



2010 ANNUAL REPORT

PERFORMANCE

PROGRESS

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Chairperson's Letter

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

Alaska Aerospace delivered another year of industry-leading performance in 2010, finishing with the successful STP-S26 launch. In many ways, 2010 was a year in which the Kodiak Launch Complex's identity was further solidified as a reliable, first-rate facility — one that aerospace customers can depend on now and in the future.

In short, it was a good year for Alaska Aerospace. Goals have been met and great things have been accomplished. New infrastructure has arisen, and AAC continues to excel as a state-of-the-industry launch facility. Nevertheless, with the ever changing political and financial status of the nation, challenges lie ahead. As we go forward, new opportunities continue to appear and AAC strives to take advantage of each and every prospect.

I have the privilege of serving as Chairman of the Board of a company that believes in upholding principles for business that reflect the highest standards of responsibility and customer service. Alaska Aerospace leadership and the members of our Board collectively contribute a wealth of leadership experience in aerospace, business, education and community service, and each has a reputation for integrity over the course of their distinguished careers. As members of Alaska Aerospace Corporation Board of Directors, we believe that conducting business in accordance with our mission is an important part of maintaining the confidence and trust of the aerospace and local communities with which we are deeply integrated.

It is with great anticipation that I look to our future at Alaska Aerospace.

Sincerely,



Roger Smith



Chief Executive Officer's Letter

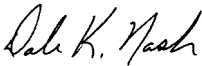
To the Governor, the State Legislature, and the People of Alaska:

Since its founding nearly two decades ago, Alaska Aerospace has built a reputation in the U.S. space industry for being innovative, safe, reliable, cost-effective and customer service oriented. Alaska Aerospace and the Kodiak Launch Complex have grown from a footnote in launch options to one of the four primary spaceports in the United States. Industry-wide, the questions have gone from “do you launch rockets in Alaska?” to “when is the next launch and can I get an invitation?”. Ultimately, our job is to deliver safe, responsive, secure, cost-effective space launches and aerospace services to our customers and industry partners.

The Kodiak Launch Complex was designed from the ground up to be unique, adaptive and flexible, accessible, and high-tech. This forward-looking, fresh approach has put Alaska on the aerospace industry map. We are extremely proud of our highly skilled workforce and the world-class facilities that delivered a picture perfect STP-S26 launch for the United States Air Force this last November 19th.

While our history of launch success is strong, our approach is focused on continuous improvement, consistent with the strategy we pursue throughout our business. We are pleased to issue this Annual Report, which provides information about our accomplishments, future business development, and positive economic impact on the state of Alaska.

Sincerely,



Dale Nash



PERFORMANCE

STP-S26 first motion, approximately .45 seconds after ignition.

PERFORMANCE



STP-S26 launch crew.

STP-S26 Launch

On November 19, Alaska Aerospace, under contract to the United States Air Force, along with NASA and other mission partners, successfully launched the Department of Defense (DoD) Space Test Program's STP-S26 mission from the Kodiak Launch Complex (KLC). The STP-S26 mission carried a record-setting sixteen experiments into space on seven different satellites in two different orbits and achieved desired orbits for all satellites aboard. The satellites began deploying 17 minutes after launch vehicle ignition and concluded with the separation of two ballasts in a second orbit, one hour and 33 minutes from lift-off. The STP-S26 launch is the third space launch of the Minotaur IV rocket. The launch was the first Minotaur IV mission to utilize a Hydrazine Auxiliary Propulsion System (HAPS), demonstrating the capability to deliver payloads to two separate orbits in a single mission. After deploying its other experiments to a 650-kilometer elevation orbit at 72 degrees inclination, the rocket continued to 1,150 kilometers to release ballast (weight that acts as a counterbalance).

Researchers across DoD, NASA, and academia will use the experiment results to improve the nation's space capabilities and better understand the space environment. The experiments range from high-priority military projects, to NASA technology trials and experiments built by college undergraduates. They investigate subjects including electronics, space weather, navigation, and biology. In addition to NASA and the military, the University of Texas at Austin, and the National Science Foundation had satellites on the STP-S26.

PERFORMANCE

The following is a list of all of the satellites:

- **Primary Satellite:** The mission's primary satellite carries a pair of experiments from the military's Space Experiment Review Board (SERB) list. One experiment, the top-ranked priority from 2006, will test how well military electronics function in space. The other experiment is an ocean data telemetry link; a project to relay information from ocean buoys.
- **FastSat:** The larger of two NASA satellites, FastSat carries a set of three instruments to measure space weather, including the temperature at the top of the earth's atmosphere and astrophysical plasma. Also on board the FastSat is the NanoSail D. The NanoSail D's mission is to unfurl into a thin sheet that uses sunlight energy to push the satellite out of the earth's orbit. The technology could one day be used to keep abandoned satellites out of earth's orbit where they might damage other satellites.
- **O/OREOS:** The second NASA satellite is the O/OREOS. This is a CubeSat that launches from a Poly Picosatellite Orbital Deployer (P-POD) that will study how micro-organisms survive in space.
- **FastTrac:** The FastTrac satellite is the winner of a biannual contest among American universities and sponsored by the Air Force. This winning satellite on this mission was built by the University of Texas, Austin and is made to break into two satellites, which then communicate with each other.
- **FalconSat-5:** Another student project, the FalconSat-5 was built by cadets at the U.S. Air Force Academy in Colorado Springs. The satellite handles a pair of SERB priorities related to space communication and navigation.
- **Radio Aurora eXplorer:** This National Science Foundation satellite is also a CubeSat launching from a P-POD and will also, like the FastSat, study astrophysical plasma to understand patterns that can disrupt communications.

The success of the STP-S26 launch significantly advanced science and technology for the nation, and showcased Alaska's world-class spaceport and highly technical work force at the Kodiak Launch Complex. The spectacular image of the Minotaur IV rocket streaking into space in the clear blue late afternoon Alaska sky was watched live around the world, reinforcing America's technological capabilities and Alaska's small but growing role in space.



STP-S26 launch sequence – 19 November 2010.

PERFORMANCE

NOAA – UAS Study

Alaska Aerospace continued support for the National Oceanic and Atmospheric Administration (NOAA) in 2010. AAC completed site visits to potential bases that can provide facilities and support for a fleet of Unmanned Aerial Systems (UAS) such as the Global Hawk or Predator. NOAA will use the UAS to collect data regarding climate change, wildlife, and other environmental concerns.

AAC personnel visited Grand Forks AFB, ND; the Pacific Missile Range Facility, a U.S. Navy facility on the island of Kauai in the Hawaiian Islands; the Patuxent River Naval Air Station, Maryland; and Wallops Flight Facility, Virginia. The potential of each base was provided in a report to NOAA for their utilization.

The site visits, along with previous data provided by AAC with regards to the viability of NOAA acquiring UAS, provides the information NOAA will use to make an informed decision on the UAS cost, maintenance, and support requirements verses the usefulness of the UAS.

TacSat-4 Rocket Motor Move

Alaska Aerospace supported the United States Air Force in the transportation of TacSat-4 Minotaur IV live rocket motors on Kodiak Island in the summer of 2010. Transportation operations included the shipment of a complete set (three stages) of Minotaur IV rocket motors from the LASH Marine Terminal on Kodiak Island to the Kodiak Launch Complex with minimum impact and risk to the community.

Primary AAC activities included procuring permits, making public notifications, and coordinating with the Alaska Department of Transportation and Alaska State Troopers. AAC also provided all traffic control personnel, contracted support equipment including towing vehicles and road graders, and coordinated radio communications and public relations.

The motors are currently stored in the new Rocket Motor Storage Facility (RMSF) at the KLC awaiting the TacSat-4 launch scheduled for the spring/summer of 2011.



Coming through Pasagshak Pass with Stage 3 of TacSat-4.



Stage 3 of TacSat-4 in the Rocket Motor Storage Facility.

A vertical photograph of a Space Shuttle launch. The shuttle is ascending vertically, leaving a massive, bright white and yellow plume of smoke and fire behind it. The shuttle itself is white with black markings, including an American flag and the NASA logo. The background is a clear blue sky. In the foreground, there are some dark silhouettes of launch pad structures and tall light poles.

PROGRESS

STP-S26 clears launch tower approximately
2.34 seconds after ignition

PROGRESS



TacSat-4

Alaska Aerospace is contracted with the United States Air Force to provide launch services for the TacSat-4 mission. This launch, initially scheduled for the fall of 2009, was moved to the spring/summer of 2011 because of changing Department of Defense mission priorities.

The tactical satellite (TacSat) effort is a series of military reconnaissance missions. They are intended to demonstrate that small, low-cost satellites can be deployed quickly to meet a pressing need of commanders in a theater of operations by providing real-time data from space to combatant commanders in the field. TacSat launches are a key component of a wider initiative known as Operationally Responsive Space (ORS). Each mission's objectives are selected by a joint vote from the Army, Navy, Air Force, Marines and STRATCOM (Strategic Command).

The TacSat-4 mission will launch a single satellite for the Naval Research Laboratory. It is a Navy-led joint mission to provide operationally relevant capabilities and to facilitate ORS. The mission objectives include enabling long dwell orbit capability with ORS class launch and spacecraft; evaluating, developing, and maturing ORS payload standards; providing communications-on-the-move, Blue Force (friendly forces) tracking and data exfiltration of buoy and ground sensor data; and augmenting areas with little or no current space support. The TacSat-4 satellite provides ten ultra high frequency (UHF) channels that can be used for any combination of communications, data exfiltration or Blue Force tracking. Its unique orbit augments geosynchronous communications by allowing near-global, but not continuous, coverage including the high latitudes.

The TacSat-4 satellite will be launched from a Minotaur IV launch vehicle, the same vehicle that successfully launched the STP-S26 mission from Kodiak Launch Complex on 19 November 2010. The launch vehicle is currently stored in the new Rocket Motor Storage Facility (RMSF) at the KLC awaiting launch preparation.

PROGRESS

FAA Approval of the Range Safety and Telemetry System

Alaska Aerospace is seeking to obtain safety approval from the Federal Aviation Administration (FAA) for use of the Range Safety Telemetry System (RSTS) during commercial launch operations. To obtain the safety approval for the RSTS, AAC will demonstrate that the system and KLC's processes fully comply with the FAA's Code of Federal Regulations (CFR) 417. The approval will complement the range safety certification previously received from the Missile Defense Agency's Pacific Range Support Team in May 2010. The FAA has accepted AAC's draft application and AAC is preparing to submit the final application once it has compiled the complete supporting data package in the first quarter of this year.

Rocket Motor Storage Facility

The new Rocket Motor Storage Facility (RMSF) is the latest infrastructure addition to the KLC. Because Alaska is remote, it is necessary to provide customers the service of transporting motors during the summer shipping season and storing them until the launch date.

The first of five Earth Covered Magazines (ECM) of the RMSF was placed in service in August 2010. The second will be completed in the summer of 2011. With the completion of the first ECM, the Air Force was able to store the TacSat-4 rocket motors for the upcoming launch.

When completed, the RMSF can also accommodate the shipping of multiple motor components. This will allow one customer to achieve multiple launches within a short period of time, or multiple customers to achieve consecutive launches in brief intervals of time resulting in rapid access to space. The RMSF will also allow for contingency planning should motors on the launch pad need to be destacked due to launch delay.



ECM1 and ECM2 at the Rocket Motor Storage Facility.

PROGRESS

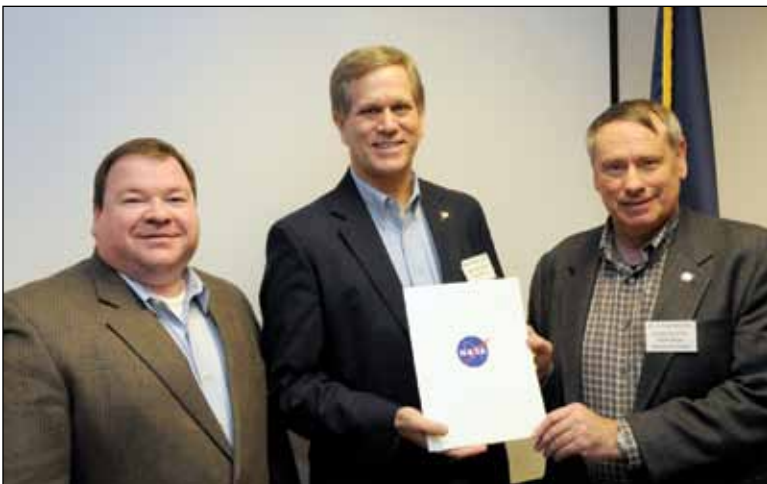
Memorandum of Understanding with Space Florida

In March of 2010, Alaska Aerospace and Space Florida entered into a mutually beneficial Memorandum of Understanding (MOU) to share information on operations, marketing, and government relations that will foster opportunities for future missions.

Space Florida is a sub-division of the State of Florida and was established to promote aerospace business development within Florida. Space Florida and AAC will serve as complementary locations that together can cover the spectrum of orbital access to space. Space Florida will recommend the use of the KLC for polar orbits and AAC will recommend Space Florida for orbits that are more in line with their geographical location.

Memorandum of Agreement with NASA Ames Research Center

In the midst of the successful STP-S26 launch day, a signing ceremony was held at KLC to enact a Space Act Agreement between the State of Alaska and NASA Ames Research Center. This agreement established a formal relationship between NASA, the State of Alaska, participating universities, and other organizations to support educational initiatives within Alaska. This is an umbrella agreement and has no funding attached. Annexes will be added to the umbrella agreement as defined programs are identified and funded. In the agreement, there are provisions for orbital launches from KLC in the future.



Memorandum of Agreement with NASA Ames Research Center. Left to right: Curtis Thayer – State of Alaska, Dale Nash – AAC, Pete Worden – Center Director NASA Ames

PROGRESS

Federal Aviation Administration Grant

Alaska Aerospace received a grant from the FAA that was created to promote development of the Nation's Commercial Spaceports. AAC will be using the grant to pave the parking apron at our new Rocket Motor Storage Facility. AAC was lauded by the FAA for an exemplary grant request. AAC has plans to apply for another grant in 2011.

Communications

The successful execution of the STP-S26 mission marked many firsts for Alaska Aerospace and the Kodiak Launch Complex. AAC expanded the capabilities of KLC to meet the USAF's mission requirements. These include the installation of a Video Teleconference (VTC) System at KLC, the enhancement of real-time telemetry data distribution capability between KLC and AAC's off-axis site at Cordova, Alaska, and the development of a real-time telemetry data distribution capability between KLC and White Sands Missile Range (WSMR). The science-based and education related nature of the STP-S26 mission also allowed AAC to grow the capability to provide better situational awareness to the general public. To get the word out about activities at KLC, AAC set up streaming video of launch operations via SpaceFlight Now's website. It was AAC's responsibility to not only handle the distribution of video data, but also capture it, requiring the development of a launch optics capability at KLC. All of these firsts mark the continued maturing of KLC's facilities, instrumentation, infrastructure, and launch services.



PROGRESS

University of Alaska Space Grant Program

Alaska Aerospace hosted an internship last summer sponsored by University of Alaska, Fairbanks (UAF) through the Alaska Space Grant Program (ASGP) funded by NASA. AAC provides donations to the ASGP which are matched by NASA. The matching donation will essentially double the students that can be provided scholarships or increase the funds available to support a small satellite project being conducted by UAF students.

ASGP sponsors a broad range of programs in Alaska to enhance teaching, research, and educational outreach within aerospace and earth science, and other NASA related Science, Technology, Engineering, and Mathematics (STEM) disciplines. AAC and the State of Alaska will benefit from the technically competent Alaskan workforce that will come out of the program.

Mr. Alex Arneson from Kodiak was the first intern at AAC selected for the program. Alex is an engineering student from UAF and spent half the summer working in the Anchorage office with AAC Aerospace Engineers and the other half in Kodiak learning and working at KLC facilities.

Internships

In addition to the ASGP intern, AAC employed two other summer interns in 2010. The internships were in Business Administration and Information Technologies. The categories of internships were selected based on funding availability, work load requirements, and the needs of the company. The internships ran for ten weeks between June and August and were located in the Anchorage office.

Mr. Charles Bergeron, an engineering major from the University of Alaska, Anchorage, held the Business Administration internship. He transferred to UAF in the fall of 2010 and takes with him a basic business knowledge that he can apply to his goal of owning his own engineering firm.

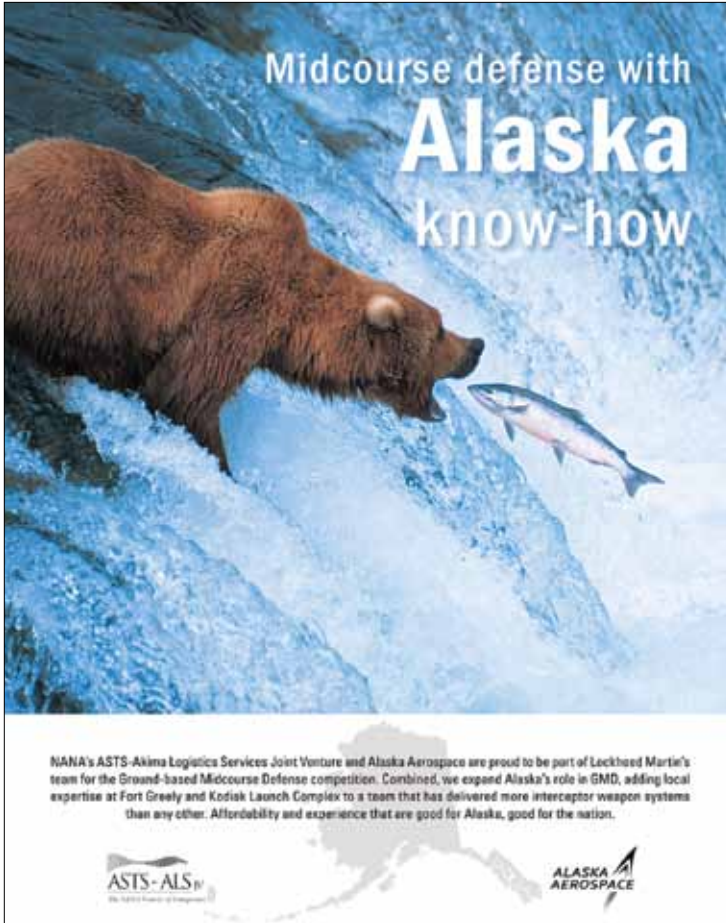
Mr. Robert Schnell came on board as the Information Technology intern. Robert is an engineering student at UAF and not only gained useful work skills from his internship, but provided a tremendous value to AAC with his knowledge of computers and IT issues.

POSSIBILITIES



STP-S26 at an altitude of 573 feet approximately 4.81 seconds after ignition.

POSSIBILITIES



National and local media advertisement showcasing the Lockheed Martin/Alaska Aerospace partnership.

Partnership with Lockheed Martin

Alaska Aerospace is partnered with Lockheed Martin to compete for the Ground Based Mid-course Defense (GMD) Contract, which provides ballistic missile defense for Alaska and the Continental United States. Contract award is tentatively scheduled for the summer of 2011. A proposal win will increase the size and revenue of AAC and will establish high-tech jobs in Delta Junction for Alaskans. AAC's bid is enabled by facilities and a workforce that were established through previous state investments that created the Kodiak Launch Complex.

AAC's portion of the contract will provide maintenance of missile fields and support equipment, and emplacement and extraction of interceptors. Work will be performed at Fort Greely, Alaska; Vandenberg AFB, California; and in Anchorage.

POSSIBILITIES

Potential Launches

Alaska Aerospace is pursuing over sixty upcoming potential launches through 2020. We are continually modernizing our facilities to adapt to the future of rocket launches and always engaging in business development with current, past, and prospective customers. The Rocket Motor Storage Facility and the proposed Launch Pad 3 (LP3) are two additions to our infrastructure that will allow AAC to expand our ability to attract new launches. Upon completion of the RMSF and LP3, AAC will have the capability to store and launch small or medium lift rockets and process both liquid and solid fuel rockets.

Medium Lift and Rapid Launch are emerging markets that AAC is well positioned to capture. There is a significant shift underway to the new, low cost, medium lift launch vehicles operating from a West Coast launch facility.

Rapid launch is the ability to launch rockets on short notice to address national and international emergencies and is an emerging market that holds significant interest for the Department of Defense (DoD). DoD has an Operationally Responsive Space (ORS) office that is dedicated to developing rapid launch capabilities for the United States. Senior DoD leadership is becoming increasingly aware that KLC, as a Rapid Launch Spaceport, provides a critical service to maintain national security in space. AAC management has the foresight to work toward the objective of ORS and may be the only spaceport that can provide this service.

Economic Benefit Analysis

The McDowell Group prepared an expanded Economic Benefit Analysis of the Kodiak Rapid Launch/Medium Lift Project for the Alaska State Legislature Legislative Council and the Anchorage Economic Development Corporation. AAC's Rapid Launch/Medium Lift Project includes construction of new infrastructure at the Kodiak Launch Complex. The purpose of this study was to predict the economic benefits to Alaska associated with development of rapid launch/medium lift capabilities at KLC. Research conducted for purposes of this study indicated that rapid launch capacity will become increasingly important in the United States. The development of rapid launch capability at KLC would position Alaska to play an integral role in the Department of Defense's ORS initiative. The KLC is viewed by key industry participants as an efficient, low overhead, state-of-the-industry launch complex, with significant potential for this type of increased launch activity. The analysis supported AAC's continued growth and positioning to attain these types of launches. It can be viewed at <http://akaerospace.com/docs/Potential Economic Benefits of Alaska Aerospace Corporation.pdf>.

POSSIBILITIES



<http://spaceflightnow.com/minotaur/stps26/status.html>

National Exposure of the Kodiak Launch Complex

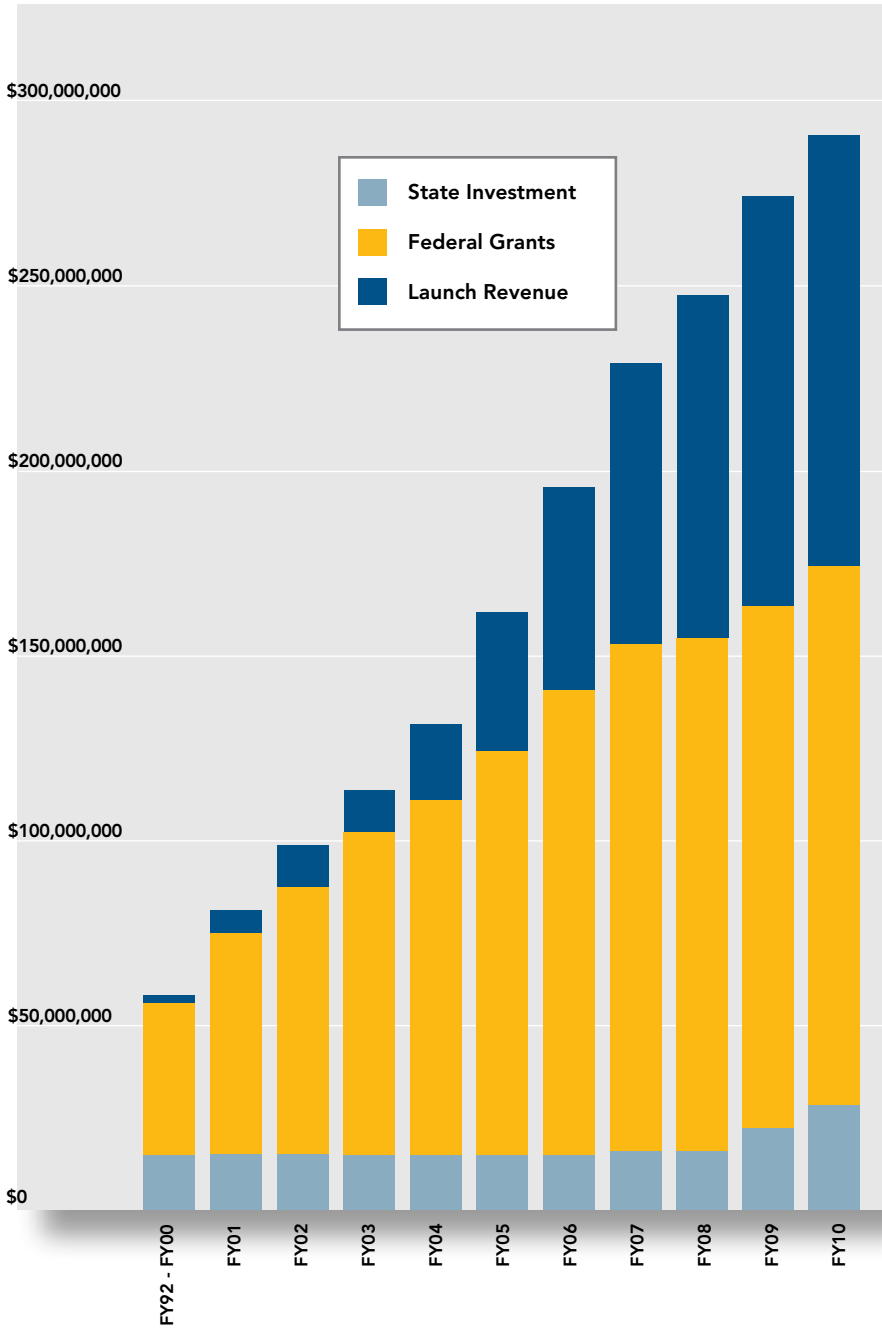
Alaska Aerospace has long been commended by our customers for our exemplary launch services, but we have often been hidden from the general public's eye. Recently, AAC and the Kodiak Launch Complex have soared onto the radar of the national aerospace scene. The world watched via the World Wide Web as the Air Force's STP-S26 mission launched from the KLC on a beautiful day and with great success.

AAC has been marketing our launch facility and other services to the nation with great acceptance from the aerospace community. We have diversified our business to include partnerships with major aerospace companies. We have had progressive interest from around the world in our mobile Range Safety and Telemetry System. AAC is evolving to encompass rapid launch and medium lift polar orbits.

Because we are not a federal range, AAC is able to adapt quickly to the changing needs of the industry and fill gaps that other spaceports might not be able to achieve in a short time period. The current state for launching rockets is evolving rapidly and is far different than in the past. AAC has always been forward-thinking on ways we can serve to provide our customers a first class spaceport and a team that can adapt to the needs of the nation.

FINANCIALS

LEVERAGE OF INITIAL ALASKA INVESTMENT (Cumulative)



FINANCIALS

STATEMENT OF NET ASSETS

June 30, 2010
(With Comparative Amounts for 2009)

	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 9,779,420	15,343,436
Accounts receivable	1,861,639	1,940,969
Unbilled receivables	1,328,681	1,893,443
Inventory	381,072	380,632
Total current assets	13,350,812	19,558,480
Capital assets net of accumulated depreciation and amortization:		
Office furniture and equipment	483,092	112,460
Vehicles and other equipment	23,756,782	25,420,587
Buildings and structures	28,144,507	30,545,447
Infrastructure	4,688,064	5,055,571
Construction in progress	12,041,291	3,506,874
Intangible - Software	979,299	-
Intangible - Right of Use	18,129,895	18,953,981
Total capital assets, net	88,222,930	83,594,920
Total assets	\$ 101,573,742	103,153,400
Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Accounts payable	2,185,197	1,537,386
Accrued leave and compensation	540,179	541,044
Total current liabilities	2,725,376	2,078,430
Noncurrent liabilities - deferred revenue	5,731,271	9,575,019
Total liabilities	8,456,647	11,653,449
Net assets:		
Invested in capital assets	88,222,930	83,594,920
Unrestricted	4,894,165	7,905,031
Total net assets	93,117,095	91,499,951
Total liabilities and net assets	\$ 101,573,742	103,153,400

FINANCIALS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year Ended June 30, 2010

(With Comparative Amounts for 2009)

	2010	2009
Operating revenues	\$ 11,336,598	18,620,231
Operating expenses:		
Personnel services	5,518,223	5,318,685
Travel	281,822	404,154
Contractual services	4,594,975	10,163,075
Supplies	723,056	1,728,930
Equipment	198,926	96,125
Depreciation and amortization	6,003,661	5,876,154
Total operating expenses	17,320,663	23,587,123
Net operating loss	(5,984,065)	(4,966,892)
Nonoperating revenues:		
Interest income unrestricted	8,349	44,114
Gain on disposal of capital assets	-	500
PERS relief from State of Alaska	138,140	355,300
Net pension obligation (NPO) write-off (special item)	-	582,579
Cooperative agreement	3,112	72,372
Total nonoperating revenues	149,601	1,054,865
Loss before capital contributions	(5,834,464)	(3,912,027)
State of Alaska capital appropriation	3,500,000	3,500,000
Capital contributions	3,951,608	1,946,107
Change in net assets	1,617,144	1,534,080
Net assets - beginning of the year	91,499,951	89,965,871
Net assets - end of the year	\$ 93,117,095	91,499,951

FINANCIALS

STATEMENT OF CASH FLOWS

Year Ended June 30, 2010
(With Comparative Amounts for 2009)

	2010	2009
Cash flows from operating activities:		
Receipts from contracts	\$ 11,980,690	17,283,160
Payments to suppliers	(5,151,408)	(11,801,997)
Payments to employees	(5,380,948)	(5,273,813)
Net cash provided by operating activities	1,448,334	207,350
Cash flows from noncapital financing activities - cooperative agreement received	3,112	72,372
Cash flows from capital and related financing activities:		
Capital appropriation received	3,951,608	1,946,107
Capital contribution from the State of Alaska	3,500,000	3,500,000
Proceeds from sale of fixed assets	-	500
Purchase of capital assets	(10,631,671)	(3,359,037)
Decrease in deferred revenue	(3,843,748)	(1,748,255)
Net cash provided (used) by capital and related financing activities	(7,023,811)	339,315
Cash flows from investing activities - interest received	8,349	44,114
Net increase (decrease) in cash and cash equivalents	(5,564,016)	663,151
Cash and cash equivalents at beginning of year	15,343,436	14,680,285
Cash and cash equivalents at end of year	\$ 9,779,420	15,343,436
Reconciliation of operating loss to net cash provided (used) by operating activities:		
Operating loss	(5,984,065)	(4,966,892)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation and amortization	6,003,661	5,876,154
Noncash expense - PERS relief	138,140	355,300
Noncash expense - NPO writeoff (special item)	-	582,579
Increase in accounts receivables	79,330	(247,637)
Increase in unbilled receivables	564,762	(1,089,434)
Decrease (increase) in inventory	(440)	14,126
Increase in accounts payable	647,811	576,161
Decrease in net pension obligation	-	(582,579)
Decrease in accrued expenses	(865)	(310,428)
Net cash provided by operating activities	\$ 1,448,334	207,350



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STP-S26 at an altitude of 29,227 feet approximately 33.27 seconds after ignition.