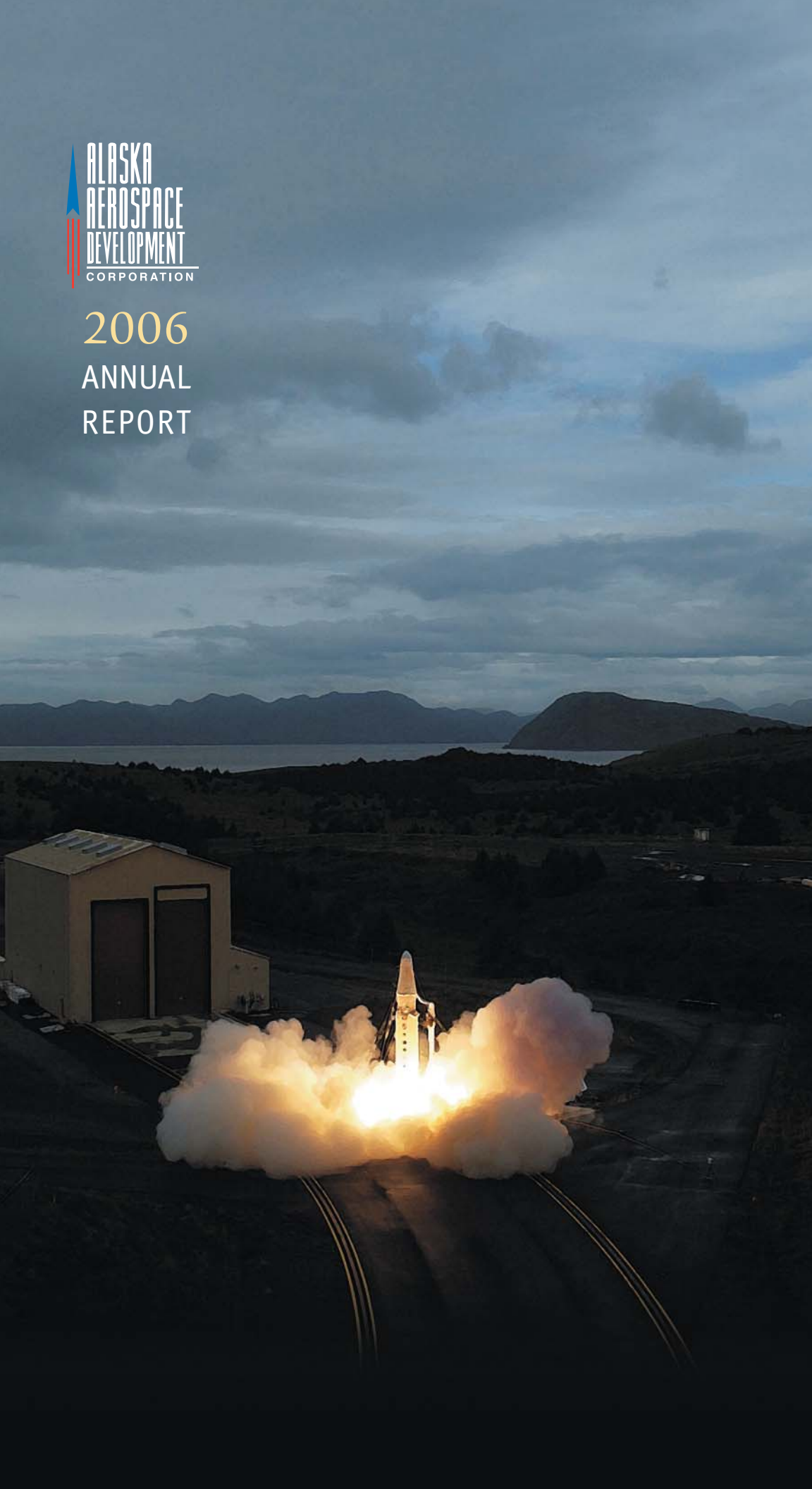
ALASKA AEROSPACE DEVELOPMENT CORPORATION

2006 ANNUAL REPORT



605.62 miles

Length of fiber optic cable that will provide Kodiak with high-speed telecommunications connectivity.

contents

Unless otherwise noted, photographs in this report were taken by AADC staff member Annjannette Larsen.

Cover photo of FTG-02, launched September 1st from KLC, courtesy of Sandia National Laboratories.

Alcatel cable ship installing fiber optic cable near Narrow Cape on Kodiak.

2006 highlights

Launch Services

The tenth launch from the Kodiak Launch Complex (KLC) on September 1st was a significant milestone for Alaska Aerospace Development Corporation (AADC). It demonstrated AADC's ability to deliver launch services consistently, professionally and cost-effectively as a commercial facility.

Telecommunications Leader

The new fiber optic cable project spearheaded by AADC and the Kodiak Kenai Cable Company will bring high-speed telecommunications technology to to Kodiak Island and the Kenai Peninsula and for the first time.

This major economic infrastructure development will bring the KLC online with secure, fast data transmission capabilities and provide high-speed Internet access to the residents and businesses of Kodiak and the Kenai Peninsula.

Support for Education

AADC broadened its support of education in 2006 with an increase in contributions to the AADC Scholarship Program and a continued commitment to the Space Explorers Program for grades K-12.

AADC was also the major sponsor for a fundraising event to benefit the Challenger Learning Center of Alaska (CLCA). This memorable event on November 10th raised over $225,000 to support the CLCA, a unique science education learning facility located in Kenai that serves students across the state.

Infrastructure Developments

AADC completed the construction and installation of a permanent telemetry site in Cordova for the second unit of the Range Safety and Telemetry System. The dual systems, one at Cordova and one at the KLC, have also been greatly expanded to provide exceptional data receiving and processing capabilities.

CHAIRMAN'S LETTER

To the Governor, the State Legislature and the People of Alaska:

The Alaska Aerospace Development Corporation is at a turning point as an organization that serves the state of Alaska.

Our accomplishments and growth over the last year have demonstrated that AADC is an aerospace company able to meet the demands of the industry with efficiency, flexibility and a high degree of customer satisfaction.

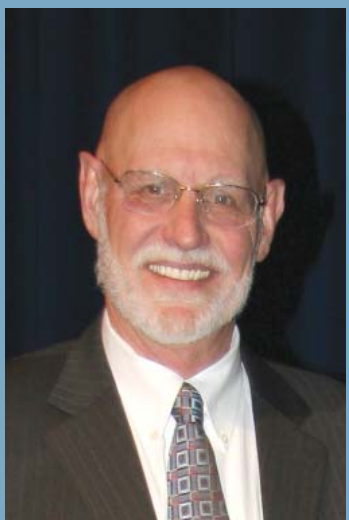
AADC has never been in a stronger position operationally, financially or as a supporter of education and community development. The new fiber optic cable project providing telecommunications connectivity to the Kodiak Launch Complex will bring high-speed Internet access to Kodiak and benefit the local economy. This is one of many infrastructure additions strengthening AADC's capabilities and multiplying its economic impact.

I am particularly proud of the scholarship program and the level of support we provide to high school seniors as they enter college. AADC is highly committed to the education of Alaska's youth. The success of the scholarship program is just one of the many efforts AADC made this year to help students achieve their dreams.

AADC accomplishes more with a staff of thirty-five than other aerospace companies do with hundreds of employees. The strength of the AADC team is one of our best assets and I am proud to be a part of it.

Sincerely,

Mark Hamilton
President of the Board of Directors



385 head
Number of bison that make the KLC Range their home.

PRESIDENT'S LETTER

To the Governor, the State Legislature and the People of Alaska:

I am pleased to present the 2006 Annual Report for Alaska Aerospace Development Corporation to the people of Alaska. Each year of operations for AADC results in greater and greater success and this year has been the most dynamic we've had to date.

I can truly say we are no longer an aerospace company in "development" but have matured and grown to become an innovative, respected and highly efficient organization. In true Alaskan fashion, we have taken an industry layered in decades of tradition and made it our own, with great results.

We celebrated our 10th successful launch on September 1, 2006 and are proud of this milestone and what it represents.

The infrastructure of AADC operations continues to grow with the installation of a permanent telemetry site in Cordova and the expansion of our overall telemetry capabilities.

AADC, along with the Kodiak Kenai Cable Company, spearheaded the development of a fiber optic cable to the Kodiak Launch Complex. This network will provide fiber optic connectivity to the Kodiak Island Borough, the nation's largest US Coast Guard facility at Kodiak and the entire Kenai Peninsula. This project also expands the capabilities for the University of Alaska, telemedicine and Homeland Security with high-speed Internet. The system is scheduled to be operational in early 2007.

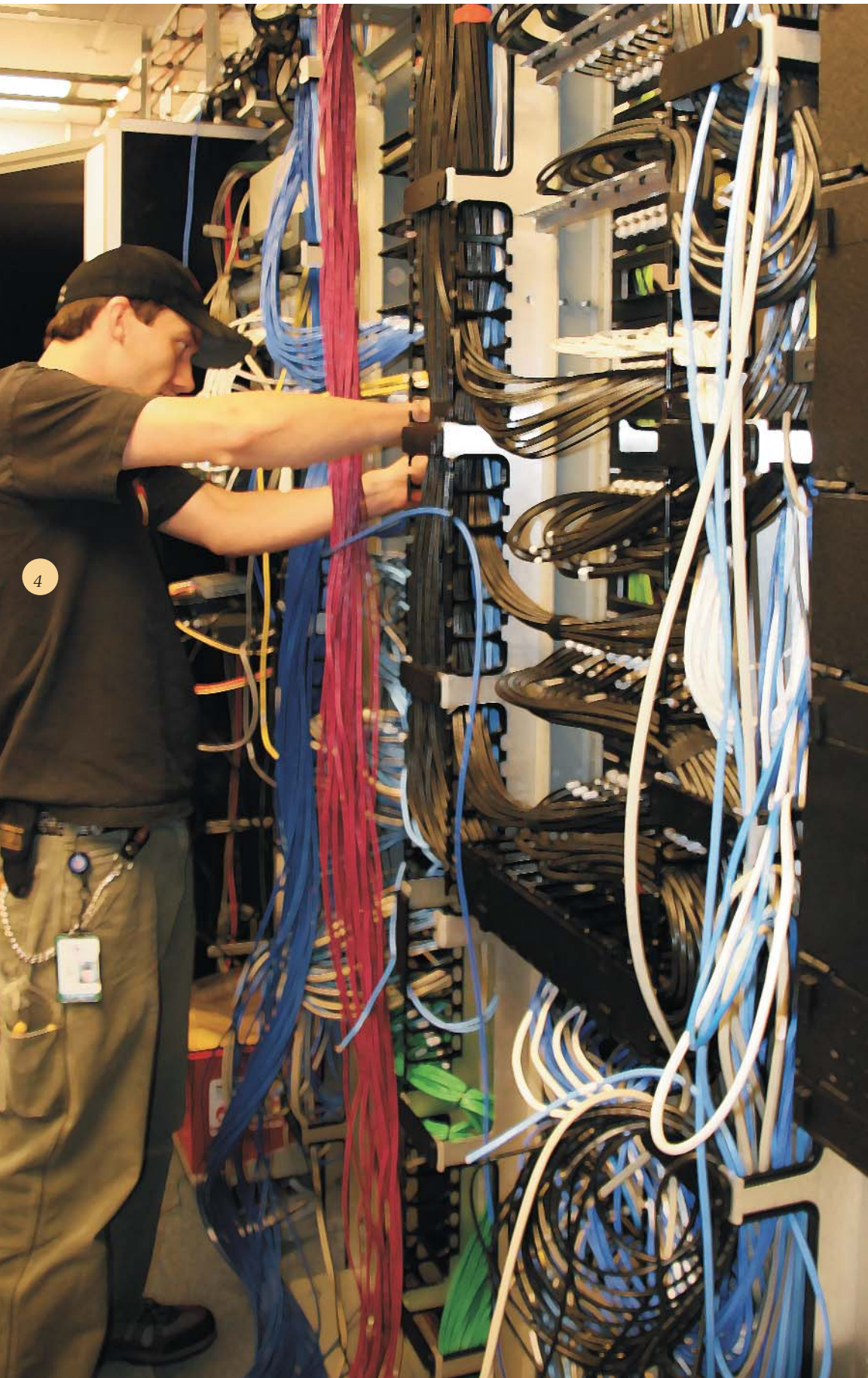
We have many other milestones and accomplishments for you to review. I hope this report provides you with a greater understanding of the benefits AADC and the aerospace industry bring to Alaska.

Sincerely,

Pat Ladner
President & CEO

3,042,511.2 feet

Length of fiber optic strands installed in the internal KLC communications network.



the year in review

Launch Success

Tenth Launch for KLC: a Milestone for a Mature AADC

The business of launching rockets is complex and demanding. It takes seamless teamwork and professionalism to coordinate the many safety, communications, engineering, logistical and business activities involved in a launch campaign.

AADC has consistently provided a level of service to its customers demonstrating these capabilities. These skills are applied to every launch and support function conducted at the KLC.

As a result, 2006 was another successful year of launch operations with the lift-off of two rockets in support of the Ground-based Mid-course Defense program for the Missile Defense Agency (MDA).

FT 04-1

A long-range Strategic Targets System (STARS) rocket, FT 04-1, was launched on February 23rd from Launch Pad 2 at the KLC. This launch supported the MDA's data gathering and testing of the upgraded early warning radar located at Beale Air Force Base in northern California.

FTG-02

On September 1st, STARS rocket FTG-02 lifted-off from Launch Pad 2 and was a landmark as the 10th successful launch at the KLC. This MDA flight was for data gathering and the concurrent testing of an interceptor missile's rocket motor system. While not a planned objective for this data collection flight test, an intercept of the target warhead was achieved.

FTG-02 lifts-off from LP2 at the KLC on September 1, 2006.

PHOTO COURTESY OF SANDIA NATIONAL LABORATORIES

Kodiak Island

High-Speed Telecommunications Come to Kodiak Island & Kenai Peninsula

This year AADC, along with the Kodiak Kenai Cable Company, spearheaded the development of a submarine fiber optic cable network to bring high-speed connectivity to the Kodiak Launch Complex. The economic impact of this major infrastructure advancement will directly benefit the people of Kodiak and Alaska. This new network will connect the Kodiak Island Borough, the nation's largest Coast Guard facility (based in Kodiak), and the entire Kenai Peninsula to the existing fiber optic network that runs throughout the state and to the Lower 48.

Alcatel's "Maersk Defender" cable ship installs new submarine fiber optic cable.

This groundbreaking infrastructure development will also expand the capabilities for University of Alaska distance learning, increase the use of telemedicine and further the development of resources available to Homeland Security.

AADC has long sought high-speed connectivity for the KLC to provide secure, fast data transmission and voice communications. AADC entered into a long-term use agreement with the Kodiak Kenai Cable Company that financially enabled the project.

Kodiak Kenai Cable Company was established by Ouzinkie Native Corporation and Old Harbor Native Corporation to construct and operate this advanced telecommunications system. KKCC will operate as a "carrier's carrier," offering broadband capacity to local and long distance exchange carriers for telephone, Internet and other data services.

The shielded and reinforced cable is installed underwater. Landing points will be located at Anchorage, Kenai, Homer, Seward, Kodiak and the Kodiak Launch Complex at Narrow Cape.

$24.4 million
The economic impact of KLC operations on the Kodiak economy.

Economic Impact

KLC Operations Impact Kodiak Economy

In 2006, AADC initiated an independent analysis of the economic effect on the Kodiak area from the ongoing operations and various projects at the KLC. This analysis covered the 2005 calendar year.

The Economic Impact Study, conducted by Van Wyhe Rogers Group and Information Insights, Inc., details the impact KLC has on boosting the local economy and mitigating the unemployment rate.

Wages paid by AADC and additional jobs created by AADC spending offset the impact of job reductions from other industries; without AADC, real earnings in Kodiak would have dropped more than 9 percent in 2005.

AADC makes a concerted effort to purchase goods and services from Kodiak vendors whenever possible and practicable. As a result, about 25 percent, or $6.7 million, of total overall spending stays in the local economy with Kodiak vendors.

About $7 million is spent with other vendors within the state, portions of which flow into the Kodiak economy.

The impact launch customers have on spending in Kodiak is significant. In 2005, an estimated $1.9 million was spent on travel and hospitality during launch operations. This figure includes 480 trips to Kodiak and 7,000 room nights.

When all local spending is factored together, along with standard multipliers accounting for the flow of dollars within the community, KLC operations had an overall impact of $24.4 million on the Kodiak economy.

The 2005 Economic Impact Study can be found in the Documents section of the AADC website at www.akaerospace.com.

KLC is a strong partner in the Kodiak economy.

PHOTO BY SHAWN VALNES

INFRASTRUCTURE

KLC Facilities Upgrades Increase Capabilities

Permanent Cordova Site

AADC constructed a permanent telemetry site in Cordova to accommodate customer equipment and the off-axis unit of the Range Safety and Telemetry System. AADC is now able to deliver an optimum level of professional, flexible service to customers and support a variety of instrumentation with the completion of this permanent facility.

The facility includes a 3.5 acre fenced gravel pad with power and back-up power, an expandable communications Earth station (presently configured for six T-1 lines), offices with a conference room and a security guard station. The off-axis mobile RSTS unit can be relocated to King Salmon as needed, maintaining the built-in flexibility of the system to meet the requirements of each launch. AADC and its customers work very closely with the Cordova community for housing, communications, supplies and support.

Antenna array installed at new Cordova telemetry site.

122,532 feet

Highest altitude attained
by KLC weather balloon.

RSTS antenna configuration at the KLC is flexible and can be modified as needed.

Antenna Mobility

The KLC infrastructure is designed to be highly adaptable in meeting customer launch campaign requirements. In response to a request for a change in signal monitoring during Missile Defense Agency launches, KLC personnel relocated a major RSTS tracking antenna to an optimum position approximately one mile from the Antenna Field at Narrow Cape. This quick action was possible because of the inherent mobility designed into the system.

Weather Station

KLC weather support is a critical part of launch operations. Without accurate up-to-the-minute readings, a launch could be delayed due to unknown weather conditions. Precise measurements on the ground and at many different altitudes are required to ensure that a complete picture of the weather is clearly known at any given moment.

AADC completed a $250,000 upgrade to the weather station and related equipment. These improvements included new weather radar with greater resolution and expansion of the balloon sonde upper air observation capabilities. The KLC can now provide six simultaneous upper air observations at various altitudes, up from three, in preparation for a launch.

These upgrades provide state-of-the-art capabilities like those found at the major launch ranges.

Education

AADC Increases Educational Support for Alaska's Students


Allyssa Roach
Soldotna


Brianne Johnson
Kodiak


Kit Dawson
North Pole


Kelsey Peterson
Old Harbor


Matthew Van Atta
Chiniak


Perlita Alcaide
Kodiak


Ruby Bullchild
Fairbanks


Shadi Obeidi
Anchorage


Scott West
Kotzebue


Willie Nelson
Port Lions


Trevor Gillespie
Anchorage


Tija Ozols
Kodiak

Not Pictured: Kirstin Berntsen – Kodiak

Scholarships

As stated in Alaska State Statute, Section 14.40.861, the purpose of the corporation is"... to stimulate space-related business and educational and research development... in the state." In accordance with this statute, AADC has established a significant scholarship program in partnership with the University of Alaska Foundation.

High school seniors seeking a Bachelor's degree in math, physics, engineering, business or a technical field such as computer science can apply for a generous $5,000 scholarship to pay for their educational expenses. The scholarships can be used at any University of Alaska campus.

Ten scholarships are awarded each year to students across the state. Depending upon available funding, continuing students who meet eligibility criteria may be able to receive additional scholarships in future years.

To date AADC has donated $300,000 to the University of Alaska Foundation to fund this program.

Internships

An important part of learning is doing. AADC has established a popular intern program for engineering and science students who want hands-on experience in the aerospace field.

Interns accepted into the program, which began in 2002, are based at the KLC and become active and responsible members of the aerospace team. They receive training in the daily operations and technical demands of a working launch facility and gain career-building experience for future success.

Senator Ted Stevens greets CLCA student Mission Specialists at the "It's About the Kids!" November 10th fundraising event in Anchorage.

PHOTO BY DARYL PEDERSON

Challenger Learning Center of Alaska

AADC was the principal sponsor of a gala fundraising event on November 10th to benefit the Challenger Learning Center of Alaska (CLCA). Honorary Host and Special Guest Senator Ted Stevens, Governor-elect Sarah Palin, Mark Hamilton, President of the University of Alaska, and many other special guests from across the US attended the event. Dr. June Scobee Rodgers, the founding Chairperson of the national Challenger Center network, was the featured guest speaker.

This special evening entitled "It's About the Kids!" raised over $225,000 to support the long-term sustainability of the CLCA.

Space Explorers

As stated in Alaska State Statute, Section 14.40.861, the purpose of the corporation is"... to stimulate space-related business and educational and research development... in the state."

Providing support to science teachers and students is very important in this modern age. Studies show that young people twelve years old and higher seem to lose interest in science education. That means fewer and fewer high school seniors are studying engineering, applied sciences and other technical fields. This directly impacts our ability to compete in the increasingly technological world and global economy.

AADC supports the innovative and nationally recognized Space Explorers Program. This resource brings on-line, interactive science materials and exciting learning opportunities into the classroom for students from Kindergarten through 12th grade.

Science teachers receive lesson plans and other curriculum support they can immediately apply to their classes. It is a significant step toward sparking student interest in learning about science and maintaining that enthusiasm through graduation.

In 2006, AADC co-sponsored this program in over 100 schools throughout Alaska.

RSTS

RSTS Expansion Increases Data Processing Capabilities

An important aspect of a rocket's flight is gathering data and recording it. This information is vital for tracking and monitoring the vehicle's health, status and trajectory.

AADC has two state-of-the-art mobile Range Safety and Telemetry System (RSTS) units; one at the KLC and an identical system in Cordova. The RSTS is a GPS based, S-band telemetry receiving and UHF command destruct system, with redundant auto-tracking 5.4-meter telemetry antennas and redundant UHF omni-directional and directional antennas for command destruct. The directional command destruct antennas are integrated with the telemetry auto-tracking antennas.

The prime purpose of the RSTS is to provide the range safety and telemetry functions necessary to track, receive and process critical telemetry data and verify a safe rocket flight within prescribed boundaries, or safely terminate an errant rocket.

The capabilities of the system were significantly increased with the addition of 8 redundant (or 16 individual) S-band telemetry receiving, recording and processing links. With this expansion, the RSTS meets a variety of customer data receiving and processing requirements with a total availability of 12 redundant (or 24 individual) S-band links.

RSTS telemetry console and operator.

KODIAK

June Board Meeting Held in Kodiak

PHOTO BY HANK PENNINGTON

Willie Nelson of Port Lions (second from left) and Kelsey Peterson of Old Harbor (third from left) are congratulated on their scholarship awards by Pat Ladner (left) and Mark Hamilton (right).

On June 15th, the AADC Board of Directors met in Kodiak as a part of their regular schedule of quarterly meetings. In addition to conducting regular business during the meeting, it provided an opportunity for Board members to further build Kodiak community relations and address comments, questions or concerns residents had about operations at the KLC.

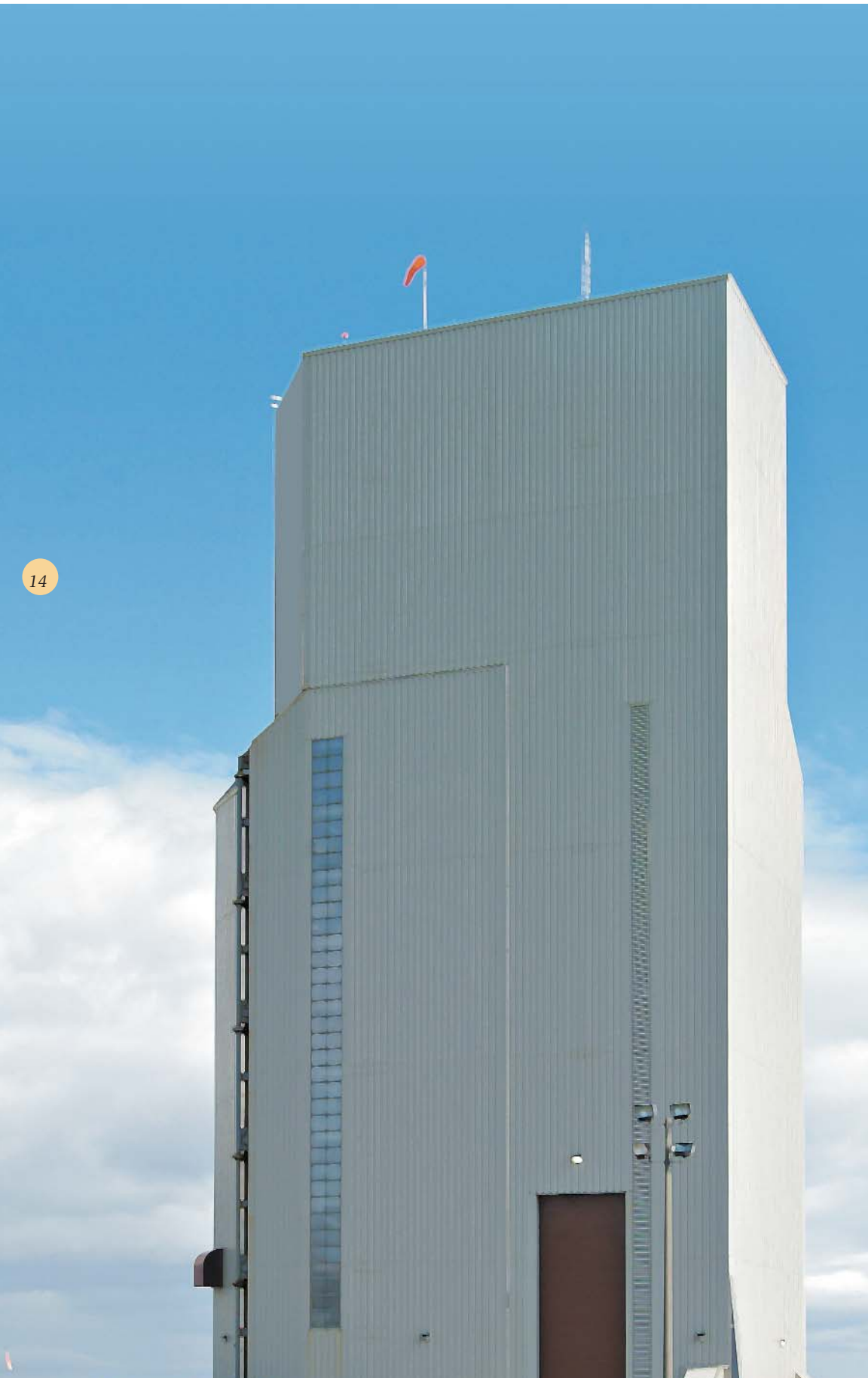
Of special note at this meeting was the presentation of scholarship medallions to two of the 2006/2007 AADC Scholarship Program recipients. Mark Hamilton, President of the University of Alaska and Chair of the AADC Board, Pat Ladner, AADC President and CEO, and Brian Rogers, member of the University of Alaska Board of Regents congratulated Willie Nelson of Port Lions and Kelsey Peterson from Old Harbor for their academic achievements and wished them success in their future studies.

James Rahn, a University of Arizona student intern at the KLC, gave a special presentation on his work in the intern program and the many benefits this unique opportunity provided. He stated, "I would absolutely recommend this position. It has been very hands-on and very interesting."

Also at this meeting, Brian Rogers, in his role as principal consultant with Van Wyhe Rogers Group and Information Insights, Inc., discussed the independent financial analysis his firm completed detailing the economic impact AADC had on the Kodiak economy in 2005. The study determined that AADC had an overall impact of over $24 million as a result of KLC operations.

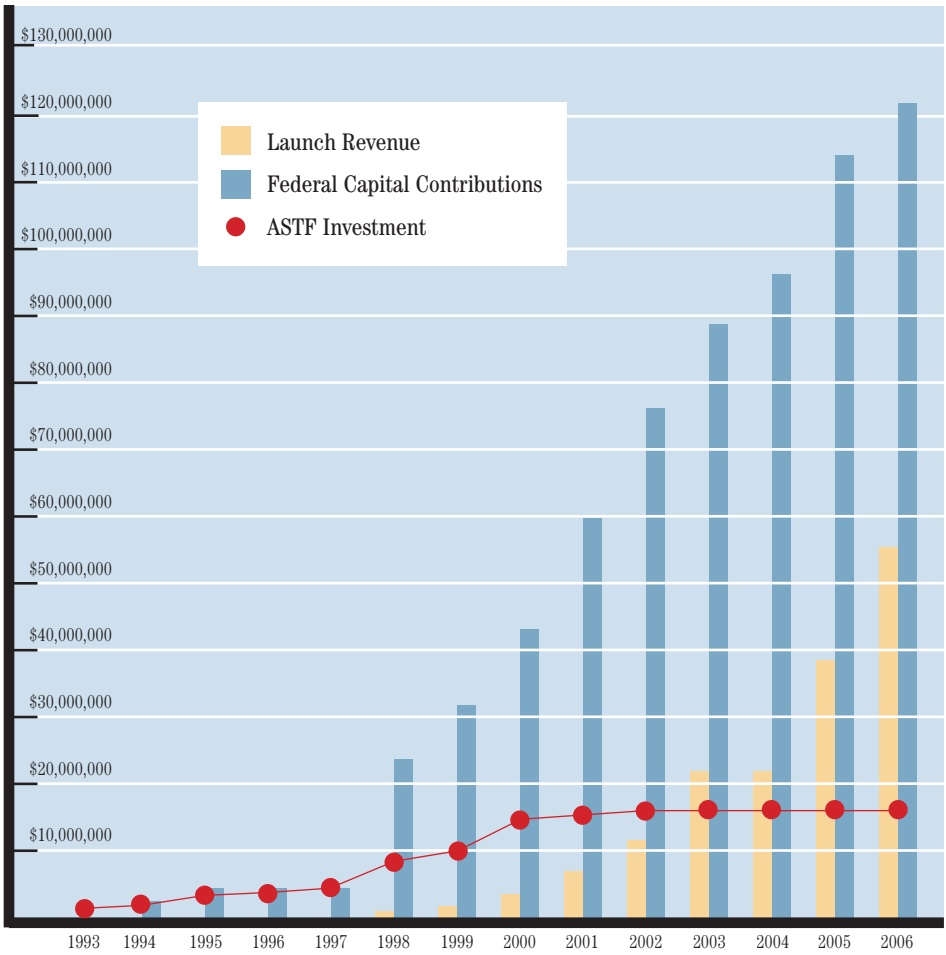
174 feet

Launch Service Structure on
Launch Pad 1 is 174ft tall.



financials

Return on Investment (Cumulative)



The above depicts a total of $180.2 million in revenue from launches ($55.4 million) and capital contributions ($124.8 million from NASA, US Air Force and US Army) that has been brought to the State of Alaska as a return on the initial financial investment of $15.6 million provided by the Alaska Science and Technology Foundation (ASTF).

financials

Table 1: Statement of Net Assets

	Current Year	Prior Year	Change
Assets			
Current assets	$19,509,995	$36,450,320	($16,940,325)
Capital assets, net	78,875,194	66,970,104	11,905,090
Total Assets	$98,385,189	103,420,424	(5,035,235)
Liabilities			
Current liabilities	1,796,117	4,912,185	(3,116,068)
Noncurrent liabilities	12,546,120	27,415,473	(14,869,353)
Total Liabilities	14,342,237	32,327,658	(17,985,421)
Net Assets			
Invested in capital assets	78,875,194	66,970,104	11,905,090
Unrestricted	5,167,758	4,122,662	1,045,096
Total Net Assets	$84,042,952	$71,092,766	$12,950,186

The total net assets increase of 18 percent is the result of $12.9 million of capitalized projects at KLC. The majority of the KLC capital additions are related to the continued construction of the telemetry system, design of a new launch pad and rocket motor storage facility and the installation of fiber optic cable. The construction of the Maintenance and Storage Facility was completed in 2005.

Business-type Activities

AADC's operating revenues are supported by a contract secured with the Missile Defense Agency for operations and launch activity. Depreciation on the KLC continues to be a significant operating expense. The table below highlights the changes in net assets of Alaska Aerospace Development Corporation's business-type activities.

Table 2: Changes in Net Assets

	Current Year	Prior Year	Change
Operating Revenues	$16,892,116	$16,914,593	($22,477)
Operating Expenses			
Personal services	3,595,677	2,385,675	1,210,002
Travel	1,003,921	1,046,714	(42,793)
Contractual services	9,919,394	11,642,643	(1,723,249)
Supplies	689,811	674,054	15,757
Equipment	1,339,187	715,507	623,680
Depreciation	3,713,769	3,423,326	290,443
Total Operating Expenses	20,261,759	19,887,919	373,840
Net Operating Loss	(3,369,643)	(2,973,326)	(396,317)
Nonoperating Revenues			
Interest income unrestricted	155,070	52,287	102,783
Cooperative Agreement	296,077	1,406,902	(1,110,825)
Total Nonoperating Expenses	451,147	1,459,189	(1,008,042)
Loss Before Capital Contributions	(2,918,496)	(1,514,137)	(1,404,359)
Capital Contributions	15,868,682	12,546,700	3,321,982
Change in Net Assets	12,950,186	11,032,563	1,917,623
Net Assets - Beginning of Year	71,092,766	60,060,203	11,032,563
Net Assets - End of Year	$84,042,952	$71,092,766	$12,950,186

financials

Launch operating revenues and expenses in fiscal year 2006 remained comparable to fiscal year 2005. The contributing factors for these results include:

- Revenues remained at $16 million for fiscal year 2006 with two launches completed. The forecasted launch operating revenue for fiscal year 2007 is expected to increase with three scheduled launches.

- The level of activity at the KLC remained consistent compared to the previous fiscal year. Management expects fiscal year 2007 expenses to continue in proportion to the launch operating revenues described above.

- The depreciation expense in fiscal year 2006 increased by $290,000 from fiscal year 2005 due to KLC capital additions and completion of the Maintenance and Storage Facility. Management expects the depreciation expense to increase in future years with completion of the RSTS expansion (in fiscal year 2007) and additional capital projects.

- AADC has never received any general funds from the State of Alaska; AADC is fully self-sufficient.

AADC's Budgetary Highlights

The State of Alaska approves the annual AADC budget. Neither the Board of Directors nor management has the authority to modify the budget. 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.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2006, AADC had $78.8 million invested in various capital assets both in Kodiak and Anchorage that support its mission to foster the aerospace industry in Alaska (see Table 3 below). This amount represents a net increase (including additions and deductions) of $11.9 million, or 18 percent, over the prior year.

In fiscal year 2006, major capital additions consisted primarily of continued telemetry system construction and design of a launch pad and rocket motor storage facility. The $8 million in other assets represents an Indefeasible Right of Use (IRU) for two fiber optic lines at KLC.

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

Kodiak Launch Complex	Current Year	Prior Year	Change
Infrastructure	$6,158,435	$6,445,294	($286,859)
Buildings, structures	33,758,193	27,465,610	6,292,583
Vehicles and equipment	17,636,563	18,540,979	(904,416)
Office furniture and equipment	354,953	322,158	32,795
Other assets	8,013,119	0	8,013,119
Construction in progress	12,953,931	14,196,063	(1,242,132)
Total Capital Assets	$78,875,194	$66,970,104	$11,905,090

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 costs considerably less than commercial insurance. Other obligations include forecasted pension obligations and accrued leave. More detailed information about AADC long-term liabilities is presented in financial statement notes.

Economic Factors & Next Year's Budgets

The AADC Board of Directors considered many factors when setting the fiscal year 2007 budget, such as completion of the construction projects in progress, launch fees that will be charged for the business-type activities and depreciation of the KLC facilities. Amounts budgeted for launch operating revenue are $26 million with three expected launches. AADC may be asked to further develop KLC infrastructure through its National Guard Cooperative Agreement.

AADC commissioned an independent analysis of the economic impact of KLC operations on the Kodiak Island Borough for 2005. This study was issued to the Alaska State Legislature in spring 2006. Copies are available on the corporation's website at www.akaerospace.com.

Contacting AADC's Financial Management

This financial report is designed to provide a general overview of AADC finances and to show AADC accountability for the money it receives. If you have questions about this report or need additional financial information, contact Alaska Aerospace Development Corporation at 4300 B Street, Suite 101, Anchorage, Alaska, (907) 561-3338.

271

Number of direct, indirect and induced jobs created by KLC operations.

AADC BOARD OF DIRECTORS

Mark Hamilton (Chair)
President, University of Alaska Statewide System

Jack Eidson
Lockheed Martin Space Operations

Roger Smith
Director, Geophysical Institute, University of Alaska Fairbanks

Wallace Sawyer
NASA (retired)

Sharon Anderson
Principal, Anderson Business Consulting

Emil Notti
Commissioner
Department of Commerce, Community & Economic Development

Michael Nizich
Deputy Chief of Staff, Office of the Governor

John Sweeney
Owner, Sweeney Insurance

Thomas Walters
Owner, Maritime Helicopters

Ex Officio

Senator Gary Wilken (non-voting)
Alaska State Senate

Representative Gabrielle LeDoux (non-voting)
Alaska State House of Representatives

Alaska Aerospace Development Corporation
4300 B Street, Suite 101 • Anchorage, Alaska 99503
Phone (907) 561-3338 • Fax (907) 561-3339
www.akaerospace.com