the nation as well as Alaska. His expectations provided guidance and resolve to our staff, and we thank him.

Education is a primary key to personal success. Any high technology endeavor, whether government or commercial, should contain an element that supports education. The Challenger Learning Center, of Kenai, is a direct educational complement to the KLC.

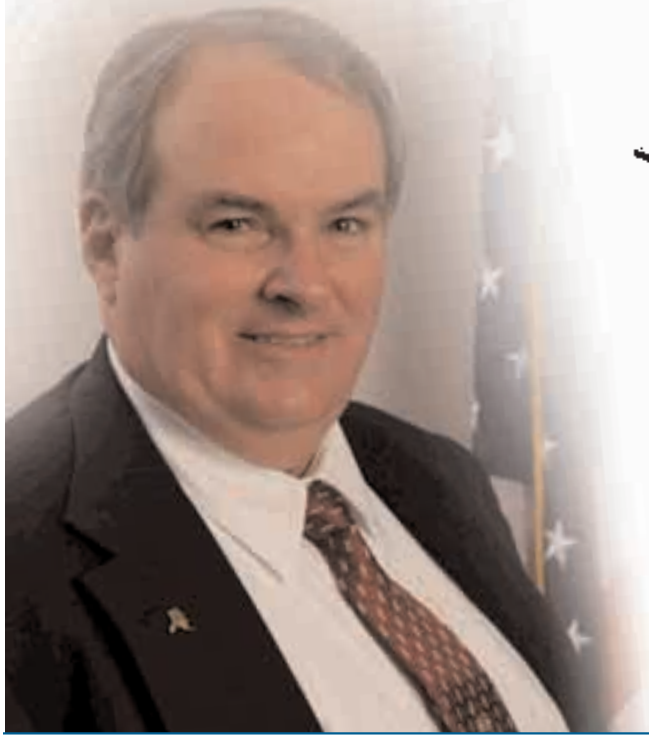
AADC wanted a Challenger Learning Center for the children of Alaska. However, we did not have resources to accomplish the project.

We presented the benefits of a Challenger Learning Center to several Alaska communities, hoping a community would take on its development. After a briefing in Kenai, Mayor John Williams and his community accepted the challenge. Thanks to the Mayor and people of Kenai, in 2000 the Ted and Catherine Stevens Challenger Learning Center was opened.

AADC will always be grateful to Mayor Williams and the people of Kenai for accomplishing one of AADC's special goals. Since the Center opened over 10,000 Alaska school children have participated in missions of learning, applying math and science skills in simulated space missions.

I am proud and grateful for having been selected to lead AADC during its first 10 years. However, our mission is far from complete. We have established the Alaska Spaceport but continue our work to expand the technical and economic base of Alaska.

With the continuing support of Alaskans, we will achieve these goals.



Sincerely,

Pat Ladner
President & CEO

A New Industry is

When the Alaska Aerospace Development Corporation was created by the state Legislature in 1991, the vision was for AADC to create a new industry for Alaska.

Alaska has always had a foundation in natural resource industries, but with a few exceptions, has been unable to diversify, into higher technology industries that hold the promise for more permanent, high-skill jobs.

Space technologies seemed a promising avenue, and in the last 10 years AADC has been able to demonstrate it. Alaska's northern latitudes give it a natural advantage in launching satellites into polar orbits, the kind favored for remote sensing and scientific research. Northern latitudes are also an advantage for earth stations that retrieve data from satellites in polar orbits.

New payroll and business are already being brought to Alaska. Each launch from Kodiak brings $2 million to $5 million into the state's economy.

"The Kodiak Launch Complex wouldn't have happened without Pat Ladner. His tenacious committment in making this happen has been remarkable."

Gary Stevens
State Senator, Kodiak

Born

Rockets and their payloads are assembled at the Kodiak Launch Complex.

Growth will be gradual for Alaska's space industry. As more launches are done, expanded facilities and more workers will be needed.

Over time more firms will supply specialized support services.

Because of Anchorage's air transportation links with the world's major industrial economies, it's possible that someday partial assembly of launch vehicles and satellites could be done in Alaska. Some of this is already done at the launch site in Kodiak.

In Interior Alaska, there is a different set of opportunities. In the last 10 years a small space data industry has established itself in Fairbanks, following a marketing initiative by the AADC.

As this industry develops, there will be opportunities to process remote sensing and other scientific data, taking advantage of the University of Alaska's supercomputer, large amounts of available fiber-optic capacity and direct air cargo flights to Europe, Asia and the continental U.S.

"I applaud the visionaries who saw the need for the rocket launch facility on Kodiak – and the doers who made it happen. Kodiak and the rest of Alaska benefit from its technical spinoff and economic activity and our entire nation benefits from its contribution to our national defense."

Loren Leman
Lieutenant Governor, State of Alaska

The Other Cape™

What's involved in a launch? Contracts for launches are signed a year in advance for the Kodiak Launch Complex. But planning begins much before that, as much as a year and a half to two years before the actual launch.

Two to three months before a launch, the customer arrives at the launch complex with personnel. As the launch nears the number of people increases to 125 to 200 engineers and technicians.

The action really starts when the customer delivers a payload, rocket and support equipment to the launch complex. The payload (a satellite in the case of an orbital launch or an instrument package in the suborbital launch) has meanwhile been received and checked out at the Payload Processing Facility (**1**). The motors are received and checked out at the Integration and Processing Facility (**2**), an environmentally-controlled prefabricated building with 40-foot overhead doors at each end of the building. As the launch approaches, the payload is brought from the Payload Processing Facility and integrated with the rocket.

Launch Control Center
Launches are controlled from here.

4

Payload Processing Facility
Instrument packages or satellites (the "payload") are received and checked out.

1

Suborbital Launch Pad
Launches rockets in suborbital flights.

3 2 6

KODIAK LAUNCH COMPLEX

Once assembled, the rocket and payload are moved to either the orbital (**5**) or sub-orbital (**6**) launch pad with a mobile Spacecraft Assemblies Transfer facility, or SCAT (**3**). The SCAT covers and protect the rocket and payload as they are moved.

If orbital, the rocket is placed in the 170 foot Launch Service Structure (**5**) "tower" which allows the final checkout of the rocket and payload to be done indoors. When the checkout is complete both sides of the tower pivot back on large hinges to expose the rocket for takeoff. If sub-orbital, the rocket is placed on the launch stool. Once the end to end tests are complete, the SCAT service structure door is opened. The SCAT is rolled a safe distance away and the rocket is launched.

Spacecraft Assemblies Transfer Building
Moving structure takes assembled rocket to launch pad.

Integration Processing Facility
The rocket, engine and payload are assembled

5

Launch Services Structure
Houses orbital launch pad.

Protecting Our Nat

"Development of the Kodiak Launch Complex has been a tremendous accomplishment for Alaska. It is a new high-technology industry, through which Alaska provides critical support for our Nation's Missile Defense system."

Ted Stevens
U.S. Senator

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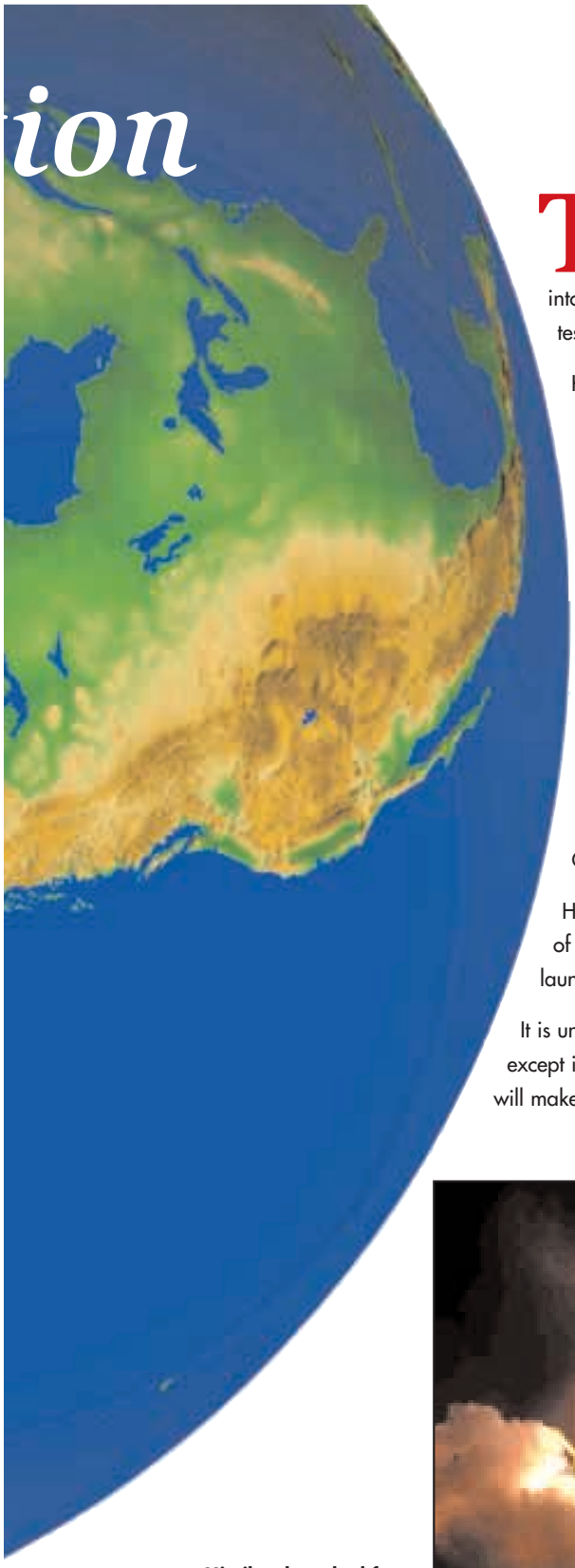


The Kodiak Launch Complex is a dual use Spaceport. The same geographic advantage Kodiak has for the commercial space industry — the ability to launch satellites into polar orbit over the open ocean — is also important in doing tests critical to our National Missile Defense program.

KLC, at Narrow Cape of Kodiak Island, is the only launch site from which missiles can be launched that can simulate an enemy missile launched from Asia targeting the United States.

Test missiles from Kodiak allow the defense radar systems on the U.S. west coast and Hawaii to see what an incoming target is.

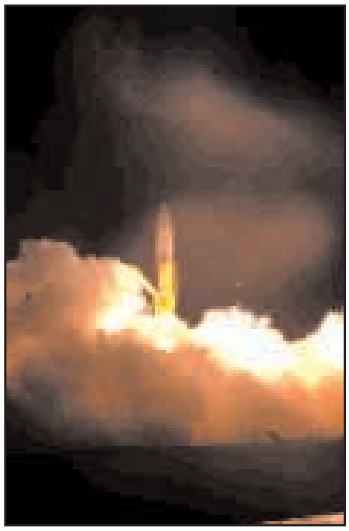
One, possibly two, are planned in 2003.

More are coming. As the National Missile Defense program is implemented and the planned missile interceptor test facility at Fort Greely goes into operation, continued operational testing will be needed.

Because its capabilities have been proven, the Kodiak Launch Complex will have a role to play in those tests.

Having a role in national defense should lead to development of more infrastructure and federal government support for the launch facility.

It is unlikely interceptor missiles will ever be launched from Kodiak except in tests, military officials have said. Its role in testing, however, will make our nation's defenses stronger and more capable.



Missiles launched from Kodiak simulate an attack on the U.S., allowing defense radars to be tested.

2002 Review

AADC is an independent state corporation with a mission to create a space-related industry for Alaska through development and operation of the Kodiak Launch Complex (KLC). AADC receives no state general funds.

The year 2002 was busy for the Corporation. During the year AADC coordinated the launch of a Quick Reaction Launch Vehicle test missile from the Kodiak Launch Complex, contracted for the purchase and installation of a Range Safety and Telemetry System (RSTS), initiated planning for the use of the KLC for National Missile Defense flight tests, and made other improvements to the launch facility, including new emergency fire equipment and other mobile equipment.

AADC also acquired a new financial management system during the year.

Systems training for Alaskans in new mobile operations van

$15 million Range Safety and Telemetry System

A major accomplishment of AADC in 2002 was procurement of a $15 million RSTS for the Kodiak Launch Complex. The contract was competitively awarded to Honeywell Communications, Inc. The system is being tested and will be operational in 2003.

A range safety and telemetry system is a critical part of any launch facility. It tracks rockets as they are launched, and enables controllers to destroy a rocket that deviates from its course.

Previously, customers of the Kodiak facility had to bring their own range safety tracking systems at great expense to support their launches. Acquisition of the range safety system means the KLC will have its own state of the art system, which is important in attracting new customers and keeping costs down.

Each system consists of a mobile operations center van and two trailer-mounted tracking antennas. Each mobile control center van houses primary and backup receivers and transmitters for ground data processing, range safety display and command destruct control.

Test of new 5.4 meter mobile, tracking antenna.

Communications upgrade
AADC issued a $475,000 contract to GCI to upgrade communications links for the Kodiak Launch Complex, which will increase speed of connections and minimize the chance of communications failure.

Safety equipment donated
The City of Kodiak donated a fully operational fire truck to the KLC. Kodiak Councilman, Dave Woodruff, a member of AADC's Board of Directors, helped arrange the donation.

Tow equipment added to KLC
Two 55,000-pound tractors, surplus from the U.S. Coast Guard, were acquired which will be used to move the Spacecraft Assemblies Transfer Facility and open and close the LSS doors on the orbital launch pad.

Planning for 2003 target launches
Planning began for target launches scheduled for fall, 2003. A more extensive KLC range organization has been assembled. Efforts are underway to coordinate a "dry run" of an integrated launch mission with other ranges.

EIS for missile defense testing
Planning was underway for tests under the National Missile Defense program. Assistance was provided for the Environmental Impact Statement for an extended Pacific test range. Kodiak has been identified as one of the test locations. Construction of an additional launch pad, two silos, support facilities and related infrastructure are proposed.

AADC strengthens management staff
During 2002, AADC hired Ed Allen as Vice President of Launch Operations, and Martha Schoenthal as Vice President for Business Operations.

Safety manual, video produced
AADC produced a safety manual and video for Kodiak Launch Complex operations during the year.

Southwest Alaska Municipal Conference (SWAMC)
AADC President Pat Ladner briefed the Southwest Alaska Municipal Conference on the Corporation and activities at the Kodiak Launch Complex during a SWAMC conference in Kodiak.

Commercial Space Industry Leadership Conference (CSILC)
AADC V.P., Martha Schoenthal participated in the Air Force sponsored CSILC held in Colorado Springs.

2002 launch of QRLV

In April 2002, AADC assisted the U.S. Air Force in the launch of a Quick Reaction Launch Vehicle (QRLV) test missile from the Kodiak Launch Facility.

The missile was a 30-foot long single-stage rocket that weighed about 14,000 pounds at liftoff. It followed a southeasterly path from Kodiak, reached an altitude of about 100 miles and landed as intended in the Gulf of Alaska about 400 miles from Kodiak after seven minutes of flight.

The launch of the QRLV was to simulate a ballistic missile attack and was part of the Alaska Command's Northern Edge 2002 exercise, an annual exercise of U.S. and Canadian defense forces.

The QRLV missile test allowed the forces engaged in Northern Edge to execute defensive strategies and test response scenarios that would occur during an actual ballistic missile attack. The U.S. Navy, which is developing a sea-based missile defense program, used the test to exercise its missile tracking capabilities and to conduct computer-simulated intercept scenarios. A progression of images captured from a camera mounted to the outside of this rocket are displayed at the bottom right corner of every other page in this report.

The QRLV launch had other objectives as well. It tested a new flight battery for the U.S. Army's Space and Missile Defense Command, and an advanced accelerometer package, a device to measure acceleration being developed by the University of Mississippi. The QRLV also allowed the U.S. Air Force to test a new mobile range tracking system.

The 2002 launch was the fourth of a series of test missile launches by the Air Force from Kodiak. In 2001 a similar QRLV missile launch was conducted, also in support of the Northern Edge exercise.

There were two previous Air Force launches. Both involved experimental atmospheric interceptor rockets launched in 1998 and 1999.

All of the Air Force tests were suborbital. In September, 2001, the first launch of satellites to orbit was made from the Kodiak Launch Facility.

New financial information management system

AADC implemented a new financial information management system during 2002. The Timberline Gold Collection, a fully integrated accounting system, was installed in June 2002. Business Software, Inc. assisted AADC in implementation of the new system and continues to provide technical support and training.

Previously the Corporation relied on the Alaska State Accounting System. Because AADC's mission involves working with customers outside the State of Alaska system, AADC felt the need to independently gather and track financial data. The new system gives the Corporation a more complete, integrated financial information system. This gives it the ability to monitor budgets more effectively, make better-informed decisions; control costs and increase productivity.

A Decade of Achie

10 Year Anniversary

The Alaska Aerospace Development Corporation (AADC) is pleased to introduce the Kodiak Launch Complex (KLC). Construction of Alaska's spaceport was completed and began full launch operations in 2000. The KLC promises to bring diversification to the state's economy while gaining recognition for Alaska as the nation's newest spaceport location.

KODIAK LAUNCH COMPLEX
The Other Cape™
NARROW CAPE • ALASKA

'92

- AADC board is named. President & CEO recruited.
- "Orbital Launch Feasibility Study" completed with Alaska Industrial Development and Export Authority.

'93

- U.S.AirForce dual-use infrastructure grant received.
- KLC design, site selection and site safety analysis developed.

'94

- $860,000 in U.S. Air Force, aerospace industry grants received.
- $5 million in-kind contributions, equipment, business advice.
- Permitting, environmental studies for KLC underway.

'95

- Legislature enacts HB-315, funding Kodiak Launch Complex, Fairbanks Satellite Ground Station Spacepark.
- Earth Observation Satellite Company, SAR Corporation, Space Imaging, Inc. work toward Fairbanks ground stations.
- Proposals submitted to provide launch services for research satellites.

'96

- Permitting, design work for KLC under way.
- EarthWatch, Inc., Los Alamos Laboratories build new earth stations in Fairbanks.
- Atmospheric Interceptor Technology Program commits to two launches from KLC.

Kodiak Launches

November 5, 1998
US Air Force AIT-1
Air Force

September 15, 1999
US Air Force AIT-2
Air Force

March 22, 2001
QRLV-1
AirForce – Northern Edge

September 29, 2001
Kodiak Star
Lockheed/NASA

November 9, 2001
Stars – WCRRF
U.S. Army – SMDC

April 24, 2002
QRLV-2
AirForce – Northern Edge

vement

"The Program has been fortunate to have Pat Ladner at the helm. He's made waves, but not excuses, produced instead of promising, and believes in this project and the State of Alaska."

Mark Hamilton
Chairman, AADC Board of Directors

'97

- $27.8 million in funding committed to KLC construction.
- Bids solicited for KLC, contractor for Phase I selected.
- Universal SpaceNet, Inc. begins work on Fairbanks ground station.
- AADC assists Joint Pipeline Office on remote sensing, pipeline leak detection.

'98

- Construction begins at KLC.
- U.S. Air Force launches first interceptor technology test missle.
- Agreement with Lockheed Martin for first commercial launch.

'99

- Second Air Force atmospheric interceptor test launch.
- $12 million funding secured for completion of KLC.
- GCI, Inc. installs communications earth station at KLC.
- State DOTPF improves road access to KLC.

'00

- Launch services contracts finalized, three 2001 launches.
- NASA annouces Kodiak Star Mission, Lockeed Athena 1 vehicle.
- $17.7 million additional funding secured, communications, safety infrastructure.

'01

- U.S. Air Force launch, Quick Reaction Launch Vehicle.
- Environmental Assessment completed, KLC launches.
- First orbital launch puts four satellites into polar orbit.

The Decade continued...

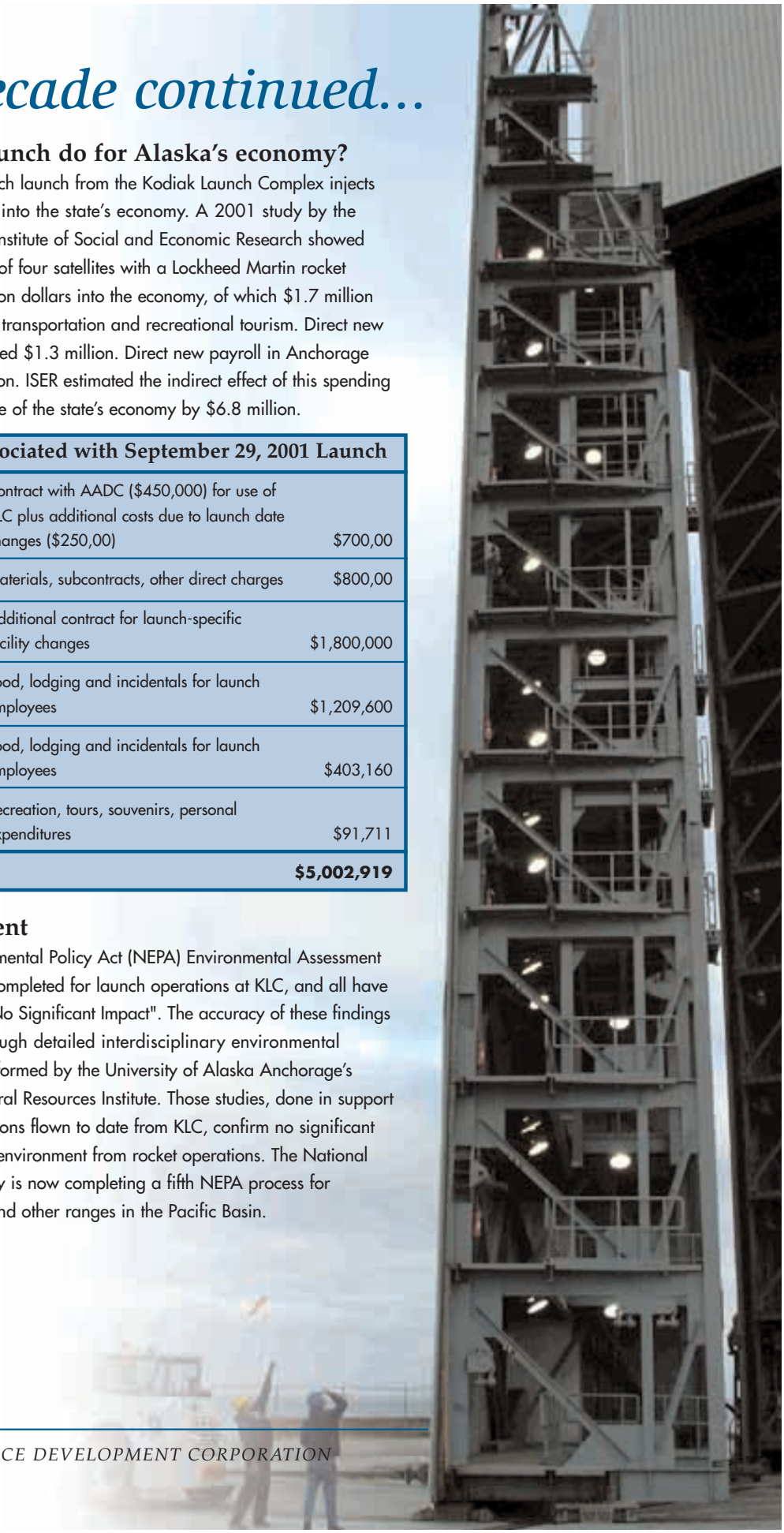
What does a launch do for Alaska's economy?

As a rule of thumb, each launch from the Kodiak Launch Complex injects from $2 to $5 million into the state's economy. A 2001 study by the University of Alaska's Institute of Social and Economic Research showed that the orbital launch of four satellites with a Lockheed Martin rocket brought about $5 million dollars into the economy, of which $1.7 million was for food, lodging, transportation and recreational tourism. Direct new payroll in Kodiak totalled $1.3 million. Direct new payroll in Anchorage also totalled $1.3 million. ISER estimated the indirect effect of this spending was to increase the size of the state's economy by $6.8 million.

Expenditures Associated with September 29, 2001 Launch		
Lockheed Martin	Contract with AADC ($450,000) for use of KLC plus additional costs due to launch date changes ($250,00)	$700,00
Lockheed Martin	Materials, subcontracts, other direct charges	$800,00
Lockheed Martin	Additional contract for launch-specific facility changes	$1,800,000
Lockheed Martin	Food, lodging and incidentals for launch employees	$1,209,600
NASA	Food, lodging and incidentals for launch employees	$403,160
Individuals	Recreation, tours, souvenirs, personal expenditures	$91,711
Total		**$5,002,919**

The Environment

Four National Environmental Policy Act (NEPA) Environmental Assessment processes have been completed for launch operations at KLC, and all have ended in findings of "No Significant Impact". The accuracy of these findings has been verified through detailed interdisciplinary environmental monitoring studies performed by the University of Alaska Anchorage's Environment and Natural Resources Institute. Those studies, done in support of each of the six missions flown to date from KLC, confirm no significant negative effects to the environment from rocket operations. The National Missile Defense Agency is now completing a fifth NEPA process for operations from KLC and other ranges in the Pacific Basin.



"The acceptance of Challenger Learning Center throughout Alaska has been overwhelming. Because of a broad acceptance we are doubling our facilities."

John Williams
Mayor of Kenai

The Sky is the Limit

The Kodiak Launch Complex presents Alaska with the possibility of a new high-technology industry that can create business for Alaska firms and offer bright new career possibilities for young Alaskans.

With the infrastructure in place and an established track record, Kodiak's strategic location in placing satellites into polar orbit will become important to the commercial space industry as it develops.

However, the mission to develop a new industry for Alaska goes hand-in-hand with efforts by Alaska's schools to prepare young people for new career possibilities.

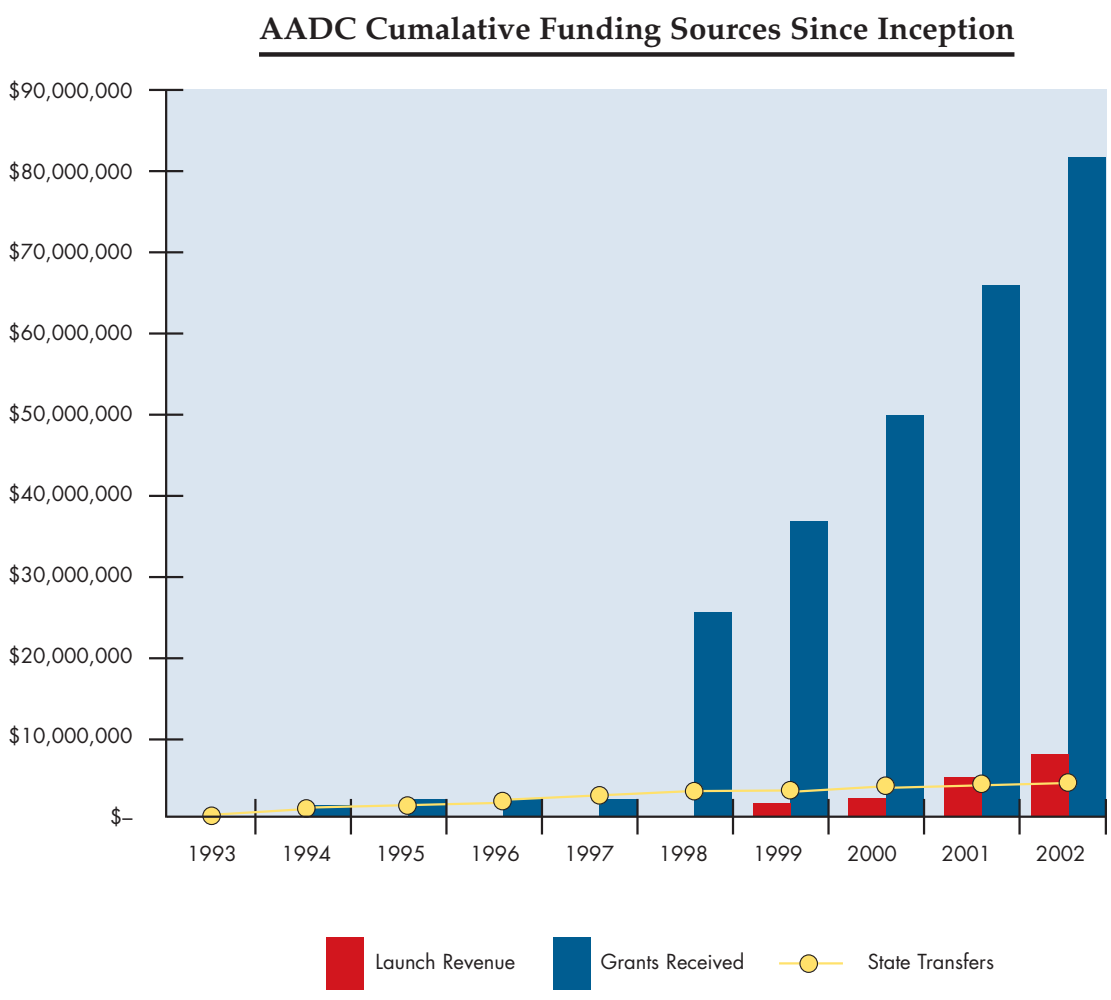
The Challenger Learning Center in Kenai is part of this. Inspired by AADC but accomplished by the people of Kenai and others, the Challenger Learning Center stimulates the interests of school children in math and science.

With these skills developed, Alaska will have a workforce ready to take advantage of opportunities in new space industries — or any high-technology industry.

Need a new payload caption here. Need a new payload caption here. Need a new payload caption here. Need a new payload caption here.

Financials

The completion of fiscal year 2002 marks the Tenth Anniversary of AADC's operations. During this period, AADC received approximately $98 million from grants, launch revenue, and state appropriations. The following graph summarizes the cumulative effects of the three classes:



During FY 02, AADC's total net assets increased from $39 million to $48 million, primarily through Federally contributed capital. Our analysis below compares the net assets of AADC's business-type activities.

Table 1: Statement of Net Assets (in Millions)

	Current Year	Prior Year	Change	% Change
Assets				
Capital assets	$47,575,123	$39,375,419	$8,199,704	20.8%
Current and other assets	27,156,553	27,713,975	(557,422)	-2.0%
Total assets	74,731,676	67,089,394	7,642,282	11.4%
Liabilities				
Long-term liabilities	25,656,015	26,002,394	(346,379)	-1.3%
Other liabilities	607,444	1,920,440	(1,312,996)	-68.4%
Total Liabilities	26,263,459	27,922,834	(1,659,375)	11.4%
Net assets:				
Invested in capital assets, net of related debt	47,575,123	39,375,419	8,199,704	20.8%
Restricted	-	-	-	-
Unrestricted	893,094	(208,859)	1,101,953	527.6%
Total Net Assets	**$48,468,217**	**$39,166,560**	**$9,301,657**	**23.7%**

The 23.7% increase in net assets is due mainly from the completion of the Kodiak Launch Complex (KLC). The receipt of $12,462,678 from the Federal grants offset the $12,809,254 expended on the Complex during the current year. Of that amount, $9,940,131 was capitalized to the Kodiak Launch Complex. The majority of the KLC additions related to the construction of the Range Safety and Telemetry System (RSTS), which is scheduled for completion in 2003.

Business-type Activities

AADC's total revenues increased modestly while the total cost of all programs and services increased significantly. However, the primary cause of the increase in expenses came from the first year of depreciation on the KLC. Our analysis below focuses on the changes in net assets of AADC's business-type activities.

Table 2 Changes in Net Assets (in Millions)

	Current Year	Prior Year	Change	% Change
Launch revenue	$4,614,743	$4,225,231	$389,512	9.2%
Expenses				
Launch expenses	2,230,526	1,155,636	1,074,890	93.0%
Personal services	748,172	718,247	29,925	4.2%
Travel	157,168	101,538	55,630	54.8%
Contractual services	780,545	1,017,532	(236,987)	-23.3%
Supplies	115,416	107,661	7,755	7.2%
Depreciation	1,743,331	26,984	1,716,347	6360.6%
Total operating expenses	5,775,158	3,127,598	2,647,560	84.7%
Excess (deficit)	(1,160,415)	1,097,633	(2,258,048)	-205.7%
Interest income	331,874	98,546	233,328	236.8%
From component units	185,067	555,200	(370,133)	-66.7%
Change in Net Assets	($643,474)	$1,751,379	($2,394,853)	-136.7%

Revenues of AADC's business-type activities increased by 9.2 percent ($4.6 million in 2002 compared to $4.2 million in 2001) and the related expenses increased by 84.7 percent. The factors driving these results include:

- Revenues increased due to the three launches in 2002, while only one launch occurred in 2001. However, progress billings of $2,827,964 related to fiscal year 2002 launches were received in 2001.
- The primary factor driving the increased expenses results stems from the depreciation of the KLC facilities. AADC began depreciating the KLC during 2002 in accordance with GASBS 34. Management expects the depreciation expense to increase in future years with the completion of the Range Safety System and the retroactive implementation of the infrastructure provisions of GASBS 34.

- AADC has not traditionally budgeted for depreciation expense since the amounts have been immaterial to the overall operations. The depreciation expense increased by $1,716,347 from 2001 due to the first year of depreciation on the KLC. As such, AADC's net income excluding the effects of depreciation was $1,099,858.
- During 2002, AADC finalized an agreement with ASTF, whereby future disbursement of funds from ASTF will no longer be expected. Accordingly, the 2003 and 2004 budgets of AADC have been modified to address this shortfall.

Capital Assets

At June 30, 2002, AADC had $47,575,123 invested in various capital assets both in Kodiak and in Anchorage that support its mission to foster aerospace industry (See Table 3 below). This amount represents a net increase (including additions and deductions) of $8.3 million, or 21.1 percent, over last year.

Table 3 Capital Assets at Year-end (Net of Depreciation)

Kodiak Launch Complex	Current Year	Prior Year	Change	% Change
Infrastructure	$6,794,174	$6,794,174	$ -	0.0%
Buildings, structures	30,743,151	32,547,879	(1,804,728)	-5.5%
Vehicles & equipment	416,865	-	416,865	N/A
Office equipment	128,646	63,837	192,483	301.5%
Construction in progress	9,492,287	-	9,492,287	N/A
Total Capital Assets	$47,575,123	$39,405,890	$8,296,907	21.1%

This year's major additions consisted primarily of the $9.5 million construction of the Range Safety and Telemetry System. The overall change in capital assets includes the total additions of $9.9 million, net of the depreciation expense of $1.7 million.

Debt Administration

AADC has no long-term liabilities that require debt administration. AADC has the authority to issue bonds but has not issued any to date.

AADC participates in the State of Alaska Risk Management Pool, which is considerably less than commercial insurance. Other obligations include: accrued leave, compensated absences, vacation pay, and sick leave. More detailed information about AADC's long-term liabilities are presented in Notes A and F to the financial statements.

Other Matters

The above summary is designed as a supplement to AADC's fiscal year 2002 audited financial statements. Please refer to the actual statements and accompanying notes for questions. AADC is a component unit of the State of Alaska and the financial statements are a matter of public record.

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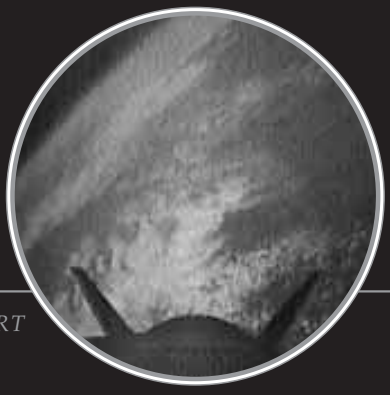
"The Alaska Aerospace Development Corporation is a shining star in Alaska's economic firmament. In just 10 years, this state-owned corporation has brought more than $98 million into our economy by developing and marketing its world-class rocket launch facility on Kodiak. More importantly, by expanding this facility to help Alaska meet the challenge of building a National Missile Defense system, AADC is opening up new space-related opportunities for Alaskans in the fields of national defense, research and commerce.

AADC and its management team will continue to successfully leverage Alaska's unique geographical position to strengthen the foundation of a high technology industry in our state that can help the Last Frontier play an important role in development of space, the final frontier."

Frank H. Murkowski
Governor of Alaska



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Photos courtesy of NASA, Mark Farmer, Hank Pennington and ????