

DIVISION OF FINANCE PROGRAMS
THE ECONOMIC DEVELOPMENT
OPPORTUNITIES PROGRAM

(SUNNY DAY)

ANNUAL FINANCIAL STATUS REPORT
FISCAL YEAR 2004

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THE ECONOMIC DEVELOPMENT OPPORTUNITIES PROGRAM

(SUNNY DAY)

TABLE OF CONTENTS

History of the Program	1
Performance Since Inception of the Program Through June 30, 2004	1
Projected Program Performance for Fiscal Year 2005	2
Projected Program Performance for Fiscal Year 2006	2

CHARTS

Sunny Day 3-Year Activity.....	3
Schedule of Forgiven Loans.....	7
Clawback Report.....	10

ECONOMIC DEVELOPMENT OPPORTUNITIES PROGRAM FUND (SUNNY DAY)

History and Program Description

The Economic Development Opportunities Program Fund (Sunny Day) was created by statute in 1988 to enable Maryland to act on extraordinary economic development proposals that require financial assistance beyond the capabilities of other state and local financing programs. The Sunny Day Fund is a non-lapsing revolving fund administered by the Department of Business and Economic Development (DBED). Under this program, funds are loaned, granted or invested to assist in the retention and expansion of existing business in Maryland, or the establishment or attraction of new business in Maryland.

DBED is required to submit an analysis of each Sunny Day proposal as part of the approval request process to the Legislative Policy Committee of the Maryland General Assembly. The analysis must include, among other things, a description of the projected economic impact and the number and type of jobs to be created and/or retained as a result of the project. The Department focuses significant attention on the analysis of a request and the projected economic impact before approval. The Department must also conduct substantial monitoring actions after an incentive has been approved and funded. Agreements carry strict performance requirements, including; capital investments within specified time frames; job creation over a fixed period of time; maintenance of certain jobs levels for a specified time period, usually 3-5 years; and reporting of financial information, employment information and capital investment information on a periodic basis.

The Statute requires that each Sunny Day project be deemed an extraordinary economic development opportunity, as that meets the following criteria:

- The borrower must maintain a strong financial condition and a minimal risk profile
- The borrower is capable of accessing alternative sources of financing through financial institutions or capital markets
- Minimum of 5:1 capital investment by the company for each \$1 of Sunny Day funds
- The borrower's business is consistent with the strategic plan of the State for economic development
- The borrower creates or retains substantial employment, particularly in areas of high unemployment

Additionally, the Department requires the local jurisdiction to participate by providing any one or a combination of the following: a loan, a conditional loan, a grant, an in-kind contribution, job training funds, tax credits, tax increment financing or below market contributions.

Program Performance Since Inception

As of June 30, 2004, the Department had closed a total of one hundred-ten (110) Sunny Day transactions with an aggregate original balance of \$146,655,498. Of those totals, seventy-three (73) transactions with original balances of \$101,120,944 were structured as loans or conditional loans. Additionally, thirty-six (36) transactions were structured as grants or conditional grants totaling \$41,534,554 and one (1) transaction was structured as an investment totaling \$4,000,000. The assistance provided by Sunny Day has related performance requirements that stipulate the retention of 35,022 jobs, the creation of 22,866 new jobs and leverages \$2,149,775,000 of private investment.

Since the program began, thirteen (13) loans aggregating \$15,766,944 have been fully repaid. Based on the full or partial achievement of performance requirements, thirty-four (34) conditional grants or loans have received full or partial forgiveness, aggregating \$28,850,621. In contrast, as a result of not fully achieving all performance criteria, sixteen (16) companies have been subject to clawbacks of \$3,959,024, two (2) companies have had the interest rate on their loans adjusted, and three (3) companies have had their conditional loan converted to full payout loans, aggregating \$2,233,733.

On June 30, 2004, the loan portfolio continues to be subject to review for compliance with performance requirements that consisted of twenty-seven (27) loans and conditional loans with total principal outstanding of \$50,994,000, fourteen (14) conditional grants totaling \$22,871,524, and one (1) investment totaling \$4,000,000.

General economic conditions, combined in some cases with specific industry conditions, have resulted in an unusual level of credit problems in the portfolio. There are five (5) companies in the portfolio that currently are in bankruptcy or have a parent that is in bankruptcy. This involves loans, conditional loans, and conditional grants for an aggregate of \$17,725,447. The Department continues to monitor the business activities of these distressed operations and will support any potential restructuring resulting in the continued employment that stays within the original scope of the projects.

Program Performance for Fiscal Year 2004

In fiscal year 2004 three (3) projects totaling \$8,275,000 were closed. Of those three transactions, one (1) was structured as a conditional grant, one (1) was structured as grant, and one (1) was structured as an investment. No new transactions were approved in fiscal year 2004. The reduced level of activity reflects the continued shift to usage of the MEDAAF program for deals that were historically done under this program, as well as the lack of budgeted funds for the program that would permit planning its use for future commitments.

Projected Program Performance for Fiscal Year 2005

The Department anticipates, that if adequate funds are available, activity for fiscal year 2005 could exceed the prior fiscal year when measured by the total number of approved projects to be closed and the number of new projects to be processed for approval. The nature of a Sunny Day project is such that the lifespan of a project straddles two and often three fiscal periods, from project introduction, through approval and final disbursement of the dollars. As such, each year the Department will handle both new projects – receiving inquiries, structuring deals and processing approvals – and complete the process on projects that were presented to the Legislative Policy Committee for approval in prior fiscal years. The Department expects to fully utilize all of the remaining available funds of the program in fiscal year 2005, as \$17,500,000 has already been encumbered for six (6) projects. Further, the Department has issued one (1) proposal letter for a \$3,000,000 project and is in discussions with four (4) prospects for an additional \$15,250,000.

Projected Program Performance for Fiscal Year 2006

Given the current level of program funds for existing commitments to active projects, projected commitments for anticipated projects that had been inactive, and new project activity, the Department anticipates a need for General and Special Fund appropriations of approximately \$8 million and \$4 million respectively to support known activity.

DEPARTMENT OF BUSINESS AND ECONOMIC DEVELOPMENT

Sunny Day 3 Year Activity 2002-2004

SUNNY DAY FUND PROJECTS APPROVED FY04

Company	Incentive (In Dollars)	County	Amount Disbursed (In Dollars)	FY Disbursed	Measure of Economic Development Goal	Attain By	Status
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The Sunny Day Program did not have any new approvals in fiscal year 2004.

The following chart shows the approvals in fiscal years 2002 and 2003 with the status of the transactions updated as of FYE 2004.

SUNNY DAY FUND PROJECTS APPROVED FY03

Company	Incentive (In Dollars)	County	Amount Disbursed (In Dollars)	FY Disbursed	Measure of Economic Development Goal	Attain By	Status
Morgan Stanley & Company	\$3,500,000 Conditional Grant	Baltimore City	\$1,000,000 Phase I	04	Phase 1 @ 150 New Jobs \$5.5 million CAPEX	6/30/05	Closed 11/14/2003 First report due as of 12/31/04
Mack Trucks, Inc.	\$2,000,000 Conditional Loan	Washington County	-0-	-0-	Retain 1,000 Jobs Minimum of \$115 million by	12/31/09 12/31/08	Pending
University of Maryland at Baltimore Health Sciences Research Center	\$4,000,000 Investment	Baltimore City	\$4,000,000	04	Provide funds incrementally on identifiable need		Closed 5/28/04
University of Maryland at College Park Bioprocess Scale –up Facility	\$775,000 Grant	Prince George’s	\$775,000	04	N/A		Closed 9/12/03
University of Maryland at College Park Technology Research Center	\$5,000,000 Investment	Prince George’s	-0-	-0-	To be determined		Pending

DEPARTMENT OF BUSINESS AND ECONOMIC DEVELOPMENT

SUNNY DAY FUND PROJECTS APPROVED FY02

Company	Incentive (In Dollars)	County	Amount Disbursed (In Dollars)	FY Disbursed	Measure of Economic Development Goal	Attain By	Status
Giant of Maryland, LLC	\$1,250,000 Conditional Grant	Howard	\$1,250,000	03	495 Jobs retained \$45 million Capex	2005	Reporting begins 12/31/04

DEPARTMENT OF BUSINESS AND ECONOMIC DEVELOPMENT

SCHEDULE OF SUNNY DAY FORGIVEN LOANS

Company	Loan Amount	Date Forgiven	Amount Forgiven	Benchmarks	Achievements
Avesta Sheffield	\$1,100,000	07/31/98	500,000	Company closed facility	\$600,000 repaid of the Grant
Bechtel Power Corporation	\$2,000,000	12/31/01	\$2,000,000	Retain 1400 Jobs and add 300 new and retain through 12/31/01; Invest \$10 million	1765 Jobs as of 3/31/02 \$14.5 million CAPEX
C. M. Offray & Son, Inc.	\$1,000,000	12/31/98 12/31/00	\$500,000 483,241	Retain 477, hire 75 by 12/31/97 and maintain for 1 year \$3.5 million Capex Phase II Forgiveness (repaid \$16,579 quarterly payment during modification period	Retained 477- Hired 82 Invested \$3.85 million
Canam Steel	\$500,000	6/30/99	\$ 460,000	110 New Jobs and 280 retained	282 Jobs Retained and 108 New; Repaid \$40,000 plus interest for Jobs short of goal
Continental Plastics, Inc.	\$180,000	1/1/99	\$90,000	160 New Jobs by 12/31/97 and retain until 12/31/99	Create 131 Jobs Repaid \$52,500 Retained 110 Jobs Repaid \$37,800. (\$1,800 x 21 Jobs not retained) 146 jobs as of 3/31/02
DAP Products, Inc.	\$425,000	6/30/02	\$425,000	Total of 123 Jobs through 12/31/01 and 135 as of 6/30/02	124 Jobs as of 12/31/01 and 137 as of 6/30/02; \$5.9 million CAPEX
Fidelity & Guaranty Life Insurance Company	\$500,000	09/30/01	\$500,000	100 jobs by 9/30/01	
Fila Sports, Inc.	\$1,250,000	12/31/00	\$1,250,000	125 New Jobs by 12/31/99 and retain for 12 months	130 as of 12/31/99 ¹
John H. Harland Company	\$1,000,000	3/31/02	\$181,320	400 Jobs as of 3/31/02 and \$6.2 million CAPEX	Failed to meet total requirement; \$181,320 Forgiven; 818,680 paid \$19.6 CAPEX
Marada Industries	\$1,400,000	4/15/99	\$1,400,000	150 New Jobs; Retain 220 Jobs	413 Jobs as of 12/31/99
Metris Direct, Inc.	\$800,000	2/28/02	\$800,000	402 New Jobs retained through 2/28/02 \$5 million CAPEX	626 Jobs as of 2/28/01 \$11 million CAPEX

Schedule of Sunny Day Forgiven Loans (Continued)

¹ Fila has contracted with Ryder to outsource jobs in their Distribution Center
Sunny Day Page 7

DEPARTMENT OF BUSINESS AND ECONOMIC DEVELOPMENT

Company	Loan Amount	Date Forgiven	Amount Forgiven	Benchmarks	Achievements
Nabisco, Inc.	\$1,200,000	9/18/96	\$500,000 Partial Forgiveness	Phase 1 - Create 95 Jobs and \$13.4 million investment; Phase 2 -145 Jobs and \$2 million investment; Phase 3 - 195 Jobs and \$2 million investment Attain by 6/11/11	154 Jobs as of 5/13/97; Phase I and II completed. \$500,000 forgiven as of 9/96 146 Jobs as of 2/20/98
National Association of Securities Dealers, Inc.	\$1,000,000	7/1/01	\$71,000 ² \$30,667 \$60,833 \$854,000	Retain not less than 1330	1,484 Jobs as of 12/31/01 \$45.9 million CAPEX Repaid \$154,760 for jobs short of goal (146 jobs short x \$1,000 plus interest)
Northrop Grumman Corporation #1	\$1,500,000	7/1/01	\$1,500,000	10,072 Jobs retained	Loan 1 forgiven; Capex and job numbers met
Northrop Grumman Corporation #2	\$1,500,000	7/1/02	\$1,500,000	9,000 Jobs retained	Loan 2 forgiven; Capex and job numbers met
Northrop Grumman Corporation #3	\$1,500,000	07/01/03	\$1,500,000	9,000 Jobs retained	Loan 3 forgiven; Capex and job numbers met
Principal Health Care ³	\$750,000	6/30/98	\$457,500 (Pro rated on Jobs created)	Retain 450 Jobs; 150 New Jobs	Retained 450 Jobs; Hired 61 New Jobs Repaid \$292,500
RWD Technologies ⁴	\$1,272,000	6/4/98 1/1/98 1/1/99	\$254,400 \$183,733 \$241,680 \$ 60,067	Retain 235 Jobs; Phase I add 60 Jobs; Phase II add one or more of the Phase II positions (90 Jobs) as of 1/1/98 Phase III add 120 New Jobs as of 1/1/99 Phase IV add 144 as of 12/31/99	Total of 526 Jobs as of 6/30/99 478 as of 12/31/01 Repaying \$532,120 plus interest for failure to meet job goals
Random House, Inc./Bertlesmann	\$2,500,000	12/31/03	\$2,500,000	900 jobs through 12/31/03 \$30,000,000 CAPEX by 12/31/03	972 jobs as of 2003 \$37 million CAPEX
Safeway, Inc.	\$2,000,000	6/30/02	\$2,000,000	Maintain 522 Jobs through 6/30/02	604 Jobs as of 6/30/02 \$91.2 million CAPEX

² Forgiveness was for the interest accrued from disbursement date to Initial, First and Second Calculation Dates

³ Abatement based on \$7,500 for each of the 61 new jobs created (Balance of \$292,500 repaid)

⁴ \$254,400 Forgiven based on retention of 235 jobs as of closing and 60 new jobs; \$183,733 Phase II abatement based on \$2,826 for each of the 65 jobs achieved of the targeted 90 jobs; \$241,680 forgiven Phase III abatement based on \$2,120 for each of new jobs achieved;

DEPARTMENT OF BUSINESS AND ECONOMIC DEVELOPMENT

Schedule of Sunny Day Forgiven Loans (Continued)

Company	Loan Amount	Date Forgiven	Amount Forgiven	Benchmarks	Achievements
Saks & Company	\$2,500,000	2/20/98 as of 12/1/97	\$2,500,000	Create 375 New Jobs \$51.9 million Investment	642 New Jobs as of 12/31/97 540 as of 6/1/99 \$57.4 million Investment
Sierra Military Health Services, Inc.	\$350,000	05/30/03	\$350,000	330 New Jobs and retain through 4/30/03 CAPEX of at least \$9 million	538 Jobs CAPEX in excess of \$12.5 million
Staples, Inc.	\$700,000	6/30/99	\$700,000	Create 580 Jobs and retain for six months before 6/30/99 at Hagerstown Facility	814 Jobs as of 12/31/98 ⁵
SuperValu	\$380,000	12/05/01	\$281,000	Achieve 380 Jobs	Achieved 281 Jobs; repaid \$99,000 for Jobs short of goal
Sweetheart Cup Corporation	\$1,080,000	1/23/98	\$1,080,000	2,050 Jobs \$36.9 million Investment	2,060 Jobs \$51 million Investment
T. Rowe Price Associates, Inc.	\$1,000,000	1/27/00	\$1,000,000	Create 250 New Jobs and retain 750 through 12/31/99	Created over 600 Jobs and retained the 750
Telecommunication Systems, Inc.	\$400,000	5/1/01 2/1/02 02/01/03 02/01/04	\$100,000 \$100,000 \$100,000 \$100,000	213 Jobs as of 2/1/01 \$800,000 CAPEX Maintain Jobs for annual forgiveness \$800,000 CAPEX Maintain Jobs for annual forgiveness	333 Jobs as of 2/1/02 \$852,000 CAPEX
TESSCO, Incorporated	\$1,000,000	10/13/98	\$1,000,000	Retain 154 add 40 Phase I; 30 Phase II and 30 Phase III by 8/23/01	527Jobs as of 3/31/02
Unisite Design, Inc.	\$800,000	10/01/02	\$736,000	Maintain 70 at Victor Stanley and hire 100 new employees at Unisite facility by 12/31/99 and retain through 12/31/00.	Short of job goal; repaid \$64,000
Wm. T. Burnett & Co., Inc. t/a STX	\$500,000	8/27/98	\$500,000	Employee 255 from 8/27/97 through 8/27/98	Met job requirements; Grant Forgiven
Totals	\$32,037,000		\$28,850,621		

⁵ Loan Forgiven and there is no additional employee reporting required; DLLR reports are for all locations within the state and the financing by DBED was for a specific location and jobs at that location.

DEPARTMENT OF BUSINESS AND ECONOMIC DEVELOPMENT

SUNNY DAY CLAWBACK REPORT

Borrower or Recipient	Jurisdiction	Financing	Original Amount	Amount Forgiven	Date of Forgiveness	Clawback	Date Repaid	Comments
Allied Signal, Inc./Honeywell	Howard	Conditional Loan	1,000,000	-0-		\$1,000,000	Converted to paying loan	Loan converted to a paying loan due to failure to meet job goals
Avesta Sheffield	Baltimore City	Conditional Grant	\$1,100,000	\$500,000	\$500,000	\$600,000	07/31/1998	Repayment of portion of Grant because of decrease in Jobs and subsequent closing of facility
Bally Total Fitness	Baltimore	Loan	\$1,500,000	\$480,000		\$1,020,096	10/01/1998	Loan called in default for failure to maintain required number of Jobs
Canam Steel Corporation	Frederick County	Conditional Loan	\$500,000	\$460,000	6/30/99	\$43,183	09/07/1999	Pro Rata Forgiveness; Repaid \$5,000 x each job short of goal (8) plus accrued interest
C. M. Offray & Son, Inc.	Washington	Conditional Loan	\$1,000,000	\$500,000 (Phase I) \$483,421	12/31/98	\$16,579	4/6/00	Terms for Phase II Forgiveness Modified by LPC
Continental Plastics, Inc.	Baltimore	Conditional Loan	\$180,000	0	1/1/98	\$52,200	7/10/98	Pro Rata Clawback for employees short of goal
			Phase II forgiveness	\$90,000	1/1/99	\$37,800	4/9/99	Pro Rata Clawback for employees not retained for the retention period
Filtronic Comtek, Inc.	Wicomico	Loan	\$1,000,000	0		\$1,000,000		Rate increase from 5% to 7% as penalty Loan later paid in full
John Harland Company	Anne Arundel	Conditional Loan	1,000,000	\$181,320	3/31/02	\$818,681		223 Jobs short of goal on final phase
Hub Labels, Inc./Dahbura	Washington	Conditional Loan	\$200,000	0		\$200,000		Loan converted to a paying loan due to failure to meet job goals
Magellan Behavioral Health Services	Howard	Conditional Grant	\$2,000,000	\$1,760,600 ⁶		\$203,553	3/31/02	118 Jobs short x \$1725 per job plus interest of \$35,847.95; Bankruptcy partial cash payout paid DBED \$590,120.51 Principal + interest
Nabisco	Dorchester	Conditional Loan	\$1,200,000	500,000	9/8/96	\$700,000		Plus accrued interest; converted to Term loan

SUNNY DAY CLAWBACK REPORT (Continued)

⁶ Magellan's Bankruptcy reorganization provided DBED with \$573,000 Series B Senior Notes and Cash in the amount of \$590,120.51 (principal and interest) leaving a remaining loan balance of \$989,912 to be repaid

DEPARTMENT OF BUSINESS AND ECONOMIC DEVELOPMENT

Borrower or Recipient	Jurisdiction	Financing	Original Amount	Amount Forgiven	Date of Forgiveness	Clawback	Date Repaid	Comments
National Association of Securities Dealers, Inc.	Montgomery	Conditional Loan	\$1,000,000	\$854,000	12/31/03	\$140,000		Failed to meet job goal; repaid \$154,760 (146 jobs short x \$1,000 plus interest)
PenMar Development/IMI/BAC	Washington	Loan	\$1,500,000	-0-				Request to LPC7/04 for restructure of loan with the Borrower to be International Masonry Institute (IMI) and Jurisdiction will be Prince George's County
Principal Health Care, Inc.	Montgomery	Conditional Loan	\$750,000	\$457,500	6/30/98	\$292,500	9/28/98	Company did not meet job numbers
RWD Technologies, Inc.			\$1,272,000 Phase I Forgiveness Phase II Forgiveness Phase III forgiveness Phase IV forgiveness	\$254,400 \$183,733 \$241,680 \$60,067	9/12/97 1/1/98 1/1/99 1/1/00	\$533,733 Converted to Term Loan		Company did not meet job numbers Company did not meet job numbers Company did not meet job numbers Company did not meet job numbers; Remaining balance of \$532,120 plus interest converted to a term loan
Sodexo, Inc.	Montgomery	Conditional Loan	\$500,000			\$15,432	3/22/02 as of 12/31/00	Failed to meet job foal; repaid \$15,431.67 (12 jobs x \$1,250) + interest in the amount of \$431.67
Supervalu	Harford	Conditional Grant	\$380,000	\$281,000	12/5/01	\$99,000	12/5/01	Failed to met job goal; repaid \$1,000 per 99 Jobs short of goal
Unisite/Victor Stanley	Caroline	Conditional Loan	\$800,000	\$736,000	10/1/02	\$64,000	10/4/02	8 Jobs short x \$8,000 per job plus interest
Wood Products, Inc.	Garrett	Conditional Loan	\$350,000			\$350,000	3/30/04	Company did not meet job numbers; Loan converted to a Term loan of principal plus capitalized interest
Totals			\$17,232,000	\$8,023,721		\$7,186,757		