



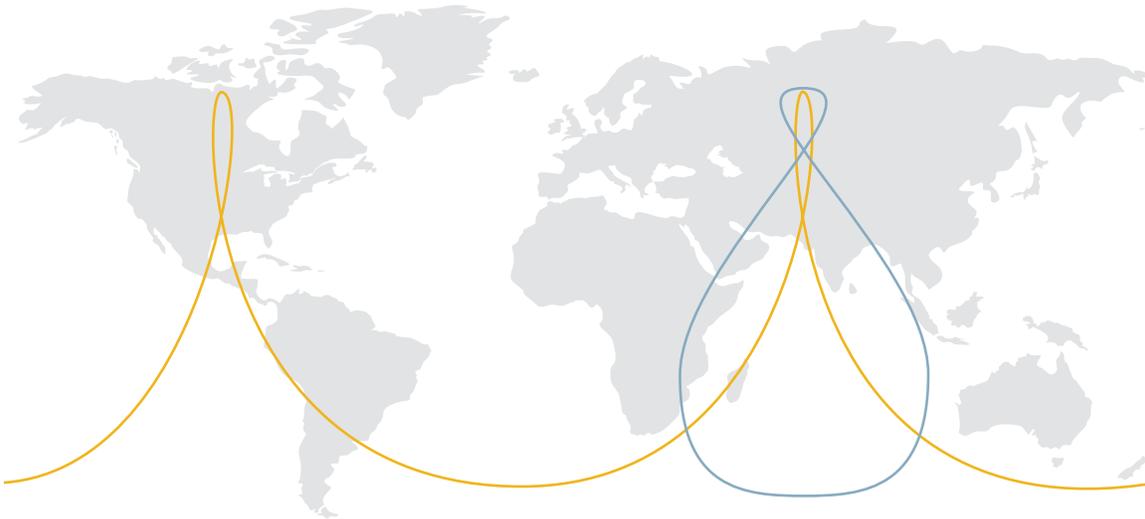
EXPANDING HORIZONS
2009 ANNUAL REPORT

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& Chief Operating Officer's Letter
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ORBITS

— Tundra — Molniya



The map above represents Tundra and Molniya orbits. The Kodiak Launch Complex, the only U.S. high latitude spaceport, is an ideal location for launching satellites into these orbits which are used to provide high latitude users with higher elevation angles than a geostationary orbit. Tundra and Molniya orbits have almost no cost in terms of corrective energy needed to keep a satellite in its correct orbit. Both orbits reduce the time that the satellite is away from its service area and because of the efficiency of the orbits, generally three or fewer working satellites in tandem are needed to cover any 24-hour period.

2009 Highlights

The year 2009 was another successful year for Alaska Aerospace Corporation. First and foremost, you may notice our name has changed. The State of Alaska officially changed Alaska Aerospace Development Corporation to Alaska Aerospace Corporation in October 2009. This new designation more clearly represents our experienced leadership, skilled and knowledgeable staff, and our future-forward facilities.

AAC achieved new heights in fulfilling its current mission. We excelled in delivering launch services, developing space related business, strengthening technological infrastructure, fostering economic growth, and providing educational opportunities in the state.

Here are the highlights of AAC's productive year:

LAUNCH SERVICES

- Prepared for two planned United States Air Force satellite launches in 2010
- Supported a Minotaur IV pathfinder
- Continued support for future Missile Defense Agency launches

OTHER BUSINESS

- Completed National Oceanic and Atmospheric Administration (NOAA) Phase I Study
- Worked with Government and commercial entities to develop new business
- World-wide applications for AAC's safety and telemetry system

INFRASTRUCTURE

- Began construction on Rocket Motor Storage Facility
- Detailed planning continued for future range expansion
- Accomplished Range Safety and Telemetry System (RSTS) Upgrades project
- Completed facility modifications in preparation for equipment and network upgrades for future viability
- Updated telemetry computer systems

CONTINUING CORPORATE DEVELOPMENT

- Renewed FAA operating license
- Completed process for certification of AAC owned RSTS
- Successfully implemented RSTS training camp

COMMUNITY PROJECTS

- Championed University Space Grants Program and other internships programs
- Provided scholarships to Alaskans for technical studies
- Supported local Kodiak activities such as the Crab Festival and Coast Guard Appreciation Dinner

Chairperson's Letter

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

"Expanding Horizons" is Alaska Aerospace Corporation's 2009 annual report theme. Our nation is going through some very challenging economic times, however there has never been a better opportunity for diversity and expansion in Alaska's aerospace industry than right now. The Board of Directors and I are excited about the path that AAC is forging, exploring new opportunities, and refining on-going relationships and efforts.

Improving AAC's posture in the aerospace industry requires the experience of top level management working in concert with Board members who provide a wide range of knowledge in the business and aerospace community. The Corporation's Board of Directors has long had a goal of ensuring that a diversity of expertise is represented on the Board.

For this reason, I am pleased to announce that Drs. David Weldon, Jr. and Ronald Sega have accepted appointments to the Board of Directors at Alaska Aerospace Corporation from former Governor Sarah Palin and Governor Sean Parnell, respectively. Dr. Weldon formally served in Congress representing Florida's 15th Congressional District which included the Kennedy Space Center and Cape Canaveral. His congressional career was heavily devoted to the priorities of our nation's military and civil space programs. Dr. Weldon served on the House Science Committee and Subcommittee on Space and Aeronautics. He also served on the Appropriations Committee where he mainly focused on issues of importance to the launch industry. Dr. Weldon was one of the lead sponsors in the House for securing federal funding for the Ballistic Missile Range Safety and Telemetry unit (BMRST) which helped support the Kodiak Launch Complex.

Dr. Sega is the Vice President for Energy, Environment, and Applied Research at the Colorado State University Research Foundation, as well as the Woodward Professor of Systems Engineering at Colorado State University. He was formerly the United States Under Secretary of the Air Force and served as the Director of Defense Research and Engineering, and initiated the National Defense Education Program. He served in the U.S. Air Force and Air Force Reserves, retiring as a Major General. Previously, he was a NASA astronaut who flew two missions on Space Shuttle Discovery. We welcome the contributions both Dr. Weldon and Dr. Sega will provide to the Corporation.

When I joined the AAC Board, I knew I was aligning myself with an incredible organization and my involvement has been tremendously rewarding. AAC is a company of very capable people proud of the Corporation's past and excited about the future. Above all, it is a company defined by the character and integrity of its employees. The year 2010 will bring exciting opportunities for AAC and Alaska. We are ready for the challenge.

Sincerely,



Sharon E. Anderson



Chief Executive Officer's & President & Chief Operating Officer's Letter

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

As Alaska Aerospace Corporation strives to serve our customers, to build new infrastructure and market position, and innovate and diversify our launch services, we have always kept paramount in our minds the importance of developing and sustaining a comprehensive space launch business at the Kodiak Launch Complex and identifying aerospace opportunities for the corporation and the state.

Leadership is important in a time when change and adaptation will mark AAC's future. We could not be prouder of the senior management team that is leading the company through this period of transformation. The team is a good mix of AAC best and brightest along with external perspectives, such as our highly knowledgeable Board of Directors, and it is second to none.

In addition to our successful launch services, AAC is finding ways to increase our services into other areas of the aerospace industry. The people of AAC continue to work hard to expand the horizons of our corporation, driven by our determination to be a strong member of the worldwide aerospace industry. AAC's accomplishments in 2009 increase our confidence in our ability to achieve the goal of rapid access to space and other goals we have set for 2010, positioning AAC for success in the years beyond. Our goals will be attained through the cooperative efforts and combined resources of the people of our company and the State of Alaska community.

Nowhere is our determination to expand more evident than in AAC's infrastructure development efforts. In response to customer's needs, AAC, with funds from the State of Alaska, is building a Rocket Motor Storage Facility and has a working plan for a third launch pad which allows AAC to accommodate multiple rapid launches from our Kodiak Launch Complex.

With space-based systems becoming an integral part of our world economy and our national defense, assured rapid access to space has never been more important. We are excited to say that the KLC has the capability to provide the rapid access to space and this capability will only improve and expand with our infrastructure additions.

Looking ahead to 2010, Alaska Aerospace will be providing services for two United States Air Force launches, working with the Missile Defense Agency on preliminary test planning, and continuing our research for National Oceanic and Atmospheric Administration (NOAA).

As you'll read throughout this report, we are achieving significant and sustainable results, accelerating our responsiveness to the ever changing aerospace industry, and gaining an outstanding name as an industry partner.

Sincerely,

Dale K. Nash Thomas R. Case

*Dale Nash, Chief Executive Officer
Thomas Case, President & Chief Operating Officer*



Year in Review





Launch Services

Alaska Aerospace Corporation (AAC) is contracted to provide launch services for the United States Air Force (USAF) of TacSat-4 and STP-S26 missions. These launches, initially scheduled for the fall of 2009, have been moved to the summer of 2010 because of changing Department of Defense mission priorities.

TacSat-4 is a Navy led joint mission to augment current satellite communications (SATCOM) capabilities and to advance Operationally Responsive Space (ORS) systems. The TacSat-4 mission was selected by a joint process with Army, Navy, Air Force, Marines and US Strategic Command. The TacSat-4 satellite provides multiple Ultra High Frequency (UHF) channels which can be used for communications. Its unique orbit augments geosynchronous SATCOM by providing near global, but not continuous, coverage including the high latitudes. TacSat-4 improves on current SATCOM by providing communications-on-the-move for existing radios without requiring antenna pointing, which increases the ability to operate in some interfered environments.

STP-S26 is a multi-payload launch that represents the 26th small launch vehicle mission in the Space Test Program's forty year history of flying Defense Department experiments. S26 will demonstrate a multi-payload capability on the

Minotaur IV rocket. The primary payload, STPSat-2, will include two Space Experiment Review Board (SERB) payloads: a space phenomenology experiment and an ocean data telemetry microsat link. S26 will also launch four SERB rideshare payloads including FastSat, a science and technology satellite developed by NASA. Also included is the Air Force Academy's newest cadet-built satellite, FalconSAT-5. After launch, FalconSAT-5 will be monitored and controlled by Academy cadet operators. FalconSAT is one of the Academy's capstone undergraduate systems engineering courses.





Range Safety Telemetry System (RSTS)

Alaska Aerospace Corporation owns and operates a Range Safety and Telemetry System (RSTS). The prime purpose of this state-of-the-art system is to provide the range safety and telemetry functions necessary to track, receive, and process critical flight data during a missile launch. The RSTS is a quadruple redundant system comprised of two Mobile Operations Centers, two extended telemetry vans, four dual-purpose telemetry receiving transmitting antennas, and four omni-directional transmitting antennas.

AAC initiated an approval process with the Missile Defense Agency (MDA) and the Federal Aviation Administration (FAA) to allow the RSTS to serve as the sole Range Safety System (RSS) for both government and commercial launches from the Kodiak Launch Complex (KLC). MDA selected the Pacific Range Support Team (PRST) to evaluate this request. The PRST is a coalition of the Department of Defense (DoD) and Commercial Test Ranges providing test planning and execution expertise/resources and range resource management in support of Ballistic Missile Defense System (BMDS) flight testing worldwide.

As part of the approval process, the PRST deployed a similar RSS to the KLC which operated in concert with the RSTS. MDA executed six launches between December 2004 and December 2008 at the KLC. In the first five MDA launches, the RSTS shadowed the PRST RSS and participated in proof of concept exercises.

After successfully executing these MDA launches, the RSTS was approved by MDA/PRST to serve as the sole RSS for future MDA launches at the KLC. AAC is also in the process of receiving a similar authorization from the FAA for the RSTS involving commercial launches. Once granted, this will be the first safety approval ever issued by the FAA for a commercial RSS.

RSTS Operator Training Program

AAC spent approximately two years developing a comprehensive training program for the operators and technicians who work with the RSTS. As part of this training program, AAC held the first RSTS operator Training Boot Camp to qualify new RSTS operators. These qualified operators will staff the RSTS in support of the USAF missions scheduled in 2010 and any new support opportunities outside of KLC which may present itself.

With this training program, AAC now has a documented mechanism for maintaining the proficiency of the RSTS operators and continuing the successful utilization of the RSTS going forward.



High Altitude UAS provides ability to track weather systems, forest fires, volcanic plumes, etc.

Unmanned Aerial Vehicle Studies

In July of 2008, Alaska Aerospace received a grant from Mississippi State University (MSU) to assist in developing a concept of operations for National Oceanic and Atmospheric Administration (NOAA) Unmanned Aerial Systems (UAS). In July of 2009, MSU provided an additional grant for Phase II of the original scope of work. Phase II builds on AAC's work in Phase I and focuses on detailed studies of potential operational bases and payload/sensor options to be flown on the NOAA UAS.

Under Phase II, AAC completed a site visit of Kennedy Space Center (KSC), Florida to evaluate the possibility of using a KSC runway as a UAS base. In the near future, AAC will visit Grand Forks AFB, North Dakota, to learn how Customs and Border Protection operate their existing Predator-B fleet. AAC will also evaluate the Pacific Missile Range Facility in Hawaii and Naval Air Station Corpus Christi, Texas as other potential bases.

Radar System Upgrade

AAC is required by the Federal Aviation Administration (FAA) to coordinate with Air Route Traffic Control Centers for air safety during launch campaigns. Previous Furuno Radars used by AAC had become obsolete and not able to meet FAA requirements. A new 30kW Solid State Detect Inc. Harrier™ Radar was purchased and installed to provide coverage that exceeds FAA's requirement of 20nM down range for aircraft. It also meets the requirements for coverage of surface vessel traffic.



New Enterprise Resource Planning System

AAC is implementing an Enterprise Resource Planning System that incorporates a project scheduling and earned value management system. Many of the system design and development decisions have been made and implementation is underway. Initial system familiarization and training has taken place and AAC personnel are working within the system to become more efficient prior to system testing. A parallel test with our current accounting system to verify accuracy is in process.

The full system Go-Live date was January 1, 2010. This new system will propel AAC into the modern world of earned value tracking and will make accounting for contracts, work orders, purchases, and inventory more efficient.

TWO VENDING MACHINES



=
MINOTAUR I
ROCKET
1,278 LBS



Forrest Meyen (Eagle River, AK resident) - AAC summer intern at KLC.

Internship Programs

AAC will be hosting an internship program this summer sponsored by University of Alaska, Fairbanks (UAF) through the Alaska Space Grant program funded by NASA. The aspiring engineer will be enrolled in an Alaskan college or university, and the internship will run approximately ten weeks during the summer months, potentially during one of the upcoming missions. UAF would provide applicants for internship with AAC selecting the intern. The intern will work in Anchorage or Kodiak depending on AAC's needs. AAC will also expand their current internship program by funding two additional internships this summer for college students who are interested in information systems and program management. UAF is also seeking an additional grant from NASA's Exploration Systems Mission Directorate to provide "Industry Internships" within the Alaskan aerospace industry. If awarded this new grant, UAF could provide funding for up to two additional interns starting 2011.

Alaska Aerospace Scholarship Support

In 2009, Alaska Aerospace Corporation committed more than \$120,000 to 24 students from throughout Alaska from Anchorage to Wrangell, in fields ranging from Accounting to Physics. Alaska Aerospace is dedicated to the continuing education of our local students and we are proud to help support the future leaders of Alaska.

Expanding Our Horizons

Expanding Infrastructure

ROCKET MOTOR STORAGE FACILITY

Alaska is a beautiful and remote state. For many customers in the aerospace industry, the remoteness and rugged terrain can present complexity in the logistics of launching a rocket. To help meet rocket motor transportation and storage challenges, AAC is constructing a Rocket Motor Storage Facility (RMSF) that will enable customers to ship rocket motor components with enough lead time to ensure a scheduled launch date is met.

The RMSF will also accommodate the shipping of multiple motor components. This will allow one customer to achieve multiple launches in a short period of time, or multiple customers to achieve consecutive launches in a short period of time resulting in rapid access to space. It also enables AAC to remain competitive with other ranges that do not have significant transportation challenges.

The RMSF project is progressing as planned. Two Earth Covered Magazines (ECM) are expected to be complete in the summer of 2010.

LAUNCH PAD 3

AAC's vision for the future is to provide access to KLC facilities to multiple customers simultaneously. This has not been viable in the past due to the close proximity of KLC's Launch Pad 1 and Launch Pad 2 which does not allow sufficient separation to process two launches concurrently.

AAC's continuing relationship with MDA, the company's commitment to developing a long-term relationship supporting Air Force programs, along with securing new business will require an additional launch pad and associated facilities. An additional launch pad will allow two launch customers to occupy the range concurrently, doubling KLC's launch capabilities and helping to ensure AAC's continued growth. Additional staff may also be required to support the facilities and to meet the increased workload associated with expanding AAC's business base.



ONE FULL SIZE PICK-UP
=
MINOTAUR V
ROCKET
5,300 LBS

Expanding Orbits

AAC's setting in Kodiak provides an excellent location to launch directly into Tundra and Molniya orbits.

Tundra orbit is a type of highly elliptical geosynchronous orbit with a high inclination (usually near 63.4°) and an orbital period of one sidereal day (almost 24 hours). A satellite placed in this orbit spends most of its time over a chosen area of the Earth, a phenomenon known as apogee dwell. The ground track of a satellite in a tundra orbit is a closed "figure-eight" lemniscate. A Tundra satellite constellation can provide constant coverage to an area the size of North America anywhere in the world.

Molniya orbits are conceptually similar to Tundra orbits and have the same inclination, but half the period (about 12 hours). A single Molniya orbit satellite can access the entire Arctic Circle for 7.5 hours a day with a 30° look angle.

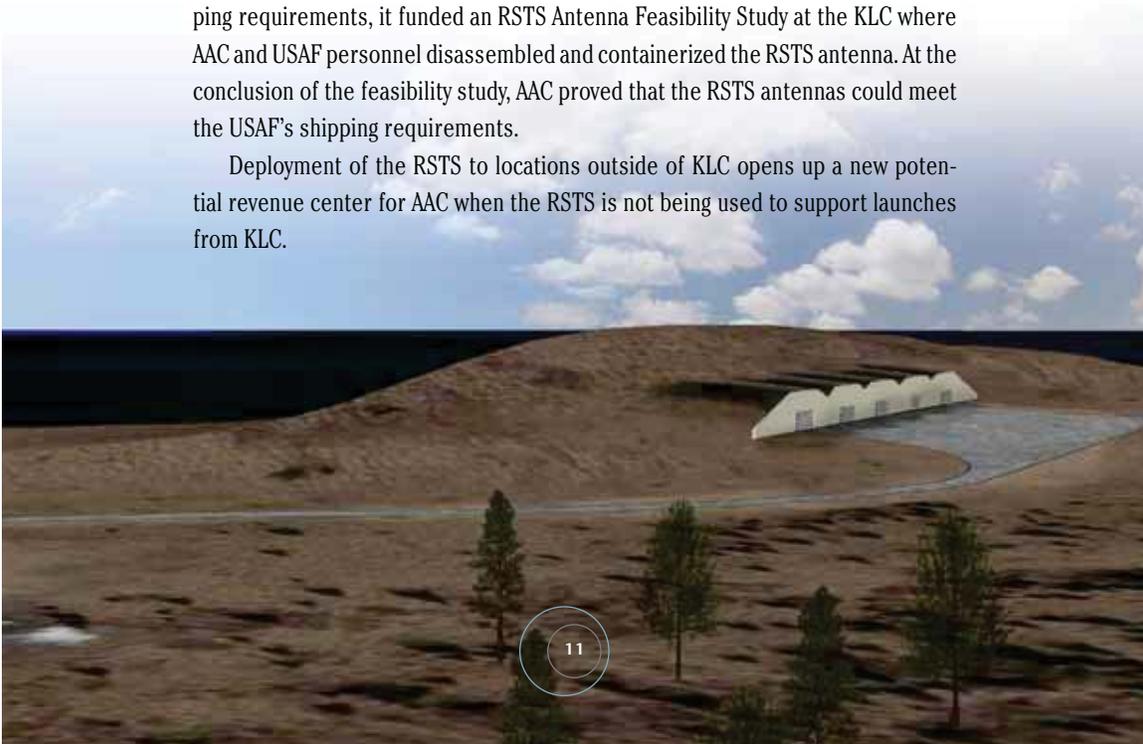
Tundra and Molniya orbits are used to provide high latitude users with higher elevation angles than a geostationary orbit. Satellite launches into these orbits are currently provided by Russian spaceports. AAC hopes to capture a portion of the market for these types of orbits.

Expanding Business

The success of AAC's RSTS has led to the consideration of using the RSTS at other locations outside of KLC including California, Hawaii, the Marquesas Islands in French Polynesia, and the Kwajalein Atoll. AAC has fielded numerous requests for information associated with deploying the RSTS.

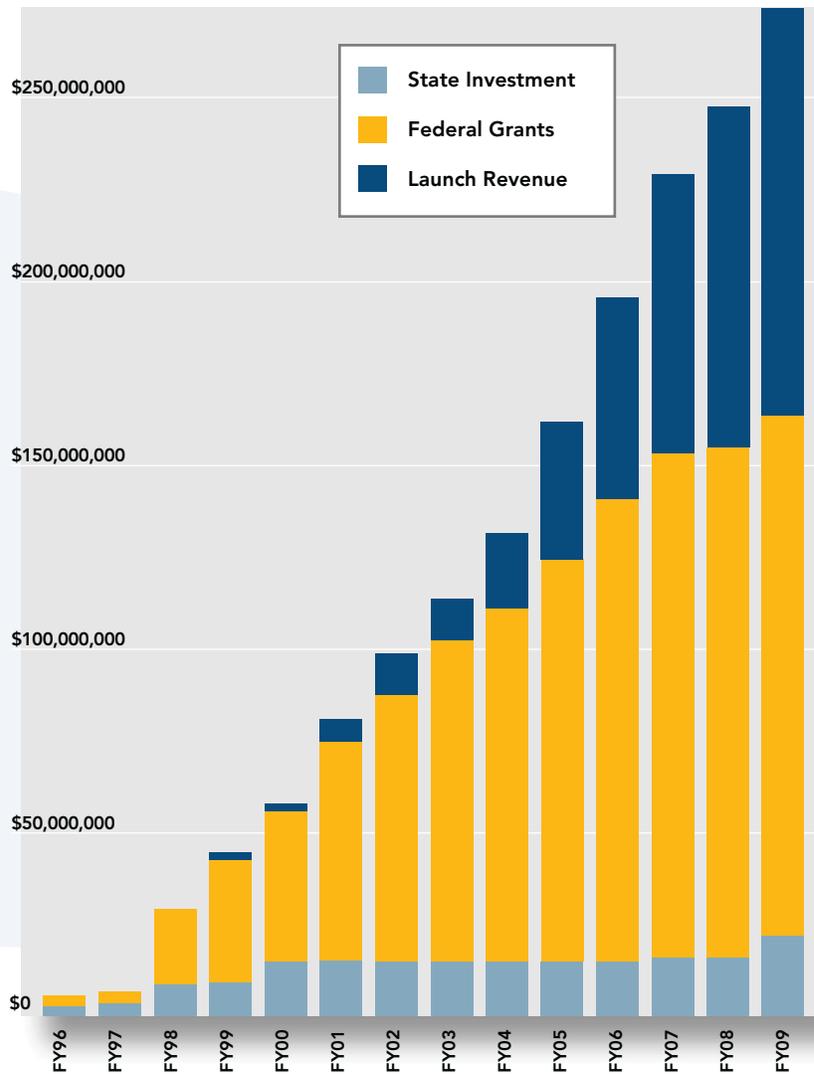
One potential customer for using the RSTS outside of KLC is the United States Air Force (USAF). To ensure that the RSTS could meet the USAF's shipping requirements, it funded an RSTS Antenna Feasibility Study at the KLC where AAC and USAF personnel disassembled and containerized the RSTS antenna. At the conclusion of the feasibility study, AAC proved that the RSTS antennas could meet the USAF's shipping requirements.

Deployment of the RSTS to locations outside of KLC opens up a new potential revenue center for AAC when the RSTS is not being used to support launches from KLC.



Financials

Leverage of Initial Alaska Investment



- Spaceport built on State-owned land
 - Built with a combination of state and federal funds
 - Alaska funds \$23M (8% of total), Federal capital investments \$141M (51% of total)
 - Launch services have generated \$112M through June 30, 2009 (41% of total)
- Launch Customers: MDA, Air Force, NASA, Army, Lockheed, Orbital, ATK, Sandia



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(non-voting)
Alaska State Legislature





4300 B Street, Suite 101
Anchorage, Alaska 99503
907.561.3338
Fax 907.561.3339
akaerospace.com