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Questioning Market Leaders For Long Term Investors

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CEO/COMPANY INTERVIEW

DENISE NORRIS
Applied Space Resources, Inc.

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Applied Space Resources, Inc.



DENISE NORRIS co-founded Applied Space Resources, Inc., in September 1997 and has served as Chairperson, President and Chief Executive Officer since its inception. Ms. Norris has almost 20 years' experience as a Technical and Management Consultant. Her clients have included: American Express Bank, Merrill Lynch, JP Morgan Chase, Pratt & Whitney Aircraft, Pfizer, and Metropolitan Life Insurance. Most recently, she was pivotal in the development and deployment of Chase Manhattan Bank's new payroll system. Ms. Norris majored in Atmospheric Sciences at SUNY-Albany.

SECTOR – MARKETING SERVICES

(MAJ616) TWST: Can we start out with a little history and a quick overview of the company?

Ms. Norris: Applied Space Resources was founded in 1997 after identifying an under-supplied market for exotic space materials, principally Moon rocks. Jay Manifold, ASR's co-Founder, and I performed some back-of-the-envelope calculations, factored in supply and demand, and concluded that it seemed possible to profitably send a robotic spacecraft to the Moon, pick up some rocks, and then fly them back to the Earth for sale to the public.

Jay and I were so surprised by the simplicity of this idea that we were sure someone else was already developing a similar concept, so we started looking for competitive projects and found that none existed. Sure, there were plans to send space-

craft to the Moon, but many of them never even addressed the question of how to earn a profit, much less answered it. An answer we knew we had found.

Over time, the original idea evolved into a more robust concept, the Lunar Retriever Project, a five-year participatory space experience creating multimedia content coupled with tangible space resources and corporate sponsorships.

TWST: Let's look at this from two points of view. One, why Moon rocks? What is the appeal?

Ms. Norris: Just recently, a BBC article reported that real Moon rock is cur-

rently selling for over \$28,000 a gram. Quality diamonds usually sell for around \$22,000 a gram. Moon rock is so hot an item there's even a "black market" for it. And the reason behind this is that NASA jealously guards the Moon rocks brought

Highlights

Applied Space Resources is a marketing company, considered by many to be the leading candidate to execute a commercial space mission. CEO Denise Norris says the company has the opportunity to dominate the space experience market, a virtually untapped resource. The company's senior management are all seasoned individuals who understand the challenges facing ASR, know how to surmount them, and how to profit from them. The company is offering new experiences to a potential market that approaches 70% of the US population, and that doesn't take into account the rest of the world. The real customer is not the guy watching the space mission on television, but the companies seeking to send their messages to those people watching the mission.

back by the Apollo Moon missions, and with very few exceptions it's a crime to even possess these Moon rocks without NASA's permission. Moreover, NASA and the FBI actively prosecute individuals believed to have Apollo samples in their possession.

But the Lunar Retriever Project is not just about selling Moon rocks. We realize that ultimately we are creating a worldwide media event similar in nature to any large sports event, such as the US Open, the Super Bowl, the World Cup and the Olympics. While those events deliver a "sports experience" to global audiences, our event delivers a "space experience", coupled with all the media content and merchandising we've come to associate with these large events. This realization created the opportunity for forward-thinking businesses seeking to gain brand awareness or competitive advantage to become a sponsor of a private space mission with a demographically-defined global audience. We've developed a variety of exciting, unique tie-ins for sponsorship either as part of a total package or à la carte.

"Many of the initial products and services developed by ASR derive directly from the Lunar Retriever Project, and obviously there are Moon rocks. The project will bring back over 10 kilograms of real Moon rock, some of which will be targeted to science and research, but the remainder will be sold in the open market."

TWST: Going back to the original concept, which was retrieving Moon rocks, is that legal to do?

Ms. Norris: Mostly we face regulatory challenges, permits to launch the spacecraft from the FAA, allocation of radio communication frequencies from the FCC and the like.

Some incorrectly believe that the United States is obligated by the UN Moon Treaty. This

treaty, depending upon who is interpreting it, at worst might have stopped our project, but Congress under President Reagan wisely refused to ratify it.

Bottom line, we know of no domestic laws or international treaties that would deny ASR the right to execute the Lunar Retriever mission and collect Moon rocks.

"Worst-case scenario predicts that the total mission cost will be about \$177 million, but at the moment we have 70% confidence that the final cost will be \$124 million. Optimistically, we've been closely following developments in the launch vehicle industry that could reduce the cost of launching the spacecraft from \$60 million to \$22 million."

TWST: Once you get them back you're legally permitted to sell them?

Ms. Norris: Absolutely. They are ASR's property, just as if we mined and extracted gold or diamonds from the Earth.

TWST: What is the cost to do the mission?

Ms. Norris: Worst-case scenario predicts that the total mission cost will be about \$177 million, but at the moment we have 70% confidence that the final cost will be \$124 million. Optimistically, we've been closely following developments in the launch vehicle industry that could reduce the cost of launching the spacecraft from \$60 million to \$22 million. Further cost reductions may be achievable through improved spacecraft fabrication techniques, vendor partnerships and new technologies.

TWST: So the cost is manageable.

Mr. Norris: Yes. We can also mitigate some of the financial risks by insuring the Lunar Retriever Project against a technological failure. This is a universal practice in the commercial communication

Investors Brief



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Corporate Business Description

Applied Space Resources intends to demonstrate the commercial viability of furthering space exploration, without relying on government funding or subsidies, through missions and enterprises that provide goods and services of value to terrestrial markets.

Applied Space Resources, Inc. is a marketing company, not an aerospace company. As a market-driven company, we believe our financial success will be the direct result of a close business alignment with our customers. As such, an integral component of our strategy is to enable our customers to make use of space to achieve their business objectives, offering them new possibilities and designing space missions to accomplish their goals.

Applied Space Resources, Inc. is also a part of the emerging space exploration and development industry. Our initial products and services provide advertising and promotional opportunities derived from non-governmental space activities. Our first offering is to provide these opportunities on a private, robotic spacecraft that lands on the surface of the Moon and returns samples of lunar rock and soil to Earth. Our Lunar Retriever Project will provide advertising and promotional opportunities for the commercial market, as well as new lunar samples and payload opportunities for the science and research community. As a by-product of developing and landing a spacecraft on the lunar surface, ASR will acquire the technology, expertise and reputation to deliver space exploration payloads to any destination with precision, and return resources and information with equal precision, for a profit.

Markets

Our primary market consists of companies seeking to gain positive visibility for their products and services by associating them with the psychographics of space exploration, especially with a space mission infused with the classic American theme of a group of individuals attempting an heroic achievement. We will offer this service to advertisers both directly, through sponsorships, logo placements and other commercial tie-ins, and indirectly, through a production company to which we will sell the broadcast and webcast rights to the mission and live video from the surface of the Moon.

For our commercial customers, our strategy is simple. Our marketing efforts will emphasize the fact that the Lunar Retriever

Project is designed to enable commercial entities to make use of space, and can be customized to meet their needs and desires. The message that we want to send to these customers is that we are eager to help them develop their ideas about using space into solid, affordable, doable solutions.

Meanwhile, the entertainment industry needs properties that can be made into global multi-media events, and has come to realize that even science-oriented space missions attract the rapt attention of large numbers of people. The Lunar Retriever Project will deliver unique, exclusive, high quality media content to our media distribution partners.

In addition, we have an ultimate market comprised of the many hundreds of millions of people worldwide who will participate in space exploration by watching broadcasts of the mission and the robotic lander's activities on the Moon. These customers will be able to buy products associated with this historic mission, some of which will incorporate actual lunar rock and soil.

Our audience will be invited to experience a space adventure, with varying participation from casual observation to total immersion and personal investments from only a small commitment of time to purchasing consumer products and services created to enhance their participatory experience.

The Project's value proposition is to facilitate a new marketing channel for a select number of forward-thinking companies that can capitalize on the glamour and glory associated with being a part of the first commercial space mission. This involvement does not represent a "one shot" opportunity but, rather, will represent a perpetual channel for brand recognition. The early adopters will command a significant competitive advantage in our global economy. The Lunar Retriever Project is the vehicle to provide image and product differentiation, which is increasingly difficult to attain in this world of e-commerce.

Competitive Advantages

The Lunar Retriever Project can be distinguished from competing missions in that it is the only space mission designed to engage the largest possible audience, to be of short duration, and to be designed for commercial opportunities. The principal difference between ASR and its competitors is that while some are trying to be mission developers, hardware fabricators, and media outlets, all at once; we realized early in the process that we are a marketing company creating a global event. ASR looks to draw on existing expertise – Aerospace Engineering, Media Production, Merchandising – to develop and implement our event.

Company Board of Advisors

Dr. James Busby – Historical Space Consultant
Michael J. Drake, Ph.D. – Lunar & Planetary Scientist
Carl DeVito, PhD. – Mathematician
Paul Proscia – Investment Banker
Jon Schapiro – Management Consultant
Philip Stooke, Ph.D. – Lunar & Planetary Scientist

satellite industry. For the most part, ASR simply faces the same risks that most startup companies face — over-projecting revenues, underestimating costs, failing to raise capital — all addressable through traditional risk management strategies.

“The market potential is incredible. For over two decades the US government has tracked interest in space science news, and they estimate over 70% of the US population has some interest in space, and 30% of the population has a strong interest.”

TWST: Looking at the other side now, what are the marketing potentials in this?

Mr. Norris: The market potential is incredible. For over two decades the US government has tracked interest in space science news, and they estimate over 70% of the US population has some interest in space, and 30% of the population has a strong interest. Our market research further identified that interest in space is dependent upon the amount of activity in space. The more activity, the more interest.

In addition, the median age of the US population is only a little over 35, according to the 2000 Census. About half the US population is too young to have ever even seen a live lunar landing, and only knows about Apollo 11 and Neil Armstrong as something they read about in their history books. Without a doubt, the Lunar Retriever Project will be a new and exciting experience for them.

Broadly and demographically, the project’s US audience tends to have college or advanced degrees, live in Northeast, Pacific and Rocky Mountain states. Males tend to have a slightly higher interest in space than females.

In 1997, Mars Pathfinder landed and quickly demonstrated the market’s potential. Over

the next 30 days, the official NASA mission Websites received over three-quarters of a billion hits. Had they used banner ads to generate revenue, the way commercial websites like Yahoo do, they could have generated over \$90 million.

Considering the continued growth of the Internet, the official Lunar Retriever Website, because of its unique and exclusive content, could generate a potential advertising revenue approaching \$200 million. Nevertheless, before I start sounding like some dot-com seeking venture capital, I want to say the real opportunity is for a single or small group of corporations to exclusively sponsor the official Website, using it to gain competitive advantage and boost brand awareness among global consumers.

Over the past decade, economists like Frederick Turner have put forth a concept of the experience economy, or charm industries. Travel and tourism, for example, is one of the world’s largest industries, and it is mostly devoted to creating new and exciting experiences for people. Moreover, these people often select their experience based upon its subjective charm.

“We are looking at producing a Lunar Retriever ‘mini-series,’ where people can go to watch something similar to what Tom Hanks and HBO did with the Apollo Program in ‘From Earth to the Moon’. The broadcast company picks up advertiser revenue in the traditional model for broadcast television.”

In this sense, Applied Space is offering new experiences with high charm appeal to a potential market that approaches 70% of the United States population. Moreover, this does not even take into account the rest of the world, a market that could reach well over 2 billion individuals.

TWST: When you say marketing opportunities, give us some feel for what you're talking about.

Mr. Norris: I've already described the opportunity to sponsor the Website and put a brand or product in front of all the people who come to the Website. Furthermore, we've looked at everything from actual logos on the side of the spacecraft, similar to Pizza Hut's logo on the side of a Russian launch vehicle, or Radio Shack's sponsorship of a competing space mission. We're offering the ability to sponsor specific services. For instance, since the spacecraft is going to be loaded with video cameras, we'll have the ability for someone at the Website to click a button and take their own lunar picture, sent to them by e-mail and that picture can be delivered to them courtesy of a corporate sponsor. Additionally, if the user needs a greater immersion in their experience, they could have their lunar picture professionally framed and pay for the service. We have created several degrees of immersion for our audience's participation. Whether they just want to invest a little time and go to the Website, or are they are willing to commit their hard-earned dollars to enhance their experience, we can accommodate them.

TWST: Have you done some market research studies to see what the potential sponsor interest is?

Ms. Norris: To date, our research studies have been internal. We have been tracking space branding usage and the total corporate spending. There have been a few companies that have been investing in branding in real space: Pepsi, Fisher Space Pen, Pizza Hut — they just flew a pizza to the Russian module on the International Space Station — and Radio Shack is sponsoring a commercial space mission. We believe the demand exists. Our next step is a formal external study.

TWST: What about the problems that people like Space.com seem to be having?

Ms. Norris: Space.com is a dot-com, we're not. For a dot-com, it's about content. The reason people go to Websites on the Internet is to get some sort of content. Space.com's content is generally available anywhere, if you take the time to look. They value-add to the content by collecting, formatting and delivering it to the audience. On the other hand, they have spent a lot of capital in start-up costs to develop their Website. Furthermore, their revenue model seems to be mostly based upon banner ad revenue, and that's been collapsing over the past few years.

“Technologically, the building and launching of the Lunar Retriever spacecraft, while non-trivial, is feasible. Launch vehicles can be purchased. The majority of the spacecraft components are available off-the-shelf and fabrication processes are well understood. By collaborating with established, experienced aerospace organizations, ASR will leverage their expertise as we face the particular challenge of building and launching the spacecraft.”

TWST: So what is going to be the differentiating factor for you?

Ms. Norris: We're not a Website. We are creating unique content, but the content is designed to be utilized by more outlets than just a Website; it's deliverable by any number of means, traditional and non-traditional. We are looking at producing a Lunar Retriever “mini-series,” where people can go to watch something similar to what Tom Hanks and HBO did with the Apollo Program in “From Earth to the Moon”. The broadcast company picks up advertiser revenue in the traditional model for broadcast television.

TWST: Now, for potential investors looking at you, what should they use as benchmarks or milestones to judge your success over the next year or so?

Ms. Norris: That's an interesting question. In some ways, we're a new company doing new things in a new industry, so there are no established benchmarks. I can start with an itinerary of some key events and milestones. Basically, because of the time needed to design, build and test the spacecraft, it's going to take five to six years to execute the Lunar Retriever Project. This drives many of the key events and corporate milestones. Roughly speaking, with a little bit of overlap, some of the key events are:

- Acquisition of the next round of capital;
- Creation of distinct consortiums to support our centers of excellence — Aerospace Engineering, Media Production and Merchandising;
- Continued acquisition of capital;
- Design, fabrication and testing of the spacecraft;
- Negotiation and finalization of sponsor and customer agreements;
- Completion of a public offering;
- Launch of the Lunar Retriever spacecraft;
- The post-mission sales and media content follow-ups.

"We want to have some sort of a public offering to provide an exit plan for our investors and get the final rounds of capital. Most of our costs are back ended because of the cost of the launch vehicle."

TWST: You say it's going to take some time. Does this have to be developed from ground zero in terms of the project?

Ms. Norris: One might think that designing, fabricating and launching a spacecraft to the Moon would be a major hurdle. But in truth, ASR is mostly confronted with the mundane, ordinary chal-

lenges faced by any new company in a new industry doing new things. As we emerge from development stage, we are immediately faced by the need to acquire capital to execute the next phase of our business plan. After that, the challenge is the actual transformation of the company from development to production — hiring new employees, obtaining corporate offices, vendor negotiations, etc...

Technologically, the building and launching of the Lunar Retriever spacecraft, while non-trivial, is feasible. Launch vehicles can be purchased. The majority of the spacecraft components are available off-the-shelf and fabrication processes are well understood. By collaborating with established, experienced aerospace organizations, ASR will leverage their expertise as we face the particular challenge of building and launching the spacecraft.

TWST: So putting it together isn't the tough part?

Ms. Norris: No, the tough part is the same for any business facing a new industry. Back in the early 1990s, I was working with future dot-coms and trying to see how they could make their business case. We face the same basic things: investor awareness, access, and education. We must prove the business case that these things can work. Basic business requirements.

TWST: And you prove it by doing in this case.

Ms. Norris: Yes, you prove it by doing, by showing them, but, when you have a new industry, sometimes it's hard to do that because you can't get the money up front.

We're essentially a marketing company, and to reach our market we have to build a very complex device. In Hollywood they call it a movie, at Disney they call it a theme park. We call it a spacecraft. But the basic core principle is that we

are creating an experience in which people out there want to participate, and we're allowing sponsors to reach those people by riding on the back of that experience. That's not a new industry.

TWST: That's an old industry.

Ms. Norris: Very old.

"We're essentially a marketing company, and to reach our market we have to build a very complex device. In Hollywood they call it a movie, at Disney they call it a theme park. We call it a spacecraft."

TWST: Where do you stand in terms of the personnel and staffing to carry forward here?

Ms. Norris: Throughout our development stage we have kept the management team lean and our burn rate low. At the moment, Applied Space consists of five talented individuals with a wide range of skills and expertise. Personally, I've been a management and technology consultant for almost 20 years. Our Chief Technology Officer, Dallas Bienhoff, has over 25 years of aerospace experience with a variety of high profile projects, including acting as the Payload and Integration Manager for the International Space Station's Propulsion Module. Jay Manifold, an ASR co-Founder and Vice President of Research and Development, is a seasoned telecommunications engineer and certified project manager. We also have strong individuals in Corporate Communications and Strategic Planning. At this point, we're looking for a qualified CFO to join the team. We're also in negotiations for a Vice President of Legal and Regulatory Affairs.

TWST: How important is regulatory affairs going to be to getting this whole project off the ground?

Ms. Norris: If we're going to fly completely in the United States, we face two principal

challenges. One is the Federal Communications Commission, which controls our access to radio frequencies, and the other one is the Federal Aviation Administration, which controls not only our launch, but the re-entry of the spacecraft.

The FCC should not be too difficult. We should be able to get an experimental license, because we're not planning to be a permanent carrier. The FAA may be a little more difficult. While launch licensing is very well understood, it was only recently, in the Commercial Space Act of 1998, that the Federal government mandated the FAA to develop procedures for spacecraft re-entry, and it appears as though they think of that as winged space planes like the Space Shuttle. The concept of bringing back an un-piloted spacecraft to land in a large desert area seems to have skipped their attention, although it is mandated in the Federal statutes.

Now, if we fail to get the FAA to work with us on re-entry, we have the option of re-entering offshore, and there have been a number of other countries we have spoken to that basically have said, "We have large areas. We would love to have the attention, the business, and the dollars."

TWST: Can you lay out a time line, assuming everything goes right?

Ms. Norris: Essentially, if everything goes right, what we're expect to accomplish in the first year of operation is to create the operating partnerships. These are separately funded entities whose focus is on a particular area of expertise. One of the challenges we face is combining Hollywood with aerospace. It just doesn't work. There are different corporate, even cultural mindsets that would have to be meshed. We realized that by separating the operating divisions and allowing each to work within its own areas of expertise, this would be an easier project to manage. The method used to fund a motion

picture in Hollywood is much different from funding an aerospace company on Wall Street.

Starting in our second and third years, most of the activity occurs within the partnerships. The spacecraft design and development begins. We have some good internal work completed already on that. We've been working with some of the large aerospace organizations on the West Coast, and we'll be starting to identify and court potential sponsors. We've already spoken to a few. They're interested, of course, but since we've been in the development stage, we haven't really pushed them to make a commitment, nor do we feel that it would have been appropriate at that point. But we intend to go back to them.

In the final year, construction of the spacecraft will have been completed. It will also have undergone testing, so catastrophes like the Mars Polar Lander can be avoided. We'll also have completed negotiations for a launch vehicle and signed the contracts. We want to have some sort of a public offering to provide an exit plan for our investors and get the final rounds of capital. Most of our costs are back ended because of the cost of the launch vehicle.

"For potential investors, we're considered by many to be the leading candidate among our peer group to execute a commercial space mission. I would cite the strategy we've put together to deliver the products and services to our customers, without losing sight of the market in favor of the technology."

TWST: That's not until you get ready to put it up.

Ms. Norris: Right, I don't need that until the last year. So upfront, when I speak of \$177 million, one-third or more of that we don't need until the last year, worst-case scenario.

TWST: So you have some time to get things set up.

Ms. Norris: Yes. The management team will be on a continual fund raising cycle for the rest of the project once this gets going. However, the commitments and the way we have to bring the commitments together do not imply a large amount of upfront capital.

TWST: In talking about this, we kind of lost sight of the Moon rocks. What is the potential there, or is that really minor compared to the marketing opportunities?

Ms. Norris: Among the management team, we go back and forth. We have champions on both sides, and I like that because it keeps people on their toes.

Potentially, for the Moon rocks, we could see a price of \$10 per milligram on the commercial markets on a wholesale basis. That means you could get a small piece down at your local science-related store, like Discovery Channel Stores, etc... For \$100 you could buy a piece of the moon. If we were to sell five kilograms to the market, which would be one-third of our payload, at \$10 per milligram, a thousand milligrams per gram, that's \$10,000 per gram, \$10 million per kilogram. So there is a potential \$50 million there.

We also intend to donate samples to science, good corporate citizenship and all that. We have planetary scientists on our Board of Advisors. We also suspect there will be some sales to government. We have had indications that there are space agencies out there that would be interested in bartering with us for a block of sample in exchange for services such as radio communications frequencies or other things like that.

TWST: So there are all sorts of interesting potentials then.

Ms. Norris: The idea we've tried to embrace is to create maximum flexibility. It's a new market and a new industry, and we don't know which potential is actually going to mature. My feeling is that we'd better have four or five redundant revenue streams each providing a significant contribution to the total cost of the mission, or else we're just going to do what everybody else has done in this business, just not get anywhere.

"It's a new market and a new industry, and we don't know which potential is actually going to mature. My feeling is that we'd better have four or five redundant revenue streams each providing a significant contribution to the total cost of the mission, or else we're just going to do what everybody else has done in this business, just not get anywhere."

TWST: We realize this is a new venture and it's breaking new ground, so by definition it's high risk. What do you see as the key stumbling block for you, if there is one.

Ms. Norris: People perceiving it as a new venture. As we said earlier, really it's an old model with a new type of hook. And people thinking of us as an aerospace company, when in fact Applied Space Resources is a marketing company.

TWST: How do you get that message across?

Mr. Norris: Interviews like this, of course. In our presentations, and clearly in our business plan, we present the approach as marketing a space experience rather than building the spacecraft. There are a number of companies out there that can build a spacecraft. I can make a phone call, issue a purchase order and they'll build a spacecraft — if I have the money in the bank. When we talk to investors or to the public, we approach it from the point of view of "What is the

market for the space experience and how do we fulfill that market optimally?"

There are other people out there saying, "We'll put a lunar orbiter up, beam back video to fulfill the market, and, oh, we'll put logos on the orbiter to get sponsor dollars." If people can't see the logos, what good are logos on the spacecraft? And if you can't really connect with the people, if you don't have a hook such as bringing back a tangible space resource, in our case Moon rocks, where's the excitement? There's really no incentive to participate. Whether or not you buy Moon rocks, you might sit there and think about it. They may be a little out of your price range, or they may not be. But just the vicarious thought of having Moon rock in your hand and touching it may be enough to get you to watch a television show or visit the Website, and participate with an investment of your time, rather than an investment of your dollars.

TWST: So would you say it's all about marketing of the project?

Ms. Norris: Isn't everything all about marketing, in the long run?

TWST: It seems to be.

Ms. Norris: It's about having unique content, exclusive access to that content, and marketing it. And our real customer, again, is not the guy watching it on the television, but the companies seeking to send their messages to those people watching the mission.

TWST: Anything else that we should have touched on?

Ms. Norris: For potential investors, we're considered by many to be the leading candidate among our peer group to execute a commercial space mission. I would cite the strategy we've put together to deliver the products and services to our customers, without losing sight of

the market in favor of the technology. Our approach is unique in that we've always been a marketing company from day one. We're not an aerospace company. We have the opportunity to dominate the space experience market, a virtually untapped resource.

Finally and most importantly, we have the team to achieve our goals. Our senior management are all seasoned individuals, averaging over 20 years in their respective fields. We understand the challenges facing us, we know how to surmount them, and we know how to profit from them.

TWST: Thank you. (TM)

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