ALASKA AEROSPACE DEVELOPMENT CORPORATION

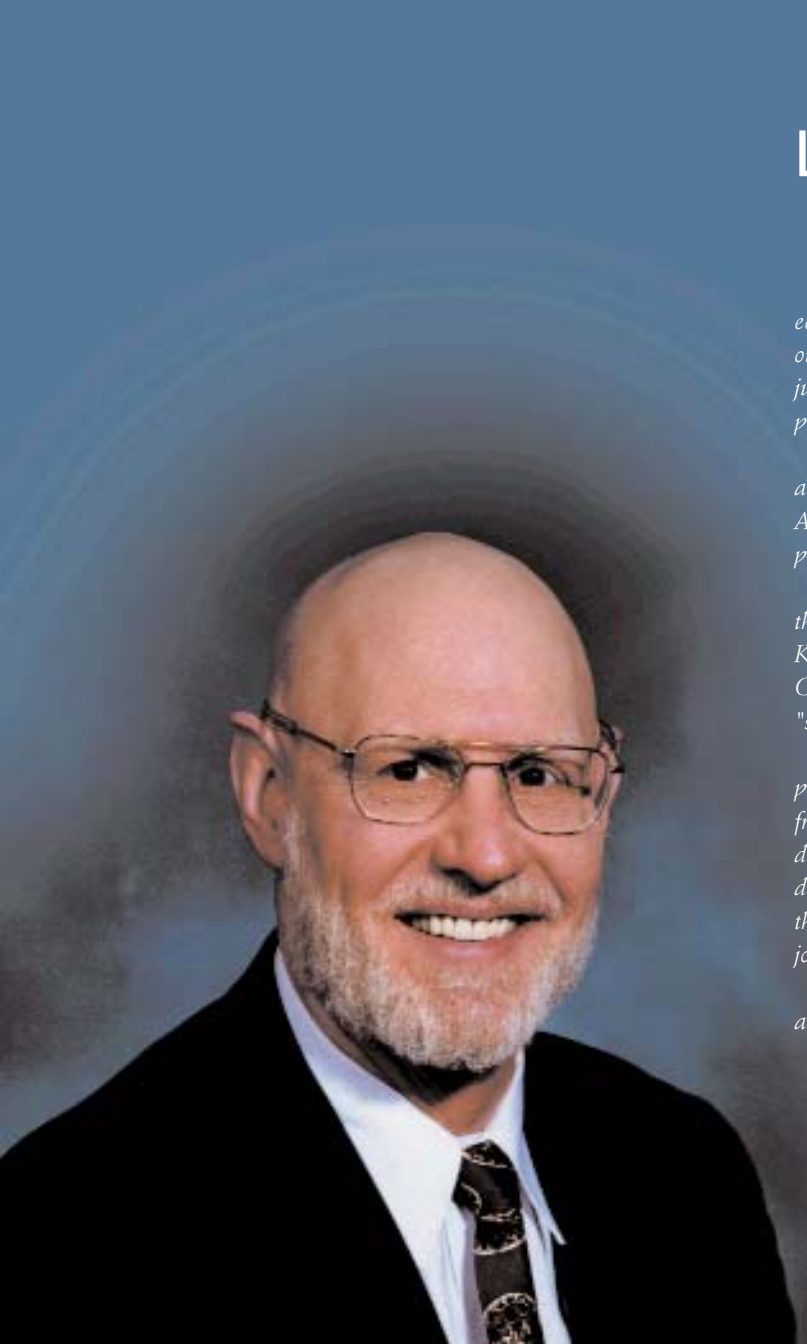
2003 ANNUAL REPORT

Contents

Map of the recently completed antenna facility overlooking the Kodiak Launch Complex. *(See page 6).*

Alaska Aerospace Development Cororation. is an independent State corporation created by the Alaska State Legislature in 1992 to develop a space technology industry for Alaska. The corporation constructed the Kodiak Launch Complex at Narrow Cape, on Kodiak Island in 2000 and since then has supported six military and civilian launch missions. In 2003 AADC signed a five-year contract with the U.S. Missile Defense Agency to support tests of the Nation's missile defense system.

AADC also helped foster a commercial space data industry in Interior Alaska. Following a marketing initiative by the corporation in 1995, several satellite down-link stations were built in Fairbanks to retrieve information from satellites in polar orbits.



Letter From the Chairman

To the Governor, Legislators and People of Alaska:

Alaskans have long searched for ways to build technology-based industries in Alaska and to diversify our economy from one dependent on production and export of raw resources to an economy with more jobs based on knowledge and technology skills. Alaska Aerospace Development Corporation is laying the foundations for just such a technology industry, a new space industry support business for our State, and I am pleased to be a part of this initiative.

AADC has accomplished a lot in the 12 years since it was formed. Our Nation's first commercial spaceport at the Kodiak Launch Complex has been built, has supported six launches and is poised to support more. Alaska has the only U.S. space launch facility designed for the commercial space business, and we have proven ourselves by actually launching satellites into orbit.

AADC offers a special advantage to the space industry because of Alaska's location at high latitudes on the globe. Launches of satellites into polar orbit are done more easily from high latitudes, and launches from Kodiak are safer because they are made to the south over the unpopulated, wide expanse of the North Pacific Ocean. Polar orbits are preferred for many research and environmental-monitoring satellites because they can "see" every part of the world.

We also see a connection between launches of polar-orbiting satellites and the growth of a space data processing industry in Fairbanks and at the University of Alaska. Fairbanks is ideal for "downloading" data from polar satellites because, from at high latitude, an earth station in Fairbanks can talk with a polar satellite during most of its passes around the world. AADC in fact fostered the development of commercial satellite downlink stations in Fairbanks and research stations at the University with a marketing initiative in 1995. As the launch support and space data industries grow and develop, we see new, highly paid knowledge-intensive jobs for young Alaskans.

That is what economic diversification through technology is really about, and it is what AADC, our State aerospace corporation, is about.

Sincerely,

Mark Hamilton
Chairman, AADC Board of Directors

Pat Ladner has 24 years of experience in missile and space defense systems development. Among other positions, he served as Director of the U.S. Air Force Strategic Defense Initiative Organization's projects and test operations programs, and was Mission Director for SDIO's laser Atmospheric Compensation Experiment/Relay Mirror Experiment launch in 1990, and was Deputy Mission Director and Program Manager for the Delta Star Launch. He has been AADC's Executive Director since September 1992.

Letter From the President

Dear Governor Murkowski, Legislators and People of Alaska:

We are pleased to present Alaska Aerospace Development Corporation's Annual Report for 2003. It has been 12 years since the Alaska State Legislature formed AADC, and we have made important progress toward our objectives of a space support industry for Alaska.

In the past year we continued to improve our launch support infrastructure at the Kodiak Launch Complex and made other important additions to our capability to support our customers. We signed a five-year contract with the U.S. Missile Defense Agency to support tests associated with the missile defense program. This insures that AADC will play an important role in support of this program.

We could not have accomplished these things without the support of a dedicated group of Alaskans who have made it possible: our employees and support contractors. These are people who brought to our organization their energy and enthusiasm, and their abilities to innovate and use resources wisely in getting the job done right. They embody the best qualities of Alaskans, and we are proud to feature many of them in this report.

We could not have accomplished what we have without the support of many other Alaskans, including U.S. Senator Ted Stevens, Congressman Don Young and Governor. Frank Murkowski. Senator Stevens in particular has taken a strong interest in AADC and how we can support the U.S. Department of Defense in protecting our Nation.

We wish also to thank University of Alaska President Mark Hamilton and other Alaskans who have served on our Board for their interest in and support of our organization.

Education is an important element in AADC's mission. Any high technology initiative, whether governmental or commercial, should contain an element that supports education. A decade ago AADC supported the Alaskans who developed the Challenger Learning Center in Kenai and we continue to take a strong interest in the Challenger Learning Center and its role in stimulating the interest of young Alaskans in science, engineering and math.

Technology industries for Alaska can be created in many ways but the work needs to be done by Alaskans, as has been done at AADC. The Challenger Learning Center and efforts like it will give the next generation of Alaskans the skills to accomplish these goals.

Sincerely,

Pat Ladner
President & CEO

Year in Review

The year 2003 was one of building infrastructure at the Kodiak Launch Complex. AADC signed a five-year contract with the U.S. Missile Defense Agency to support launches related to testing of the Nation's new missile defense system. To meet the demands of the new contract and to support other launches, AADC invested in new equipment, took delivery of a new Range Safety and Telemetry System, added personnel and helped complete a federal Environmental Impact Statement.

Because of its location, the Kodiak Launch Complex is ideally suited to support tests of the Missile Defense Agency as well as commercial satellite launches into polar orbits.

Launches of test missiles from the KLC can be made on a trajectory that simulates an enemy missile aimed at the continental U.S. This is why AADC is now playing an important role in the missile defense test program.

As a commercial space industry develops, Kodiak has been shown to be ideal for launches into polar orbit because of its location on a high latitude, and because a launch south over the North Pacific Ocean will avoid populated areas. In 2001, the Lockheed Athena 1 rocket was launched from Kodiak, placing NASA research satellites in polar orbit.

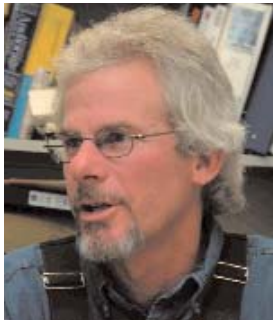
The KLC is the Nation's only launch facility that operates like a commercial facility and is not operated in conjunction with a federally owned range.

PEOPLE OF AADC

Lana Dahl
Administrative Manager

An Alaska resident since 1961, Lana coordinates the corporation's administrative support services. She previously worked with National Bank of Alaska, First National Bank Alaska and as support staff and expeditor for BP North Slope operations.

PEOPLE OF AADC



Mike Morton
Facility Maintenance Technician

Mike manages equipment and facilities maintenance and operations at the Kodiak Launch Complex. A 15-year Kodiak resident, he retired after 24 years in the Coast Guard and has been working at the KLC for three and a half years.

U.S. Missile Defense Agency awards five-year contract to AADC

The U.S. Missile Defense Agency (MDA) awarded a five-year, $43.5 million contract to the Alaska Aerospace Development Corporation (AADC) for launch services related to testing of the Nation's missile defense system. The contract is like a purchase order – specific "task orders" are still required for each test launch. The contract is important, however, because it will make it administratively easier for military and other federal agencies to use the Kodiak Launch Complex (KLC). Launches of "target" missiles will be made from Kodiak to simulate an enemy missile headed for the U.S. During the test, the target would be intercepted and destroyed high over the Pacific Ocean.

For AADC, the contract also provides basic maintenance and administrative overhead costs of the KLC.

Kodiak Launch Complex is named as a Participating Range

The Missile Defense Agency has named the KLC as a participating range in MDA test programs, a formal acknowledgement that the Kodiak facility is an independent facility that is properly equipped, permitted and capable of supporting launch missions. It makes the KLC "part of the team" within the Nation's missile defense programs, along with other established ranges, such as Vandenburg Air Force Base, California, or the Reagan Test Site at Kwajalein Atoll.

Additional staff is recruited for AADC

With the signing of the contract with the U.S. Missile Defense Agency, AADC hired eight more staff during 2003, bringing total personnel to 20. Four of the additional staff are based at the KLC, and four are additional support staff based in Anchorage. The new staff adds to AADC's capability in a number of ways, ranging from additional technical support in Kodiak to support staff in Anchorage. Personnel are needed to operate and maintain the new Range Safety and Telemetry System. Contractors are doing the majority of operations and maintenance until local staff from Kodiak can be trained.

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$2 million new antenna complex improves KLC's capability for data transmission

AADC completed a new $2 million instrumentation facility on high ground overlooking the Kodiak Launch Complex. The new antenna field provides improved line-of-sight communications for data to and from the launch site, and substantially improves the ability to handle increased requirements for telemetry data at the KLC.

PEOPLE OF AADC

Cherie Anderson
Budget Manager

Cherie has been with AADC for two years. She supervises all budget and accounting support. Cherie is a 40-year Alaska resident and has worked for years with major construction companies in the State helping manage budgets and accounting.

PEOPLE OF AADC

Geary Cooper
Facility Maintenance Technician

Geary has worked at the Kodiak Launch Complex for three years. He has lived in Alaska for 10 years, and managed facilities maintenance for the U.S. Bureau of Land Management at BLM sites around the state.

Range Safety and Telemetry System delivered

AADC took delivery of its new Range Safety and Telemetry System in August 2003. The system is currently undergoing testing, and will serve as a backup system during the next launch in 2004. If the system performs adequately, it will be fully operational and will become the primary range safety system to KLC launches. The $15 million system was provided under contract from Honeywell Communications, Inc.

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 had to bring their own range safety and telemetry systems to Kodiak, at great expense. KLC will now have its own system, which will reduce customer costs.

New logistics equipment acquired for KLC

New heavy-duty pickups, "air-ride" trailers and a tractor unit for transporting sensitive loads and a crane were acquired during 2003, adding to the infrastructure and capabilities of the KLC. Air-ride transport equipment is necessary so that rocket and payload components can be moved by road from Kodiak to the launch site with a minimum of vibration. The heavy-lift crane will eliminate a need to rent and import a crane to the facility during preparation for launch operations, reducing chances of delay due to unavailability of key equipment.

Six hundred acres are added to the KLC

To accommodate the new antenna facility and other needs, the Kodiak Launch Complex was expanded by 600 acres during 2003, and now totals 3,717 acres. The land at and around the KLC is owned by the State of Alaska, and the expansion required an amendment to the inter-agency land management agreement with the state Department of Natural Resources and a public review process.

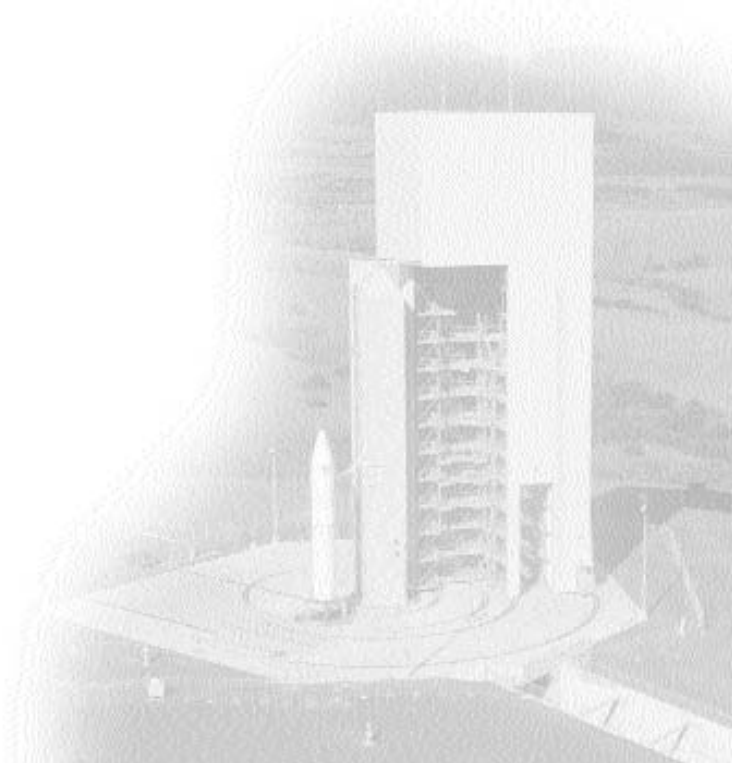
Federal Environmental Impact Statement for the Ground-Based Midcourse Missile Defense Extended Test Range Finds No Significant Impacts at KLC

The effects of launch operations from the Kodiak Launch Complex (KLC) were considered in the recently completed federal Environmental Impact Statement (EIS) prepared by the U.S. Army's Space and Missile Defense Command (SMDC) for the Extended Test Range (ETR). The ETR, which spans much of the Pacific Ocean, will allow more operationally realistic testing of the mid-course interceptors being developed for eventual deployment at Fort Greely and elsewhere. The EIS concluded that there would be no significant impacts associated with launching from KLC, and KLC is poised to become an increasingly important component of the ETR. The ETR EIS findings echo those of five previous Environmental Assessments done for the launch operations from KLC, and underscore an important point—rocket flight operations from KLC pose no direct threat to the environment. AADC, in keeping with its commitment to the public to protect the environment, will nonetheless continue to monitor the effects of its operations on the environment to assure this goal is met.

LOCC, weather station improvements

During 2003 AADC remodeled and refurbished the Launch Operations Control Center at the KLC, upgrading equipment that was designed and installed before the facility was operational. New consoles and wiring allow the control center to be quickly reconfigured between launches for the needs of a customer, increasing the operational efficiency.

An upgraded weather station building was also added to the KLC during the year, adding backup systems that will increase reliability.



PEOPLE OF AADC

Kevin DuBois
Facility Maintenance Technician

Kevin has worked at the Kodiak Launch Complex for three years and formerly worked with ground communication support at Kennedy Space Center and in satellite and mobile communications with the U.S. Air Force and National Guard.

It is the people who make a difference

The people who work at Alaska Aerospace Development Corporation are the reasons for its success. AADC has developed the Nation's first stand-alone commercial spaceport at the Kodiak Launch Complex, and it was done with a team of Alaskans.

KLC offers something new in the space launch business. There is the ability to launch test missiles or satellites to orbit without the major overhead of other U.S. launch sites that are owned and operated by the federal government. But more important, the Alaskans who work at AADC and who operate the Kodiak Launch Complex bring a certain "can do" spirit and hands-on attitude to their work.

In this annual report, we profile some of the people who work at AADC and who help it succeed.

"Great projects are less the work of visionaries and more a work of inspired and hard working people. We, at AADC, have been the beneficiaries of exactly those people. Pat Ladner, Martha Schoenthal, Monica James, Ed Allen, Randy Eisenhauer and Gil DeGuzman have not just worked at AADC – they are AADC."

Mark Hamilton
AADC Chairman

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Randy Eisenhauer

Kodiak Launch Complex Facilities Manager

Randy Eisenhauer is Facilities Manager for the Kodiak Launch Complex. He and his crew, all recruited in Alaska, operate the hardware at the launch site. "We're the ones who put in motion all the planning – the blue collar end of the business," Randy says.

What that means is keeping the facilities and equipment at the site, in which $100 million have now been invested, in top-notch condition. When it is time for a launch, Randy and his team prepare the buildings and equipment and work with the customer's teams, military or civilian, to make sure facilities are configured for their needs and that the tools and other equipment needed are on hand.

KLC is 60 miles south of Kodiak, at the end of a long road. Some customer teams, arriving at Kodiak for the first time, don't comprehend its remoteness. Randy's team has to anticipate that and insure everything needed is on hand.

Some of AADC's launches have involved two years of preparation, and customers bring as many as 200 people to Kodiak. From helping find housing to advice on restaurants, the KLC team makes it happen.

Being a retired Coast Guard Chief engineer is a good background for someone in Randy's job. He was in Alaska waters during most of his 26 years in the Coast Guard, in the Gulf of Alaska and Bering Sea. Some of Randy's team are retired from military service also.

This experience is valuable. Keeping vessels at sea in top condition and performance means the difference between life and death in Alaska's tough waters. Their military careers have taught Randy and his team the value of leadership, teamwork, drills and contingency plans.

Add to that not getting annoyed at the small stuff. "When you've seen what we have, you don't get stressed easily," Randy says.

Gil DeGuzman

KLC Documentation Engineer

Gil DeGuzman never thought – in his wildest imagination – that he would fulfill his dream of working in the aerospace industry right at home. Raised in Kodiak, Gil was fascinated by rockets and space while growing up and wanted to work in aerospace. He got a degree in aerospace engineering from the University of Arizona and thought his future was with companies like Lockheed and Boeing. Then his parents, still in Kodiak, wrote him about the completion of the Kodiak Launch Complex. Gil came home.

Gil is now the Documentation Engineer at the KLC. His primary job is to prepare configuration drawings and interface control documents (ICDs) that show precisely where electrical and communication connections are in the launch facilities. Customers need to know this information so their equipment can interface with the infrastructure. With the documentation in hand, Gil can work to revise the facility layout to meet the customer's particular needs. The information is needed for record-keeping purposes, too. Prior to launch, a record of the facility configuration is finalized.

Gil started work at KLC in early 2001. Besides his work on documentation, Gil is also now part of the team that will operate the KLC's new Range Safety and Telemetry System, which was received from the manufacturer in the fall of 2003. He also manages the computer security for KLC's classified computer systems, which is important as the State aerospace corporation takes on tests related to the Nation's missile defense program.

Monica James

Director of Budget and Finance

Monica James is AADC's Director of Budget and Finance. Her major accomplishment for the past two years is managing transition of the State aerospace corporation's financial systems from that of a traditional State agency to one appropriate for a business enterprise that competes.

Raised in Bethel and now a 20-year Army wife, Monica joined AADC two and a half years ago. She came in as a temp and stayed on, assuming more and more responsibilities as the organization has grown.

Development of the new financial system is no small accomplishment. Previously, AADC depended totally on the State's main accounting system, which may be appropriate for line State agencies but doesn't fit an enterprise like AADC where costs must be tracked and verified for customers, and bids must be prepared.

"We need to be able to keep track of hours and the time people spend working on different parts of a launch project," Monica says. "We need the information not just to prepare bids for new launches, but to make sure our real costs are covered for the contracts we have."

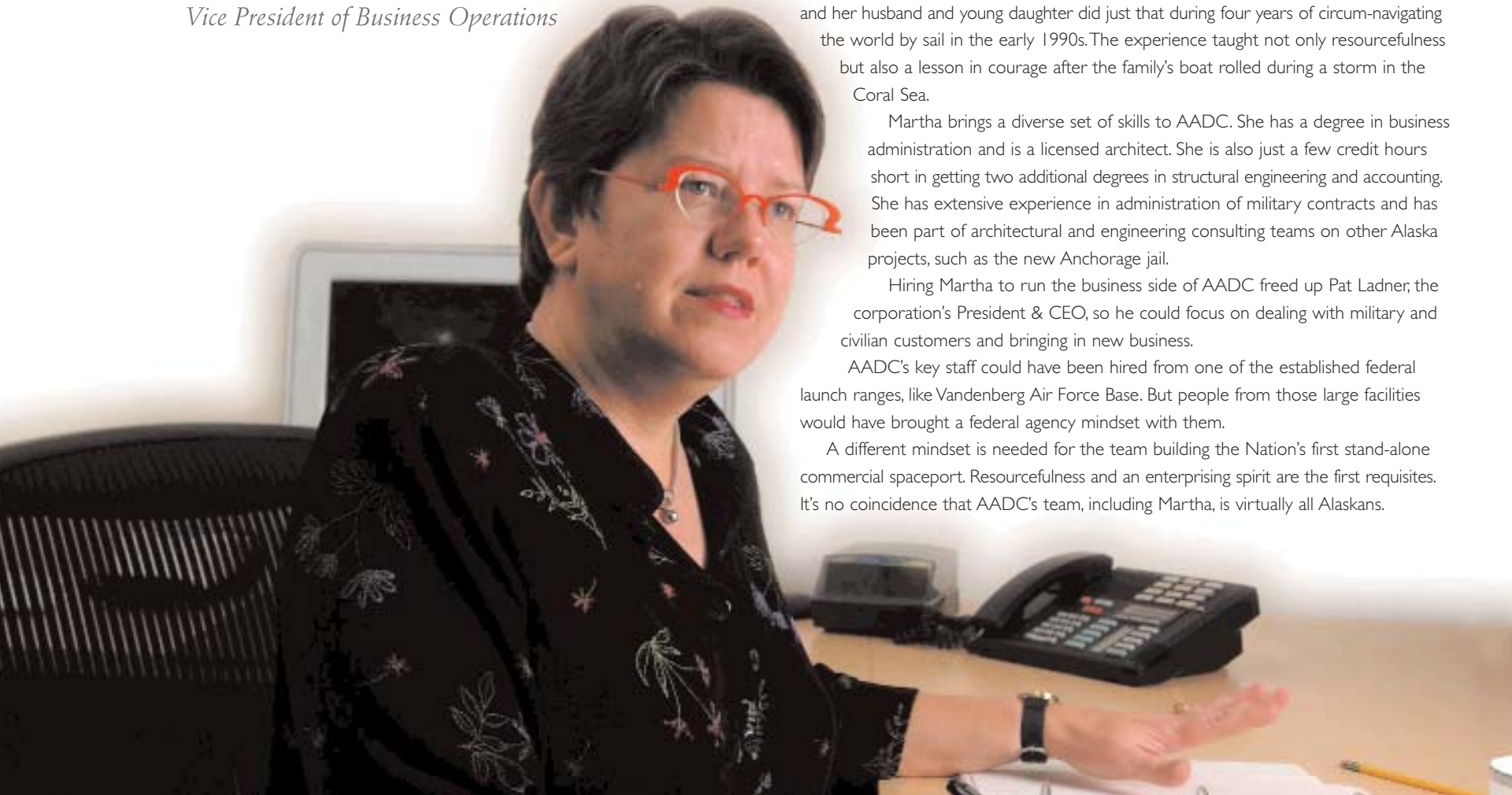
After all, AADC has no general fund support, and no subsidy from the State. Accurate accounting and cost control is crucial, because there's little cushion. AADC must operate like a business.

The corporation still maintains financial records on the old system because it is a State government unit. The new system Monica helped implement actually functions alongside the State accounting system, but it is what is needed for AADC to bring in new launch business.

With the corporation having landed its five-year contract with the federal Missile Defense Agency, the new financial system is now essential. It may, in fact, establish a model for other parts of State government, where there's increasing interest in efficient delivery of services.

Martha Schoenthal

Vice President of Business Operations



Martha Schoenthal is AADC's Vice President of Business Operations. Her responsibility is providing the support needed by the people who put rockets and satellites into the sky from the Kodiak Launch Complex. She is passionate about what she is doing. Like the others at AADC, she is pushing the edge, doing something that hasn't been done before – running a commercial spaceport that runs like a business.

When she talks about her work Martha sometimes thinks of a metaphor: Sailing toward an open ocean horizon, to an unknown that is rich with possibilities. In fact, she and her husband and young daughter did just that during four years of circum-navigating the world by sail in the early 1990s. The experience taught not only resourcefulness but also a lesson in courage after the family's boat rolled during a storm in the Coral Sea.

Martha brings a diverse set of skills to AADC. She has a degree in business administration and is a licensed architect. She is also just a few credit hours short in getting two additional degrees in structural engineering and accounting. She has extensive experience in administration of military contracts and has been part of architectural and engineering consulting teams on other Alaska projects, such as the new Anchorage jail.

Hiring Martha to run the business side of AADC freed up Pat Ladner, the corporation's President & CEO, so he could focus on dealing with military and civilian customers and bringing in new business.

AADC's key staff could have been hired from one of the established federal launch ranges, like Vandenberg Air Force Base. But people from those large facilities would have brought a federal agency mindset with them.

A different mindset is needed for the team building the Nation's first stand-alone commercial spaceport. Resourcefulness and an enterprising spirit are the first requisites. It's no coincidence that AADC's team, including Martha, is virtually all Alaskans.

Ed Allen *Vice President for Launch Operations*

Ed Allen is a space industry veteran, bringing almost five decades of experience in the Nation's missile and space programs to his work at the KLC.

With experience in the rocket, payload, launching and tracking ends of the space business, he is a primary point of contact for the customers, both military and civilian.

Ed is no stranger to Alaska. He helped manage test launches for 10 winters at the University of Alaska's Poker Flat Research Range near Fairbanks, beginning in 1969.

Ed grew up in the space program. In the 1950s, when the model for the Mercury space capsule was being tested in wind tunnels in California, he was there. Through the years he helped develop and test explosive warheads, exotic fuels, launch vehicles and air-to-air missiles, and supported programs to upgrade the Minuteman missile. He has supported and managed hundreds of launches, including many suborbital flights. Much useful research and development has been accomplished with suborbital research rockets, Ed says.

He helped develop safe ignition systems used for Trident and Peacekeeper missiles, and the Space Shuttle. He played a role in Pegasus, a method of launching rockets and satellites to space from a large jet at 40,000 feet.

Those were exciting times. The space race and cold war were at full-steam, and America's rocket and space industries were maturing. It was a time when small teams of engineers were hands-on, designing, building and testing rockets, a closely coordinated dynamic of disciplines.

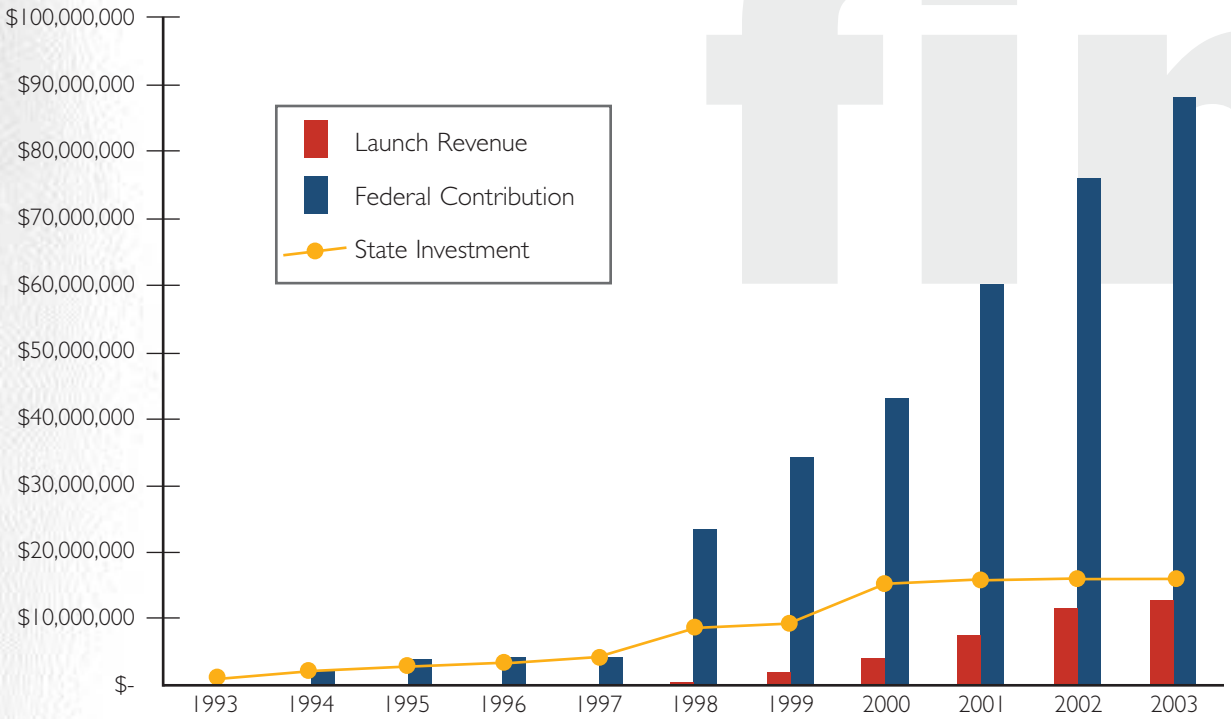
Working at KLC is like a return to those years. KLC's facilities are ultra-modern, but the spirit of the Alaskans who run AADC – hands-on, can-do – is like returning to an earlier age of the Nation's space industry.

Ed has four grown children and 10 grandchildren. He is at an age when most contemporaries are playing golf; instead, he's happily at work, doing what he loves to do and helping build a space industry for Alaska.

Financials

The completion of fiscal year 2003 marks the eleventh anniversary of AADC's operations. During this period, AADC received approximately $114 million from Federal grants, launch revenue and State appropriations. The following graph summarizes what the State Investment in AADC has garnered in Federal and industry support.

Return on State Investment



During FY03, AADC's total net assets increased from $48 million to $51 million, primarily through Federally contributed capital.

Table 1 Statement of Net Assets (in Millions)

	Current Year	Prior Year	Change	Percent Change
Assets				
Capital assets	$51,059,118	$47,575,123	$3,483,995	7.3%
Current and other assets	32,817,703	27,156,553	5,661,150	20.8%
Total assets	83,876,821	74,731,676	9,145,145	12.2%
Liabilities				
Long-term liabilities	31,890,358	25,656,015	6,234,343	24.3%
Other liabilities	254,286	607,444	(353,158)	-58.1%
Total Liabilities	32,144,644	26,263,459	5,881,185	-22.4%
Net assets:				
Invested in capital assets, net of related debt	51,059,118	47,575,123	3,483,995	7.3%
Restricted	-	-	-	-
Unrestricted	673,059	893,094	(220,035)	24.6%
Total net assets	$51,732,177	$48,468,217	$3,263,960	6.7%

The total net assets increase of 6.7% is due to $5,117,447 capitalized to Kodiak Launch Complex (KLC) and a net loss of $1,853,487. The depreciation expense of $1,881,959 significantly contributed to the net loss. The agency received $14.6 million from the Federal grants and expended $8.1 million during the current year. Of that amount, $3.2 million was used for operations, with the remainder capitalized to the Kodiak Launch Complex. The majority of the KLC additions related to the construction of the Range Safety and Telemetry System (RSTS). The RSTS is scheduled for completion in 2004.

Business-type Activities

The reduction in AADC's revenues was expected, as there was no launches in fiscal year 2003. However, management expects the launch revenue to increase dramatically in 2004 due to the anticipated Missile Defense Agency launches. As expected, the current year expenses also decreased with no launches. Depreciation on the KLC continues to be a significant operating expense. The 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	Percent Change
Launch revenue	$378,750	$4,614,743	($4,235,993)	-91.8%
Operating Expenses				
Launch expenses	-	2,230,526	(2,230,526)	-100.0%
Personal services	1,120,502	3,617,295	(2,496,793)	-69.0%
Travel	471,125	157,168	313,957	199.8%
Contractual services	1,219,418	780,545	438,873	56.2%
Supplies	852,471	115,416	737,055	638.6%
Depreciation	1,881,959	1,743,331	138,628	8.0%
Total operating expenses	5,545,475	8,644,281	(3,098,806)	-35.8%
Excess (deficit)	(5,166,725)	(4,029,538)	(1,137,187)	28.2%
Interest income	64,034	331,874	(267,840)	-80.7%
KLC grants recognized	3,249,204	2,869,123	380,080	13.2%
From component units	-	185,067	(185,067)	-100.0%
Change in Net Assets	($1,853,487)	($643,474)	($1,210,014)	188.0%

Launch revenues decreased by 91.8 percent ($.4 million in 2003 compared to $4.6 million in 2002) and the related expenses decreased by 35.8 percent. The factors driving these results include:

- Revenues decreased due to no launches in 2003, while there were three launches in 2002. The current year launch revenue relates to 2002 launches.

- The activity at the KLC decreased which primarily contributed to the decrease in expenses. Management expects the 2004 expenses to increase in proportion to the launch revenues described above. AADC's net income excluding the effects of depreciation was $28,471.

- AADC has not traditionally budgeted for depreciation expense since the amounts have been immaterial to the overall operations. The depreciation expense increased by $138,628 from 2002 due to current year capital additions to the KLC. The depreciation expense increased slightly due to current year property additions. Management expects the depreciation expense to increase in future years with the completion of the Range Safety and Telemetry System and the retroactive implementation of the infrastructure provisions of GASBS 34.

- AADC did not receive any operating transfers from the State of Alaska during fiscal year 2003. Management does not anticipate any future transfers and has taken steps to become fully self-sufficient. Consequently, AADC's 2004 budget forecasts four launches with a net income of $1,896,000.

- AADC budgeted $200,000 for a deferred maintenance fund, but did not set aside any monies.

AADC's Budgetary Highlights

The State of Alaska approves AADC's budget annually. Accordingly, neither the Board of Directors nor management has the authority to modify the budget. However, the budget has historically included provisions granting AADC "receive and expend authority". This allows AADC to contemporaneously receive funding from launch customers and expend funds as necessary to provide services.

The significant variance between the adopted budget for the year 2003, and the actual results were due to the omission of depreciation in the budget and effects of recognizing grant revenue.

If the 2004 budgeted net income is realized, AADC's net assets are expected to increase by $1.9 million. If this occurs, approximately $200,000 will be used to fund a deferred maintenance account. The rest will be used for working capital demands and continued expansion of the Kodiak Launch Complex.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2003, AADC had $51 million 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 $3.5 million, or 7.3 percent, over the prior year.

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

Kodiak Launch Complex	Current Year	Prior Year	Change	Percent Change
Change				
Infrastructure	$6,794,174	$6,794,174	$ -	-
Buildings, structures	30,639,436	30,743,151	(103,715)	-0.3%
Vehicles & equipment	369,743	416,865	(47,122)	-11.3%
Office equipment	193,076	128,646	64,430	50.1%
Construction in progress	13,062,689	9,492,287	3,570,402	37.6%
Total Capital Assets	$51,059,118	$47,575,123	$3,483,995	7.3%

This year's major additions consisted primarily of continued construction of the Range Safety and Telemetry System. The overall change in capital assets includes the total additions of $5.4 million, net of the depreciation expense of $1.9 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 audited financial statements.

Economic Factors and Next Year's Budgets and Rates

AADC's Board considered many factors when setting the fiscal year 2004 budget, such as: completion of the Range Safety and Telemetry System, depreciation of the KLC facilities, and launch fees that will be charged for the business-type activities. Amounts budgeted for launch revenue are $13.7 million with four expected launches. Management also intends to utilize the National Guard Federal grant for KLC construction.

Other Matters

The above summary is designed as a supplement to AADC's fiscal year 2003 audited financial statements. AADC is a component unit of the State of Alaska and the audited financial statements are a matter of public record.

The people of the Alaska Aerospace Development Corporation are continuing their outstanding work, placing Alaska in the vanguard of our national efforts to gather and apply information about the cosmos to improve our lives here on Earth.

From a standing start in 1992, the members of the AADC team have built a world-class launch facility in Kodiak. They have developed the technical and scientific capabilities to conduct multiple launches, and to send payloads into orbit. Most recently, they have taken on testing responsibilities in support of the Nation's missile defense system, now being built at Alaska,s Ft. Greely.

Accomplishments like these are not achieved without teamwork. AADC President Pat Ladner deserves special recognition for his ability to build and lead the team of talented people who have met every challenge in establishing Alaska as a significant contributor to our nation's space effort.

I join with all the people of Alaska in congratulating the people of AADC, and in saluting their successful efforts to build a space data industry for our state, bring jobs and revenues to our economy, and help ensure the safety and integrity of our nation.

Frank H. Murkowski
Governor of Alaska

AADC Board of Directors

Current board members include:

Mark Hamilton - Chair
President - University of Alaska Statewide System

Henry D. Penney - Vice-Chair
General Manager/Associate Broker - Penco Properties

Roger Smith
Director, Geophysical Institute - University of Alaska - Fairbanks

Jake Lestenkof
Major General (retired) United States Army

Designee: **Bill Noll**, Deputy Commissioner
Dept of Community and Economic Development

Dave Woodruff
Vice President, Alaska Fresh Seafoods

Ron Acarregui
Kodiak Business Community

Jack Eidson
Lockheed Martin Space Operations Company

Wally Sawyer
NASA (retired)

Senator Gary Wilken (non-voting)
Alaska State Senate

Representative Dan Ogg (non-voting)
Alaska State House

AADC Staff

Pat Ladner
President & CEO

Martha Schoenthal
VP of Business Operations

Monica James
Director of Budget & Finance

Ray Schulte
Director of Health Safety & Environmental

Guy A. Gallaway
Program Analyst

Arthur D. Isham
Contracts Manager

Cherie Anderson
Budget Manager

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Accounting Technician

Jenette Paulson
Director of Administration

Lana Dahl
Administrative Manager

KLC Staff

Ed Allen
VP of Launch Operations

Randy Eisenhauer
KLC Facility Manager

Kevin DuBois
Communication & Electrical Supervisor

Geary Cooper
Facility Maintenance Supervisor

Gil DeGuzman
Documentation Engineer

Mike Morton
Facility Maintenance Technician

Tom Norris
Security Manager, FSO

Richard McKinney
Systems Support Manager

Paul Friel
Electrical Technician

Tandy L. Ford-Roberts
Mechanical Technician

Alaska's geographical location makes it critical to our missile defense capability. Alaska Aerospace Development Corporation is developing an ever increasing role in the research and testing of that capability to defend against the possibility of missile attacks in the United States.

Ted Stevens
U.S. Senator

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