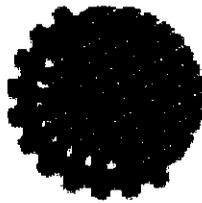


***Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of
Puerto Rico)***

*Basic Financial Statements and Required Supplementary
Information as of and for the Years Ended June 30, 2010
and 2009, and Other Supplementary Information for the
Year ended June 30, 2010 and Independent Auditors'
Report*

Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)

*Basic Financial Statements and Required Supplementary Information
as of and for the Years Ended June 30, 2010 and 2009, and Other
Supplementary Information for the Year ended June 30, 2010 and
Independent Auditors' Report*



PRIDCO

Puerto Rico Industrial Development Company

Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)

*Basic Financial Statements, Required Supplementary Information
and Other Supplementary Information*

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PARISSI P.S.C.
Certified Public Accountants, Tax & Business Advisors

Independent Auditors' Report

To the Board of Directors of the
Puerto Rico Industrial Development Company
San Juan, Puerto Rico

We have audited the accompanying financial statements of the Puerto Rico Industrial Development Company (PRIDCO) (a component unit of the Commonwealth of Puerto Rico), as of and for the years ended June 30, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of PRIDCO's management. Our responsibility is to express an opinion on these financial statements based on our audits.

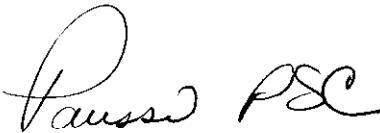
We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PRIDCO as of June 30, 2010 and 2009, and the changes in financial position and its cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the financial statements of PRIDCO. The schedule of changes in cash and sinking fund per trust indenture for the year ended June 30, 2010 included on page 48 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

November 16, 2010



Stamp No. E252 was affixed to the original of this report License Exp. December 1, 2011.



Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Management's Discussion and Analysis
Years Ended June 30, 2010 and 2009

The Puerto Rico Industrial Development Company (PRIDCO) management provides PRIDCO's annual financial report and the discussion and analysis of PRIDCO's financial performance during the fiscal years ended June 30, 2010 and 2009. These financial statements include the financial position and results of operations of three separate legal entities comprised of PRIDCO, the Puerto Rico Industrial Incentives Fund (PRIIF) and the Puerto Rico Industrial Investment Corp. (PRIICO).

Overview of the Financial Statements

The annual report includes the management's discussion and analysis report, the independent auditors' report, and the basic financial statements. The financial statements also include notes that explain in more detail the information contained in the financial statements, and a supplemental schedule, which is not a required part of the basic financial statements.

Financial Analysis of PRIDCO as a Whole

The balance sheet and the statement of revenue, expenses, and changes in net assets present the net assets of and the changes in them. Net assets—the difference between assets and liabilities—is one way to measure financial health or financial position. Increases or decreases in net assets is one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other nonfinancial factors such as changes in economic conditions and new or changed government legislation.

The net asset information for PRIDCO is presented as follows (in thousands):

	<u>June 30</u>		<u>Change</u>	
	<u>2010</u>	<u>2009</u>	<u>In dollars</u>	<u>Percentage</u>
Current assets	\$ 94,883	120,052	(25,169)	(20.97)%
Capital assets, net	704,955	717,274	(12,319)	(1.72)%
Other noncurrent assets	72,021	71,633	388	0.54%
Total assets	<u>\$ 871,859</u>	<u>908,959</u>	<u>(37,100)</u>	<u>(4.08)%</u>
Current liabilities	\$ 169,810	177,914	(8,104)	(4.56)%
Noncurrent liabilities	326,767	345,438	(18,671)	(5.41)%
Total liabilities	<u>496,577</u>	<u>523,352</u>	<u>(26,775)</u>	<u>(5.12)%</u>
Net assets:				
Invested in capital assets, net of related debt	405,277	406,248	(971)	(0.24)%
Restricted	32,342	37,120	(4,778)	(12.87)%
Deficit	<u>(62,337)</u>	<u>(57,761)</u>	<u>(4,576)</u>	<u>7.92%</u>
Total net assets	<u>375,282</u>	<u>385,607</u>	<u>(10,325)</u>	<u>(2.68)%</u>
Total liabilities and net assets	<u>\$ 871,859</u>	<u>908,959</u>	<u>(37,100)</u>	<u>(4.08)%</u>

Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Management's Discussion and Analysis
Years Ended June 30, 2010 and 2009

In addition, the condensed changes in net assets information for PRIDCO as a whole are presented below (in thousands):

	Year Ended June 30,		Change	
	2010	2009	In dollars	Percentage
Operating revenue —				
Rental income	\$ 62,185	72,032	(9,847)	(13.67)%
Nonoperating revenue:				
Net gain on sale of properties and insurance recoveries	3,938	9,163	(5,225)	(57.02)%
Net investment and interest income	1,993	2,735	(742)	(27.13)%
Total nonoperating revenue	5,931	11,898	(5,967)	(50.15)%
Total revenue	68,116	83,930	(15,814)	(18.84)%
Operating expenses:				
Salaries and wages	16,749	17,855	(1,106)	(6.19)%
Administrative, general, and other expenses	23,192	22,430	762	3.40%
Provision for legal matters	—	16,274	(16,274)	(100.00)%
Depreciation and amortization	22,072	22,107	(35)	(0.16)%
Impairment loss	1,663	—	1,663	100.00%
Industrial incentives and grants	—	130	(130)	(100.00)%
Less capitalized expenses	—	(907)	907	(100.00)%
Total operating expenses, net	63,676	77,889	(14,213)	(18.25)%
Nonoperating expenses - interest and debt issue cost, net	21,764	23,478	(1,714)	(7.30)%
Total expenses	85,440	101,367	(15,927)	(15.71)%
Deficiency before capital contributions	(17,324)	(17,437)	113	(0.65)%
Capital contributions	6,999	12,350	(5,351)	(43.33)%
Special item - early retirement and voluntary separation plan	—	(885)	885	(100.00)%
Change in net assets	(10,325)	(5,972)	(4,353)	72.89%
Net assets, beginning of year (as restated)	385,607	391,579	(5,972)	(1.53)%
Net assets, end of year	\$ 375,282	385,607	(10,325)	(2.68)%

In order to provide a clear explanation for the most significant changes in net assets, we have included in the following pages an analysis, on a separate basis, of the most significant changes of PRIDCO and its blended component units, PRIIF and PRIICO, which are entities for which PRIDCO is financially accountable for.

Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Management's Discussion and Analysis
Years Ended June 30, 2010 and 2009

The net asset information for PRIDCO on a separate basis is presented below (in thousands):

	June 30		Change	
	2010	2009	In dollars	Percentage
Current assets	\$ 137,378	148,403	(11,025)	(7.43)%
Capital assets, net	688,987	700,037	(11,050)	(1.58)%
Other noncurrent assets	71,453	70,569	884	1.25%
Total assets	\$ 897,818	919,009	(21,191)	(2.31)%
Current liabilities	\$ 241,458	243,212	(1,754)	(0.72)%
Noncurrent liabilities	248,239	266,110	(17,871)	(6.72)%
Total liabilities	489,697	509,322	(19,625)	(3.85)%
Net assets:				
Invested in capital assets, net of related debt	438,369	432,781	5,588	1.29%
Restricted	32,342	37,120	(4,778)	(12.87)%
Deficit	(62,590)	(60,214)	(2,376)	3.95%
Total net assets	408,121	409,687	(1,566)	(0.38)%
Total liabilities and net assets	\$ 897,818	919,009	(21,191)	(2.31)%

	June 30		Change	
	2009	2008	In dollars	Percentage
Current assets	\$ 148,403	156,905	(8,502)	(5.42)%
Capital assets, net	700,037	701,556	(1,519)	(0.22)%
Other noncurrent assets	70,569	69,099	1,470	2.13%
Total assets	\$ 919,009	927,560	(8,551)	(0.92)%
Current liabilities	\$ 243,212	236,129	7,083	3.00%
Noncurrent liabilities	266,110	282,883	(16,773)	(5.93)%
Total liabilities	509,322	519,012	(9,690)	(1.87)%
Net assets:				
Invested in capital assets, net of related debt	432,781	423,023	9,758	2.31%
Restricted	37,120	40,507	(3,387)	(8.36)%
Deficit	(60,214)	(54,982)	(5,232)	9.52%
Total net assets	409,687	408,548	1,139	0.28%
Total liabilities and net assets	\$ 919,009	927,560	(8,551)	(0.92)%

Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Management's Discussion and Analysis
Years Ended June 30, 2010 and 2009

Analysis of Net Assets at June 30, 2010 and 2009

As of June 30, 2010, net assets of \$408 million are composed of \$438 million invested in capital assets, net of related debt; \$32 million restricted and a deficit of \$62 million. Total net assets changed from \$409.6 million to \$408 million, a decrease of approximately \$1.6 million or 0.38%. Current assets decreased by approximately \$11 million mostly due to a decrease of \$5.7 million in cash and cash equivalents deposited in the bond sinking account, a decrease of approximately \$8.6 million in accounts receivable, a decrease in amounts due from the Commonwealth of \$1.6 million and an increase of approximately \$12.5 million in amounts due from PRIICO, mostly as a result of loan repayments of approximately \$9.7 million and \$1.2 million of general and administrative expenses paid by PRIDCO on behalf of PRIICO.

Net assets invested in capital assets, net of related debt, increased by \$5.6 million mostly as a net result of a decrease in bonds payable of approximately \$16.5 million and a decrease on net capital assets of approximately \$10.8 million. Restricted assets are mainly composed of amounts deposited in the sinking fund for payment of bonds payable. Restricted assets decreased by \$4.8 million mostly as a net result of a decrease in the current portion of sinking funds of approximately \$4.1 million, and an increase of approximately \$798 thousand in the current portion of bonds payable.

Analysis of Net Assets at June 30, 2009 and 2008

As of June 30, 2009, net assets of \$410 million are composed of \$433 million invested in capital assets, net of related debt; \$37 million restricted and a deficit of \$60 million. Total net assets changed from \$409 million to \$410 million, an increase of approximately \$1 million or 0.28%. Current assets decreased by approximately \$8.5 million mostly due to a decrease in cash and cash equivalents used for operating purposes.

Net assets invested in capital assets, net of related debt, increased by \$9.7 million mostly as a net result of a decrease in bonds payable of approximately \$10.2 million and an increase of \$249 thousand on obligations under capital lease. Restricted assets decreased by \$3.4 million mostly as a net result of an increase in the current portion of the bonds payable and interest payable of approximately \$4.9 million and an increase on the sinking fund of approximately \$1.5 million. Restricted assets are mainly composed of amounts deposited in the sinking fund that are restricted for the payment of the current portion of bonds payable.

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Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Management's Discussion and Analysis
Years Ended June 30, 2010 and 2009

Change in net assets information for PRIDCO is presented below (in thousands):

	<u>Year Ended June 30,</u>		<u>Change</u>	
	<u>2010</u>	<u>2009</u>	<u>In dollars</u>	<u>Percentage</u>
Operating revenue —				
Rental income	\$ 60,935	72,032	(11,097)	(15.41)%
Nonoperating revenue:				
Net gain on sale of properties and insurance recoveries	3,938	9,163	(5,225)	(57.02)%
Net investment and interest income	1,941	2,443	(502)	(20.55)%
Total nonoperating revenue	5,879	11,606	(5,727)	(49.35)%
Total revenue	66,814	83,638	(16,824)	(20.12)%
Operating expenses:				
Salaries and wages	16,749	17,855	(1,106)	(6.19)%
Administrative, general, and other expenses	20,985	23,884	(2,899)	(12.14)%
Provision for legal matters	—	16,274	(16,274)	(100.00)%
Depreciation and amortization	21,365	21,398	(33)	(0.15)%
Impairment loss	1,663	—	1,663	100.00%
Less capitalized expenses	—	(907)	907	(100.00)%
Total operating expenses, net	60,762	78,504	(17,742)	(22.60)%
Nonoperating expenses - interest and debt issue costs, net	16,767	18,155	(1,388)	(7.65)%
Total expenses	77,529	96,659	(19,130)	(19.79)%
Deficiency before capital contributions	(10,715)	(13,021)	2,306	(17.71)%
Capital contributions	6,999	12,350	(5,351)	(43.33)%
Transfers	2,150	2,695	(545)	(20.22)%
Special item - early retirement and voluntary separation plan	—	(885)	885	(100.00)%
Change in net assets	(1,566)	1,139	(2,705)	(237.49)%
Net assets, beginning of year	409,687	408,548	1,139	0.28%
Net assets, end of year	\$ 408,121	409,687	(1,566)	(0.38)%

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Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Management's Discussion and Analysis
Years Ended June 30, 2010 and 2009

	Year Ended June 30,		Change	
	2009	2008	In dollars	Percentage
Operating revenue —				
Rental income	\$ 72,032	65,862	6,170	9.37%
Nonoperating revenue:				
Net gain on sale of properties and insurance recoveries	9,163	9,612	(449)	(4.67)%
Net investment and interest income	2,443	4,155	(1,712)	(41.20)%
Total nonoperating revenue	11,606	13,767	(2,161)	(15.70)%
Total revenue	83,638	79,629	4,009	5.03%
Operating expenses:				
Salaries and wages	17,855	16,412	1,443	8.79%
Administrative, general, and other expenses	23,884	28,140	(4,256)	(15.12)%
Provision for legal matters	16,274	7,465	8,809	118.00%
Depreciation and amortization	21,398	22,628	(1,230)	(5.44)%
Less capitalized expenses	(907)	(2,892)	1,985	(68.64)%
Total operating expenses, net	78,504	71,753	6,751	9.41%
Nonoperating expenses —				
Interest and debt issue cost, net	18,155	18,300	(145)	(0.79)%
Total expenses	96,659	90,053	6,606	7.34%
Deficiency before capital contributions	(13,021)	(10,424)	(2,597)	24.91%
Capital contributions	12,350	3,650	8,700	238.36%
Transfers	2,695	—	2,695	100.00%
Special item - early retirement and voluntary separation plan	(885)	(323)	(562)	173.99%
Change in net assets	1,139	(7,097)	8,236	(116.05)%
Net assets, beginning of year (as restated)	408,548	415,645	(7,097)	(1.71)%
Net assets, end of year	\$ 409,687	408,548	1,139	0.28%

Year Ended June 30, 2010 vs. June 30, 2009

Overall, PRIDCO's revenue decreased by approximately \$11 million or 15.41% mostly as a result of a decrease in rent billing net of provisions of approximately \$2.8 million, a reduction in other nonoperating income and rent penalties of approximately \$5.8 million and an increase in bad debt expenses of approximately \$1.3 million.

Operating expenses decreased by \$17.7 million or 22.60% mostly as a result of the decrease of expenses related to litigation matters of approximately \$16.2 million related to several land expropriation cases and a decrease on general and administrative expenses of approximately \$2.9 million of which repair and maintenance comprise approximately \$2.7 million.

Puerto Rico Industrial Development Company
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Management's Discussion and Analysis
Years Ended June 30, 2010 and 2009

Nonoperating expenses during 2010 amounted to approximately \$16.7 million, a decrease of approximately \$1.4 million, mostly composed of interest paid related with the bonds and with the line of credit, which amounted to approximately \$15.1 million and \$1 million respectively.

Capital contributions amounted to approximately \$7 million as PRIDCO received approximately \$4.7 million in contributions from the Special Incentives Fund for building improvements related to economic development projects and a \$2.2 million reimbursement from the Economic Development Agency (EDA) in relation with the construction of the Bioprocess Development and Training Complex (BDTC) in Mayagüez.

In addition, PRIDCO received a one-time \$2.1 million transfer from PRIIF as approved by the Board of Directors to be used for the Immediate Rescue Plan, a light repair program for selected deteriorated PRIDCO properties.

Gain on sale of properties and insurance recoveries in 2010 amounted to approximately \$3.9 million, a decrease of \$5.2 million or 57.02% from prior year. Such decrease is directly related to approximately \$4.5 million of insurance recoveries and \$500 thousand of undistributed proceeds from sales of assets received in 2008.

Year Ended June 30, 2009 vs. June 30, 2008

Rental revenue increased by approximately \$6.1 million or 9.37% mostly as a result of rental penalties and other operating income of \$3.4 million and \$2.6 million, respectively charged during the year ended June 30, 2009.

Operating expenses increased by \$6.7 million or 9.41% mostly as a result of the increase of expenses related to litigation matters of \$8.8 million, net of a decrease on general and administrative expenses of approximately \$4.3 million, mostly composed of the decrease on utilities, rent and fringe benefits of approximately \$4 million. Also, operating expenses decrease included a decrease in depreciation and amortization expense of approximately \$1.2 million, a decrease in capitalized expenses of approximately \$1.9 million and an increase on salaries and wages of approximately \$1.4 million.

Capital contributions amounted to \$10.3 million as PRIDCO received approximately \$7.8 million as contributions from the Special Incentives Fund for building improvements, \$4.5 million on contribution from the Special Fund for Economic Development (SFED) as a construction cost reimbursement for the Bioprocess Development Training Complex in Mayagüez.

In addition, PRIDCO also received a \$2.7 million transfer from PRIIF as approved by the Board of Directors.

Gain on sale of properties and insurance recoveries in 2009 amounted to approximately \$9.2 million, a decrease of \$449 thousand or 4.67% from prior year.

Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Management's Discussion and Analysis
Years Ended June 30, 2010 and 2009

Financial Analysis of PRIICO on a Separate Basis (In thousands):

	<u>June 30</u>		<u>Change</u>	
	<u>2010</u>	<u>2009</u>	<u>In dollars</u>	<u>Percentage</u>
Current assets	\$ 77,185	70,468	6,717	9.53%
Capital assets, net	15,968	17,237	(1,269)	(7.36)%
Other noncurrent assets	568	537	31	5.77%
Total assets	<u>\$ 93,721</u>	<u>88,242</u>	<u>5,479</u>	<u>6.21%</u>
Current liabilities	\$ 48,285	35,447	12,838	36.22%
Noncurrent liabilities	78,528	79,328	(800)	(1.01)%
Total liabilities	<u>126,813</u>	<u>114,775</u>	<u>12,038</u>	<u>10.49%</u>
Net assets:				
Invested in capital assets, net of related debt	15,968	17,237	(1,269)	(7.36)%
Deficit	<u>(49,060)</u>	<u>(43,770)</u>	<u>(5,290)</u>	<u>12.09%</u>
Total net assets	<u>(33,092)</u>	<u>(26,533)</u>	<u>(6,559)</u>	<u>24.72%</u>
Total liabilities and net assets	<u>\$ 93,721</u>	<u>88,242</u>	<u>5,479</u>	<u>6.21%</u>

	<u>June 30</u>		<u>Change</u>	
	<u>2009</u>	<u>2008</u>	<u>In dollars</u>	<u>Percentage</u>
Current assets	\$ 70,468	66,167	4,301	6.50%
Capital assets, net	17,237	18,482	(1,245)	(6.74)%
Other noncurrent assets	537	508	29	5.71%
Total assets	<u>\$ 88,242</u>	<u>85,157</u>	<u>3,085</u>	<u>3.62%</u>
Current liabilities	\$ 35,447	23,209	12,238	52.73%
Noncurrent liabilities	79,328	84,039	(4,711)	(5.61)%
Total liabilities	<u>114,775</u>	<u>107,248</u>	<u>7,527</u>	<u>7.02%</u>
Net assets:				
Invested in capital assets, net of related debt	17,237	18,482	(1,245)	(6.74)%
Deficit	<u>(43,770)</u>	<u>(40,573)</u>	<u>(3,197)</u>	<u>7.88%</u>
Total net assets	<u>(26,533)</u>	<u>(22,091)</u>	<u>(4,442)</u>	<u>20.11%</u>
Total liabilities and net assets	<u>\$ 88,242</u>	<u>85,157</u>	<u>3,085</u>	<u>3.62%</u>

Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Management's Discussion and Analysis
Years Ended June 30, 2010 and 2009

Analysis of Net Assets of PRIICO at June 30, 2010 and 2009

PRIICO (Puerto Rico Industrial Investment Company) is the owner of the building that PRIDCO and other related and unrelated entities lease. PRIICO also enters in financial leasing to facilitate the promotion of renowned special types industries. Total assets increased by approximately \$5.5 million or 6.21% (\$93.7 million in 2010 versus \$88.2 million in 2009) mostly due to an increase in amounts due from PRIDCO of \$6.7 million or 9.53% (\$70.2 million in 2009 to \$77 million in 2010) related to rent income as per the new agreement entered into with a tenant amounting to \$4.4 million during the year ended at June 30, 2010. PRIICO records the loan and the amount due from PRIDCO as the capital asset and the rent collections are recorded in PRIDCO.

Current liabilities increased by approximately \$12.8 million mostly due to the payments of long term debt made by PRIDCO on behalf of PRIICO amounting to approximately \$4.8 million and \$4.9 million in principal and interest portion, respectively. Such long term corresponds to several loan agreements in which PRIDCO serves as guarantor as well as the owner of the property. The remaining \$3.1 million correspond to approximately \$2.1 million of general and administrative expenses paid by PRIDCO on behalf of PRIICO plus \$1 million of administrative charges.

Net assets invested in capital assets, net of related debt, represent the capital assets less the incurred debt amounted to \$15.9 million as of June 30, 2010, a decrease of approximately \$1.3 million related to the depreciation expense of \$707 thousand and a reclassification of deferred financing lease of \$567 thousand, an increase in the current portion of loans and notes payable of \$462 thousand and a decrease in the long term portion of loans and notes payable of approximately \$800 thousand.

Analysis of Net Assets of PRIICO at June 30, 2009 and 2008

Total assets increased by approximately \$3 million or 3.62% mostly as per the combined effect of an increase in amounts due from PRIDCO of \$4.3 million related to rent income and a decrease in capital assets of approximately \$1.2 million related to depreciation expense of \$709 thousand in 2009 and \$537 thousand reclassification to deferred financing lease.

Current liabilities increased by approximately \$12.2 million in relation with the amounts paid by PRIDCO on behalf of PRIICO amounting to approximately \$8.5 million for principal and interest in addition to \$1.3 million for general and administrative expenses.

Deficit increased by \$3.2 million and was mostly due to an operating income of \$2.2 million offset by interest expense of \$5.3 million.

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Puerto Rico Industrial Development Company
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Management's Discussion and Analysis
Years Ended June 30, 2010 and 2009

Changes in net assets information for PRIICO are presented below (in thousands):

	Year Ended June 30,		Change	
	2010	2009	In dollars	Percentage
Operating revenue —				
Rental income	\$ 1,666	3,672	(2,006)	(54.63)%
Nonoperating revenue - investment and interest income	102	136	(34)	(25.00)%
Total revenue	1,768	3,808	(2,040)	(53.57)%
Operating expenses:				
Administrative, general, and other expenses	1,970	1,800	170	9.44%
Depreciation and amortization	707	709	(2)	(0.28)%
Maintenance and repairs, net	653	418	235	56.22%
Total operating expenses, net	3,330	2,927	403	13.77%
Operating income (loss)	(1,562)	881	(681)	(77.30)%
Nonoperating expenses - interest expense	(4,997)	(5,323)	326	(6.12)%
Change in net assets	(6,559)	(4,442)	(2,117)	47.66%
Net assets, beginning of year	(26,533)	(22,091)	(4,442)	20.11%
Net assets, end of year	\$ (33,092)	(26,533)	(6,559)	24.72%

	Year Ended June 30,		Change	
	2009	2008	In dollars	Percentage
Operating revenue - rental income	\$ 3,672	4,178	(506)	(12.11)%
Nonoperating revenue:				
Investment income	136	176	(40)	(22.73)%
Gain on sale of properties	—	1,901	(1,901)	(100.00)%
Total nonoperating revenue	136	2,077	(1,941)	(93.45)%
Total revenue	3,808	6,255	(2,447)	(39.12)%
Operating expenses:				
Administrative, general, and other expenses	1,800	2,241	(441)	(19.68)%
Depreciation and amortization	709	1,302	(593)	(45.55)%
Maintenance and repairs, net	418	496	(78)	(15.73)%
Total operating expenses, net	2,927	4,039	(1,112)	(27.53)%
Operating income (loss)	881	2,216	3,097	139.76%
Nonoperating expenses - interest expense	(5,323)	(5,327)	4	(0.08)%
Change in net assets	(4,442)	(3,111)	(1,331)	42.78%
Net assets, beginning of year	(22,091)	(18,980)	(3,111)	16.39%
Net assets, end of year	\$ (26,533)	(22,091)	(4,442)	20.11%

Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Management's Discussion and Analysis
Years Ended June 30, 2010 and 2009

Year Ended June 30, 2010 vs. June 30, 2009

In overall, PRIICO's total revenue decreased by approximately \$2 million, or 54.63% mostly as a result of a review of the office space footage which resulted in a decrease of PRIDCO's rent expense share. Other tenants include the Department of Economic Development, Rums of Puerto Rico and the Occupational Development Council among others.

Operating expenses increased by \$403 thousand or 13.77% mostly as a result of the increase on general and administrative expenses related to an increase in utilities expenses of approximately \$179 (\$727 thousand in 2010 versus \$548 thousand in 2009). Also, repair and maintenance increased as per an increase in maintenance of building areas of approximately \$234 thousand or 55.98%.

Non-operating expenses decreased by approximately \$326 thousand related to the decrease of the interest portions of notes and loans payable made during the year ended June 30, 2010.

Year Ended June 30, 2009 vs. June 30, 2008

In overall, rental income decreased by approximately \$506 thousand mostly due to the reduction of the office space occupied by PRIDCO within the PRIICO building which resulted in a decrease of rent expense share. Nonoperating revenue decreased by \$1.9 million as per the gain on the sale of property in the same amount in 2008.

Operating expenses decreased by approximately \$441 thousand in administrative expenses as per cost reduction efforts made by management as well as per a decrease in depreciation expense of approximately \$593 thousand (\$1.3 million in 2009 versus \$709 thousand in 2008).

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Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Management's Discussion and Analysis
Years Ended June 30, 2010 and 2009

Financial Analysis of PRIIF on a Separate Basis (In thousands)

	June 30		Change	
	2010	2009	In dollars	Percentage
Current assets	\$ 261	1,934	(1,673)	(86.50)%
Other noncurrent assets	—	527	(527)	(100.00)%
Total assets	261	2,461	(2,200)	(89.39)%
Total liabilities	8	8	—	0.00%
Unrestricted net assets	253	2,453	(2,200)	(89.69)%
Total liabilities and net assets	\$ 261	2,461	(2,200)	(89.39)%

	June 30		Change	
	2009	2008	In dollars	Percentage
Current assets	\$ 1,934	3,481	(1,547)	(44.44)%
Other noncurrent assets	527	1,649	(1,122)	(68.04)%
Total assets	2,461	5,130	(2,669)	(52.03)%
Total liabilities	8	8	—	0.00%
Unrestricted net assets	2,453	5,122	(2,669)	(52.11)%
Total liabilities and net assets	\$ 2,461	5,130	(2,669)	(52.03)%

Analysis of Net Assets of PRIIF at June 30, 2010 and 2009

PRIIF (Puerto Rico Industrial Incentives Fund) is a fund through which PRIDCO used to grant industrial incentives. PRIIF was created in March 1997 to provide financial assistance to business enterprises, facilitate the promotion of new employment and maintenance of existing employment within the industrial and service sectors of Puerto Rico's economy. There has been limited economic activity within this fund during the past two years.

Total assets decreased by approximately \$2.2 million due to the collection of an outstanding note receivable of approximately \$2.1 million. This amount was transferred subsequently to PRIDCO in relation to a property repair program as per approval of the Board of Directors as of June 30, 2010.

Analysis of Net Assets of PRIIF at June 30, 2009 and 2008

Total assets decreased by \$2.7 million mostly due to transfer of \$2.7 million to PRIDCO occurred during 2009 as per the approval of PRIDCO's Board of Directors. Total assets include notes receivable amounting to approximately \$1.4 million of which approximately \$1.3 million has been reserved as of June 30, 2009.

Puerto Rico Industrial Development Company
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Management's Discussion and Analysis
Years Ended June 30, 2010 and 2009

Changes in net assets information for PRIIF are presented below (in thousands):

	Year Ended June 30,		Change	
	2010	2009	In dollars	Percentage
Industrial incentives and grants	\$ —	130	(130)	(100.00)%
Nonoperating revenue -				
Interest income (expense)	(50)	156	(206)	(132.05)%
Income (loss) before capital contributions	(50)	26	(76)	(292.31)%
Capital contributions to PRIDCO	(2,150)	(2,695)	545	(20.22)%
Change in net assets	(2,200)	(2,669)	469	(17.57)%
Net assets, beginning of year	2,453	5,122	(2,669)	(52.11)%
Net assets, end of year	\$ 253	2,453	(2,200)	(89.69)%
	Year Ended June 30,		Change	
	2009	2008	In dollars	Percentage
Industrial incentives and grants	\$ 130	325	(195)	(60.00)%
Nonoperating revenue -				
Investment income	—	1,349	(1,349)	(100.00)%
Interest income (expense)	156	179	(23)	(12.85)%
Income (loss) before transfer and capital contributions	26	1,203	(1,177)	(97.84)%
Transfer	—	(22,431)	22,431	100.00%
Capital contributions to PRIDCO	(2,695)	—	(2,695)	(100.00)%
Change in net assets	(2,669)	(21,228)	18,559	(87.43)%
Net assets, beginning of year	5,122	27,553	(22,431)	(81.41)%
Net assets, end of year	\$ 2,453	5,122	(3,872)	(75.60)%

Year Ended June 30, 2010 vs. June 30, 2009

As can be noted above, the economic activity of PRIIF has been limited in terms of the industrial incentives granted in the past. Basically, PRIIF only granted \$130 thousand as industrial incentives during the year ended June 30, 2009, as the granting of incentives shifted from PRIIF to the Special Incentives Fund and the Special Fund for Economic Development, both funds of the Commonwealth and administered by PRIDCO. As such, PRIIF's contributions to PRIDCO remained comparable from 2009 to 2010 and therefore being the cause for the overall decrease in net assets.

Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Management's Discussion and Analysis
Years Ended June 30, 2010 and 2009

Year Ended June 30, 2009 vs. June 30, 2008

In overall, the only source of revenue for PRIIF was constituted by investment and interest income which decreased by approximately \$1.2 million (\$1.2 million in 2008 versus \$26 thousand in 2009) due to the transfer of approximately \$22.4 million to the Special Incentives Fund occurred in 2008 approved by PRIDCO's Board of Directors for pending incentives awards under such fund.

Capital Assets

PRIDCO's investment in capital assets as of June 30, 2010 and 2009 amounted to approximately \$705 million and \$717 million, respectively, net of accumulated depreciation. Capital assets include land, land held for improvement, construction in progress, industrial development buildings and improvements, administration buildings and improvements, machinery, equipment, furniture, and vehicles.

During the years ended June 30, 2010 and 2009, PRIDCO invested approximately \$1.9 million, and \$5.6 million, respectively, mainly related to construction of buildings that will be leased to private organizations, as part of the industrial development activities. This construction activity was mainly financed through lines of credit and special financing from commercial banks which are later refinanced on a long-term basis. Rent from the buildings is pledged for the payment of long term debt (See Debt Administration below).

See note 8 to the basic financial statements for additional details on capital assets at year end and activity during the fiscal year.

Debt Administration

At June 30, 2010 and 2009, PRIDCO had \$249 and \$266 million respectively, in outstanding bonds, including the current portion of \$11.9 million and \$11 million at June 30, 2010 and 2009, respectively.

The credit rating of PRIDCO's public debt is "BBB-", as determined by Standards & Poor's in October 2007 and "BAA1", as determined by Moody's Investor Services on April 16, 2010. Detailed information regarding long-term debt activity is included in note 11 to the basic financial statements.

Contacting PRIDCO's Financial Management

This financial report is designed to provide our customers and creditors with a general overview of the PRIDCO's finances and to demonstrate PRIDCO's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Puerto Rico Industrial Development Company, P.O. Box 362530, San Juan, Puerto Rico, 00936-2530.

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Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Balance Sheet (In thousands)
June 30, 2010

Assets	Puerto Rico Industrial Development Company	Puerto Rico Industrial Investment Corp.	Puerto Rico Industrial Incentives Fund, Inc.	Eliminations and Reclassifications	Total Reporting Entity
Current assets:					
Cash and cash equivalents	\$ 8,975	27	261	—	9,263
Sinking fund, restricted	10,028	—	—	—	10,028
Rent and accounts receivable, net	30,081	—	—	—	30,081
Interest receivable	24	—	—	—	24
Notes receivables, current maturities	224	—	—	—	224
Prepaid expenses	1,704	156	—	—	1,860
Due from the Commonwealth	43,403	—	—	—	43,403
Due from other funds	42,939	77,002	—	(119,941)	—
Total current assets	<u>137,378</u>	<u>77,185</u>	<u>261</u>	<u>(119,941)</u>	<u>94,883</u>
Noncurrent assets:					
Notes receivable – noncurrent portion	228	—	—	—	228
Sinking fund reserve account, at accreted cost, restricted	38,350	—	—	—	38,350
Investment in equity securities	11,986	—	—	—	11,986
Deferred bond issue costs	2,355	—	—	—	2,355
Lease financing receivables	—	568	—	—	568
Capital assets, net	688,987	15,968	—	—	704,955
Property held for sale	18,534	—	—	—	18,534
Total noncurrent assets	<u>760,440</u>	<u>16,536</u>	<u>—</u>	<u>—</u>	<u>776,976</u>
Total assets	<u>\$ 897,818</u>	<u>93,721</u>	<u>261</u>	<u>(119,941)</u>	<u>871,859</u>
Liabilities and Net Assets					
Current liabilities:					
Current portion of:					
Loans and notes payable to commercial banks	\$ —	5,137	—	—	5,137
Due to PR Land Administration	1,306	—	—	—	1,306
Bonds payable	11,875	—	—	—	11,875
Obligations under capital leases	175	—	—	—	175
Notes payable to Government Development Bank	90,070	—	—	—	90,070
Contract retentions	2,163	10	—	—	2,173
Accrued interest	4,161	—	—	—	4,161
Accounts payable and other accrued liabilities	33,427	199	8	—	33,634
Due to the Commonwealth	19,244	—	—	—	19,244
Deferred credits	2,035	—	—	—	2,035
Due to other funds	77,002	42,939	—	(119,941)	—
Total current liabilities	<u>241,458</u>	<u>48,285</u>	<u>8</u>	<u>(119,941)</u>	<u>169,810</u>
Noncurrent liabilities:					
Bonds payable	237,090	—	—	—	237,090
Obligations under capital leases	172	—	—	—	172
Loans and notes payable to commercial banks	—	78,528	—	—	78,528
Rent and other deposits	10,977	—	—	—	10,977
Total noncurrent liabilities	<u>248,239</u>	<u>78,528</u>	<u>—</u>	<u>—</u>	<u>326,767</u>
Total liabilities	<u>489,697</u>	<u>126,813</u>	<u>8</u>	<u>(119,941)</u>	<u>496,577</u>
Net assets:					
Invested in capital assets, net of related debt	438,369	15,968	—	(49,060)	405,277
Restricted	32,342	—	—	—	32,342
Unrestricted (deficit)	(62,590)	(49,060)	253	49,060	(62,337)
Total net assets (deficit)	<u>408,121</u>	<u>(33,092)</u>	<u>253</u>	<u>—</u>	<u>375,282</u>
Total liabilities and net assets	<u>\$ 897,818</u>	<u>93,721</u>	<u>261</u>	<u>(119,941)</u>	<u>871,859</u>

See accompanying notes to basic financial statements.

Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Balance Sheet (In thousands)
June 30, 2009

Assets	Puerto Rico Industrial Development Company	Puerto Rico Industrial Investment Corp.	Puerto Rico Industrial Incentives Fund, Inc.	Eliminations and Reclassifications	Total Reporting Entity
Current assets:					
Cash and cash equivalents	\$ 16,596	71	152	—	16,819
Sinking fund, restricted	15,774	—	—	—	15,774
Rent and accounts receivable, net	38,877	—	—	—	38,877
Interest receivable	54	—	195	—	249
Notes receivables, current maturities	112	—	1,587	—	1,699
Prepaid expenses	1,555	100	—	—	1,655
Due from the Commonwealth	44,979	—	—	—	44,979
Due from other funds	30,456	70,297	—	(100,753)	—
Total current assets	<u>148,403</u>	<u>70,468</u>	<u>1,934</u>	<u>(100,753)</u>	<u>120,052</u>
Noncurrent assets:					
Notes receivable – noncurrent portion	562	—	527	—	1,089
Sinking fund reserve account, at accreted cost, restricted	36,781	—	—	—	36,781
Investment in equity securities	15,986	—	—	—	15,986
Deferred bond issue costs	2,626	—	—	—	2,626
Lease financing receivables	—	537	—	—	537
Capital assets, net	700,037	17,237	—	—	717,274
Property held for sale	14,614	—	—	—	14,614
Total noncurrent assets	<u>770,606</u>	<u>17,774</u>	<u>527</u>	<u>—</u>	<u>788,907</u>
Total assets	<u>\$ 919,009</u>	<u>88,242</u>	<u>2,461</u>	<u>(100,753)</u>	<u>908,959</u>
Liabilities and Net Assets					
Current liabilities:					
Current portion of:					
Loans and notes payable to commercial banks	\$ —	4,675	—	—	4,675
Due to PR Land Administration	1,306	—	—	—	1,306
Bonds payable	11,087	—	—	—	11,087
Obligations under capital leases	190	—	—	—	190
Notes payable to Government Development Bank	90,928	—	—	—	90,928
Contract retentions	2,638	—	—	—	2,638
Accrued interest	4,348	186	—	—	4,534
Accounts payable and other accrued liabilities	41,091	130	8	—	41,229
Due to the Commonwealth	19,244	—	—	—	19,244
Deferred credits	2,083	—	—	—	2,083
Due to other funds	70,297	30,456	—	(100,753)	—
Total current liabilities	<u>243,212</u>	<u>35,447</u>	<u>8</u>	<u>(100,753)</u>	<u>177,914</u>
Noncurrent liabilities:					
Bonds payable	254,551	—	—	—	254,551
Obligations under capital leases	122	—	—	—	122
Loans and notes payable to commercial banks	—	79,328	—	—	79,328
Rent and other deposits	11,437	—	—	—	11,437
Total noncurrent liabilities	<u>266,110</u>	<u>79,328</u>	<u>—</u>	<u>—</u>	<u>345,438</u>
Total liabilities	<u>509,322</u>	<u>114,775</u>	<u>8</u>	<u>(100,753)</u>	<u>523,352</u>
Net assets:					
Invested in capital assets, net of related debt	432,781	17,237	—	(43,770)	406,248
Restricted	37,120	—	—	—	37,120
Unrestricted (deficit)	(60,214)	(43,770)	2,453	43,770	(57,761)
Total net assets (deficit)	<u>409,687</u>	<u>(26,533)</u>	<u>2,453</u>	<u>—</u>	<u>385,607</u>
Total liabilities and net assets	<u>\$ 919,009</u>	<u>88,242</u>	<u>2,461</u>	<u>(100,753)</u>	<u>908,959</u>

See accompanying notes to basic financial statements.

Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Revenue, Expenses, and Changes in Net Assets (In thousands)
Year Ended June 30, 2010

	Puerto Rico Industrial Development Company	Puerto Rico Industrial Investment Corp.	Puerto Rico Industrial Incentives Fund, Inc.	Eliminations	Total Reporting Entity
Operating revenue:					
Rental income, substantially from industrial properties, net	\$ 60,935	1,666	—	(416)	62,185
Operating expenses:					
Salaries and wages	16,749	—	—	—	16,749
Administrative and general	15,408	1,970	—	(416)	16,962
Depreciation and amortization	21,365	707	—	—	22,072
Impairment loss	1,663	—	—	—	1,663
Maintenance and repairs, net	5,577	653	—	—	6,230
Total operating expenses	60,762	3,330	—	(416)	63,676
Operating income (loss)	173	(1,664)	—	—	(1,491)
Nonoperating revenue (expenses):					
Net gain on sale of properties and insurance recoveries	3,938	—	—	—	3,938
Net investment income	1,695	—	—	—	1,695
Interest income (expense) on loans	246	102	(50)	—	298
Interest expense	(16,483)	(4,997)	—	—	(21,480)
Amortization of debt issue costs	(284)	—	—	—	(284)
Total nonoperating revenue (expenses)	(10,888)	(4,895)	(50)	—	(15,833)
Loss before contributions and transfers	(10,715)	(6,559)	(50)	—	(17,324)
Capital contributions – Special Incentives Fund	4,735	—	—	—	4,735
Capital contributions – U.S. Government	2,264	—	—	—	2,264
Transfers	2,150	—	(2,150)	—	—
Changes in net assets	(1,566)	(6,559)	(2,200)	—	(10,325)
Net assets (deficit), beginning of year	409,687	(26,533)	2,453	—	385,607
Net assets (deficit), end of year	\$ 408,121	(33,092)	253	—	375,282

See accompanying notes to basic financial statements.

Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Revenue, Expenses, and Changes in Net Assets (In thousands)
Year Ended June 30, 2009

	Puerto Rico Industrial Development Company	Puerto Rico Industrial Investment Corp.	Puerto Rico Industrial Incentives Fund, Inc.	Eliminations	Total Reporting Entity
Operating revenue:					
Rental income, substantially from industrial properties, net	\$ 72,032	3,672	—	(3,672)	72,032
Operating expenses:					
Salaries and wages	17,855	—	—	—	17,855
Administrative and general	15,779	1,800	—	(3,672)	13,907
Depreciation and amortization	21,398	709	—	—	22,107
Maintenance and repairs, net	8,105	418	—	—	8,523
Provision for legal matters	16,274	—	—	—	16,274
Industrial incentives and grants	—	—	130	—	130
Total operating expenses	79,411	2,927	130	(3,672)	78,796
Less capitalized expenses	907	—	—	—	907
Total operating expenses, net	78,504	2,927	130	(3,672)	77,889
Operating income (loss)	(6,472)	745	(130)	—	(5,857)
Nonoperating revenue (expenses):					
Net gain on sale of properties and insurance recoveries	9,163	—	—	—	9,163
Net investment income	2,170	—	—	—	2,170
Interest income on loans	273	136	156	—	565
Interest expense, net of capitalized interest	(17,873)	(5,323)	—	—	(23,196)
Amortization of debt issue costs	(282)	—	—	—	(282)
Total nonoperating revenue (expenses)	(6,549)	(5,187)	156	—	(11,580)
Income (loss) before contributions, transfers and special item	(13,021)	(4,442)	26	—	(17,437)
Capital contributions – Special Incentives Fund	7,850	—	—	—	7,850
Capital contributions – FEDE	4,500	—	—	—	4,500
Transfers	2,695	—	(2,695)	—	—
Special item - early retirement and voluntary separation plan	(885)	—	—	—	(885)
Changes in net assets	1,139	(4,442)	(2,669)	—	(5,972)
Net assets (deficit), beginning of year	408,548	(22,091)	5,122	—	391,579
Net assets (deficit), end of year	\$ 409,687	(26,533)	2,453	—	385,607

See accompanying notes to basic financial statements.

Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Cash Flows (In thousands)
Year Ended June 30, 2010

	Puerto Rico Industrial Development Company	Puerto Rico Industrial Investment Corp.	Puerto Rico Industrial Incentives Fund, Inc.	Total Reporting Entity
Cash flows from operating activities:				
Cash collected from rental income	\$ 69,732	—	—	69,732
Cash paid for salaries and benefits	(18,513)	—	—	(18,513)
Cash paid for supplies and services	(27,494)	(1,078)	—	(28,572)
Net cash provided by (used in) operating activities	<u>23,725</u>	<u>(1,078)</u>	<u>—</u>	<u>22,647</u>
Cash flows from capital and related financing activities:				
Proceeds from sale of property and insurance recoveries	4,450	—	—	4,450
Contributions from the U.S. Government	2,264	—	—	2,264
Payments of property and equipment and land held for improvement	(2,049)	(7)	—	(2,056)
Payments of notes and loans payable	—	(4,779)	—	(4,779)
Payments of capital leases	(175)	—	—	(175)
Payments of bonds payable	(17,050)	—	—	(17,050)
Interest paid	(16,683)	(4,997)	—	(21,680)
Net cash used in capital and related financing activities	<u>(29,243)</u>	<u>(9,783)</u>	<u>—</u>	<u>(39,026)</u>
Cash flows from noncapital and related financing activities:				
Net payments from (to) blended component units	(8,028)	10,178	(2,150)	—
Net cash provided by (used in) noncapital and related financing activities	<u>(8,028)</u>	<u>10,178</u>	<u>(2,150)</u>	<u>—</u>
Cash flows from investing activities:				
Net change in sinking fund – redemption and bond service accounts	4,176	—	—	4,176
Interest collected on investments and loans and other nonoperating revenue	1,971	102	147	2,220
Collections from notes receivable	(222)	—	2,112	1,890
Collections from lease financing agreement	—	537	—	537
Net cash provided by investing activities	<u>5,925</u>	<u>639</u>	<u>2,259</u>	<u>8,823</u>
Net change in cash and cash equivalents	(7,621)	(44)	109	(7,556)
Cash and cash equivalents, beginning of year	<u>16,596</u>	<u>71</u>	<u>152</u>	<u>16,819</u>
Cash and cash equivalents, end of year	<u>\$ 8,975</u>	<u>27</u>	<u>261</u>	<u>9,263</u>

See accompanying notes to basic financial statements.

(Continued)

Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Cash Flows (In thousands)
Year Ended June 30, 2010

	Puerto Rico Industrial Development Company	Puerto Rico Industrial Investment Corp.	Puerto Rico Industrial Incentives Fund, Inc.	Total Reporting Entity
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 173	(1,664)	—	(1,491)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	21,365	707	—	22,072
Impairment loss	1,663	—	—	1,663
(Increase) in receivables and deposits	8,337	—	—	8,337
Increase (decrease) in other assets	(149)	(56)	—	(205)
(Decrease) in accounts payable and accrued liabilities	(7,664)	(107)	—	(7,771)
Net cash provided by (used in) operating activities	<u>\$ 23,725</u>	<u>(1,120)</u>	<u>—</u>	<u>22,605</u>
Supplementary information of noncash transactions:				
Accretion of bonds payable	\$ 377	—	—	377
Amortization of deferred and bond discount	9	—	—	9
Reclassification of investment in equity securities as capital asset	4,000	—	—	—
Capital contributions - Special Incentives Fund	4,735	—	—	4,735
Capital asset addition through use of loan	4,400	(4,400)	—	—
Capital additions through the use of capital leases	209	—	—	209
Reclassification of property held for sale as capital assets	14,614	—	—	14,614
Increase in loan payable	—	41	—	41
Increase in line of credit with GDB and amount due from Commonwealth	718	—	—	718

See accompanying notes to basic financial statements.

(Concluded)

Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Cash Flows (In thousands)
Year Ended June 30, 2009

	Puerto Rico Industrial Development Company	Puerto Rico Industrial Investment Corp.	Puerto Rico Industrial Incentives Fund, Inc.	Total Reporting Entity
Cash flows from operating activities:				
Cash collected from rental income	\$ 68,115	—	—	68,115
Cash paid for salaries and benefits	(18,080)	—	—	(18,080)
Cash paid for supplies and services	(37,837)	1,294	—	(36,543)
Cash paid for incentive grants	—	—	(130)	(130)
Net cash provided by (used in) operating activities	<u>12,198</u>	<u>1,294</u>	<u>(130)</u>	<u>13,362</u>
Cash flows from capital and related financing activities:				
Proceeds from sale of property and insurance recoveries	5,862	—	—	5,862
Contributions from the Special Fund for Economic Development	4,500	—	—	4,500
Payments of property and equipment and land held for improvement	(7,024)	—	—	(7,024)
Payments of notes and loans payable, net	—	(4,527)	—	(4,527)
Payments of capital leases	(190)	—	—	(190)
Payment to PR Land Administration	(1,305)	—	—	(1,305)
Payments of bonds payable	(11,320)	—	—	(11,320)
Interest paid	(17,629)	(5,322)	—	(22,951)
Net cash used in capital and related financing activities	<u>(27,106)</u>	<u>(9,849)</u>	<u>—</u>	<u>(36,955)</u>
Cash flows from noncapital and related financing activities:				
Proceeds from notes payable to Government Development Bank	277	—	—	277
Payments of notes payable to Government Development Bank	(914)	—	—	(914)
Payments for early retirement and voluntary separation plan	(885)	—	—	(885)
Net payments from (to) blended component units	(5,195)	7,890	(2,695)	—
Net cash provided by (used in) noncapital and related financing activities	<u>(6,717)</u>	<u>7,890</u>	<u>(2,695)</u>	<u>(1,522)</u>
Cash flows from investing activities:				
Net change in sinking fund – redemption and bond service accounts	(1,548)	—	—	(1,548)
Interest collected on investments and loans and other nonoperating revenue	2,431	130	141	2,702
Collections from notes receivable	93	—	14	107
Collections from lease financing agreement	—	508	—	508
Net cash provided by investing activities	<u>976</u>	<u>638</u>	<u>155</u>	<u>1,769</u>
Net change in cash and cash equivalents	<u>(20,649)</u>	<u>(27)</u>	<u>(2,670)</u>	<u>(23,346)</u>
Cash and cash equivalents, beginning of year	37,245	98	2,822	40,165
Cash and cash equivalents, end of year	<u>\$ 16,596</u>	<u>71</u>	<u>152</u>	<u>16,819</u>

See accompanying notes to basic financial statements.

(Continued)

Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Statement of Cash Flows (In thousands)
Year Ended June 30, 2009

	Puerto Rico Industrial Development Company	Puerto Rico Industrial Investment Corp.	Puerto Rico Industrial Incentives Fund, Inc.	Total Reporting Entity
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ (6,472)	745	(130)	(5,857)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	21,398	709	—	22,107
Provision for legal matters	16,274	—	—	16,274
Capitalized expenses	907	—	—	907
(Increase) in receivables and deposits	(4,835)	—	—	(4,835)
Increase (decrease) in other assets	(7,381)	2	—	(7,379)
(Decrease) in accounts payable and accrued liabilities	(7,693)	(162)	—	(7,855)
Net cash provided by (used in) operating activities	<u>\$ 12,198</u>	<u>1,294</u>	<u>(130)</u>	<u>13,362</u>
Supplementary information of noncash transactions:				
Accretion of bonds payable	\$ 1,090	—	—	1,090
Amortization of deferred and bond discount	9	—	—	9
Capital contributions - Special Incentives Fund	7,850	—	—	7,850
Common stock owed to the Special Fund for Economic Development	11,614	—	—	11,614
Note receivable from third party	673	—	—	673

See accompanying notes to basic financial statements.

(Concluded)

Puerto Rico Industrial Development Company

(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Basic Financial Statements

Years Ended June 30, 2010 and 2009

1. REPORTING ENTITY

Puerto Rico Industrial Development Company (PRIDCO) is a component unit of the Commonwealth of Puerto Rico (the Commonwealth), created in 1942 by Law No. 188, as amended. PRIDCO is engaged in promoting the development of new local enterprises and encouraging U.S. and foreign investors to establish and expand business operations in Puerto Rico. To accomplish its mission, PRIDCO, among its many programs, constructs industrial facilities for lease or sale to qualified enterprises.

These financial statements present PRIDCO and its blended component units. Component units are entities for which PRIDCO is considered to be financially accountable. The following component units are reported as blended component units of PRIDCO.

- Puerto Rico Industrial Investment Corporation (PRIICO) owns the building where PRIDCO offices are located in San Juan. These premises are leased to PRIDCO and other related and unrelated entities. It also enters in financial leasing to facilitate promotion of special type industries.
- Puerto Rico Industrial Incentives Fund, Inc. (PRIIF) was created in March 1997 to provide financial assistance to business enterprises, facilitate the promotion of new employment, and the retention of existing employment in the industrial and service sectors of the Puerto Rico economy.

The balances and transactions of the component units discussed above have been blended with those of the PRIDCO because, while legally separate, they were created and can be dissolved through resolutions of the PRIDCO's Board of Directors.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of PRIDCO are reported using the economic resources measurement focus and the accrual basis of accounting. PRIDCO has elected not to apply Financial Accounting Standards Board Statements and interpretations issued subsequent to November 30, 1989.

a. Cash Equivalents

PRIDCO considers all highly liquid investments with original maturity of three months or less to be cash equivalents.

b. Investments

PRIDCO is authorized to invest in Puerto Rico and U.S. government obligations or in obligations guaranteed by the Puerto Rico or U.S. governments, its agencies or instrumentalities, including mortgage loans secured or guaranteed under federal housing laws. As of June 30, 2010, PRIDCO's investments consisted mostly of certificates of deposit issued by financial institutions in Puerto Rico and the United States.

Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Basic Financial Statements
Years Ended June 30, 2010 and 2009

c. Rent Receivable, Notes and Lease Financing Receivable and Allowance for Uncollectible Amounts

PRIDCO's rent receivable arises from the leasing of industrial facilities to its customers. Rent is calculated based on agreed rates on executed contracts.

The allowance for uncollectible amounts is established through provisions recorded as an offset of rental income. This allowance is based on the evaluation of the risk characteristics of the notes portfolio, including such factors as the nature of the individual credit outstanding, past loss experience, and general economic conditions. Charge-offs is recorded against the allowance when management believes that the collectibility of the principal is unlikely. Recoveries of amounts previously charged-off are credited to the allowance. Notwithstanding this, the allowance is subject to and may be adjusted in the future because of changes in the economic or market conditions.

Notes and lease financing receivables are presented at the outstanding unpaid principal balance reduced by the allowance for losses. These are measured for impairment when it is probable that all amounts, including principal and interest, will not be collected in accordance with the contractual terms of the loan agreement.

d. Interfund Balances

Interfund receivables and payables balances and transactions have been eliminated from the basic financial statements.

e. Restricted Assets

Restricted assets at June 30, 2010 and 2009 consist of cash and cash equivalents, sinking fund, and other assets to be used for the payment of debt service and sinking fund requirements, and the granting of industrial incentives, and are composed of the following (in thousands):

	<u>2010</u>	<u>2009</u>
Debt service and sinking funds	\$ <u>48,378</u>	<u>52,555</u>
Liabilities payable from restricted assets consist of the following:		
Bonds payable within one year	\$ 11,875	11,087
Interest payable	<u>4,161</u>	<u>4,348</u>
	<u>16,036</u>	<u>15,435</u>
Net restricted assets	\$ <u>32,342</u>	<u>37,120</u>

Puerto Rico Industrial Development Company

(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Basic Financial Statements

Years Ended June 30, 2010 and 2009

f. Capital Assets

Capital assets are stated at cost, net of accumulated depreciation. Cost of construction includes, among other things, interest costs, indirect costs consisting of payroll taxes, and other fringe benefits. Depreciation is computed on the straight-line method at rates considered adequate to allocate the cost of the various kind of property over their estimated useful lives. Additions, renewals, and betterments, unless of relatively minor amounts, are capitalized. Expenditures for maintenance and repairs are charged to operations as incurred.

Estimated useful lives and capitalization thresholds are as follows:

	<u>Years</u>	<u>Capitalization Threshold (In thousand)</u>
Buildings and improvements	50	\$ 1
Machinery and equipment	15	1
Furniture and vehicles	5-15	1

During the years ended June 30, 2010 and 2009, PRIDCO performed an assessment of impairment on capital assets. An asset is considered impaired when its service utility has declined significantly and unexpectedly, and the event or change in circumstances is outside the normal life cycle of the asset. Management is then required to determine whether impairment of an asset has occurred. Impaired capital assets that will no longer be used by PRIDCO should be reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by PRIDCO should be measured using the method that best reflects the diminished service utility of the capital asset. Impairment of capital assets with physical damage generally should be measured using a restoration cost approach, an approach that uses the estimated cost to restore the capital asset to identify the portion of the historical cost of the capital asset that should be written off. Management determined and recorded an impairment of approximately \$1.7 million as of June 30, 2010. No impairment was deemed necessary for the year ended June 30, 2009. Insurance recoveries have been presented as nonoperating revenue.

In addition, PRIDCO follows the provisions of GASB Statement No. 49, “*Accounting and Financial Reporting for Pollution Remediation Obligations*,” which addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the statement excludes pollution prevention or control obligations with respect to current obligations, and future pollution activities that are required upon retirement of an asset, such as postclosure care.

PRIDCO has been a party to several claims and lawsuits related to environmental pollution remediation obligations in which the Federal Environmental Protection Agency (EPA) and the Puerto Rico Environmental Quality Board (EQB) have been involved for many years. Such liabilities are pursuant to the Comprehensive Environmental Response, Compensation and

Puerto Rico Industrial Development Company

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Notes to Basic Financial Statements

Years Ended June 30, 2010 and 2009

Liability Act of 1980 (CERCLA, or commonly known as Superfund), a United States federal law designed to cleanup sites contaminated with hazardous substances. This law authorizes EPA to identify parties responsible for contamination of sites and compel the parties to remediate environmental pollution.

Financial responsibility cleanup costs have been and/or are being undertaken by the industrial potentially responsible parties (PRP's) at two CERCLA sites (Vega Alta and Guayama) where the federal government named PRIDCO a PRP solely for being part owner of both sites. There are other sites where PRIDCO has called former tenants in order to make them accountable for cleanup costs and some others are currently under remedial monitoring actions either by EPA or PRIDCO itself.

Experience has shown that uncertainties associated with environmental remediation contingencies are pervasive and often result in wide ranges of outcomes. Estimates developed in the early stages of remediation can vary significantly. A finite estimate of costs does not normally become fixed and determinable at a specific time. Rather, the costs associated with environmental remediation become estimable over a continuum of events and activities that help to frame and define a liability. Estimates of the amount and timing of future costs of environmental remediation requirements are by their nature imprecise because of the continuing evolution of environmental laws and regulatory requirements, the availability and application of technology, the identification of presently unknown remediation sites and the allocation of costs among the potentially responsible parties. Based upon information presently available, such future costs are not expected to have a material effect on PRIDCO's competitive or financial position. However, such costs could be material to results of operations in a particular future year.

At June 30, 2010 and 2009, PRIDCO's reserve for environmental liabilities amounted to \$4 million and \$4.7 million, respectively, and was reported as part of accounts payable and other accrued liabilities. In addition to the cases outlined above, PRIDCO has taken vigorous actions to identify any other potential claims or liability arising from environmental deficiencies and has provided in the accompanying balance sheets as of June 30, 2010 and 2009 for any of these deficiencies where a probable loss is foreseen.

g. Operating Revenue and Expenses

PRIDCO distinguishes operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with the principal ongoing operations. Revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

h. Revenue Recognition

➤ Rental Income

Income from rental activities related to industrial properties is reported as revenue on the accrual basis over the term of the leases. Most of the leases are in effect cancelable, subject to penalty in case of early termination.

Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Basic Financial Statements
Years Ended June 30, 2010 and 2009

➤ **Non-exchange Transactions**

Non-exchange transactions consist of intergovernmental grants, including contributions in aid for construction, mainly from various agencies of the Government of the United States and the Commonwealth.

Contributions received by PRIDCO for construction during the years ended June 30, 2010 and 2009, amounted to as follows:

	<u>2010</u>	<u>2009</u>
Capital contributions - Special Incentives Fund	\$ 4,735	7,850
Capital contributions - Special Fund for Economic Development	—	4,500
Capital contributions - U. S. Government	<u>2,264</u>	<u>—</u>
	<u>\$ 6,999</u>	<u>12,350</u>

i. Industrial Incentives Granted by PRIIF

Industrial incentives are granted to businesses qualifying for financial assistance or to motivate and encourage investment of foreign corporations in Puerto Rico. There were no incentives disbursements during the year ended June 30, 2010. Total amount disbursed for the year ended June 30, 2009 amounted to approximately \$130 thousand.

j. Debt Issue Costs

Debt issue costs are amortized to expense over the term of the debt to which they relate using a method substantially equivalent to the interest method.

k. Compensated Absences

The employees of PRIDCO are granted 30 days of vacation and 18 days of sick leave annually. Vacation and sick leave may be accumulated at a maximum of 60 days and 90 days, respectively. Upon retirement, resignation or involuntary termination, the employee will be paid up to 90, 80 or 50 days, respectively, of accumulated sick leave.

l. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

m. Subsequent Events

The Company has evaluated the impact of subsequent events through November 16, 2010, which is the date of these financial statements were issued.

Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
 Notes to Basic Financial Statements
 Years Ended June 30, 2010 and 2009

n. Reclassifications

Certain reclassifications have been made to the 2009 basic financial statements to conform to the June 30, 2010 presentation.

3. INVESTMENT IN AND ADVANCES TO PUERTO RICO SOUTHERN INDUSTRIAL DEVELOPMENT COMPANY

Puerto Rico Southern Industrial Development Company (SIDCO) is a related organization engaged in promoting the development of the economy of Puerto Rico. SIDCO's only project consists of a facility in Guayama, which was reconstructed, remodeled, and leased to a pharmaceutical company. The agreement calls for an annual rent equal to the amounts due and payable by SIDCO under various notes payable agreements and any other expenses incurred by SIDCO related to the facility's construction. During the term of the lease, the pharmaceutical company may exercise, at any time, an option to purchase the plant at a price equal to the outstanding amount of the notes and other plant-related obligations plus \$750 thousands. Pursuant to the terms of the agreement, the pharmaceutical company exercised the right to extend the initial term of the lease for two successive renewal periods, the first renewal for a time ending 20 years (December 2, 2017) after the date of commencement of operations of the pharmaceutical company's tax-exemption grant (December 2, 1997, as amended), whichever date is later and the second renewal for an additional period of 7 years commencing upon the expiration of the first renewal period.

At June 30, 2010 and 2009, summarized information regarding SIDCO's assets follows (in thousands):

	<u>2010</u>	<u>2009</u>
Current assets	\$ 491	464
Land and plant	<u>90,118</u>	<u>90,118</u>
Total assets	90,609	90,582
Contribution by pharmaceutical company	(89,372)	(89,260)
Other liabilities	<u>(799)</u>	<u>(888)</u>
Investment in SIDCO, net	<u>\$ 438</u>	<u>434</u>

SIDCO's only activity is the leasing of this facility. During 2001, SIDCO acquired a land facility by entering into a promissory note in the amount of \$1.6 million. Pursuant to the terms of the promissory note, the parties agreed upon as follows:

- SIDCO shall not be obligated to pay the unpaid balance of principal hereunder, and this obligation shall become null and void, in the event the pharmaceutical company terminates early the lease and option agreement entered within.
- In the event the pharmaceutical company or the successor lessor under the lease exercises the option to purchase the plant pursuant to the lease, then the unpaid principal balance due on the promissory note shall be automatically accelerated and become due and payable in accordance with the lease agreement.

Puerto Rico Industrial Development Company
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Notes to Basic Financial Statements
Years Ended June 30, 2010 and 2009

It is management's opinion that the pharmaceutical company will exercise its purchase option in the future. Accordingly, the assets of SIDCO have not been blended within PRIDCO's financial statements.

4. RENT AND ACCOUNTS RECEIVABLE

Rent and accounts receivable as of June 30, 2010 and 2009 consist of the following (in thousands):

	<u>2010</u>	<u>2009</u>
Rent receivable	\$ 53,813	50,680
Loans receivable	10,155	9,111
Others	<u>16,478</u>	<u>25,315</u>
Total	80,446	85,106
Allowance for uncollectible amounts	<u>(50,365)</u>	<u>(46,229)</u>
Total	<u>\$ 30,081</u>	<u>38,877</u>

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Puerto Rico Industrial Development Company

(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Basic Financial Statements

Years Ended June 30, 2010 and 2009

5. NOTES RECEIVABLE

Notes receivable represent the principal amount of various non-revolving promissory notes issued to PRIIF by qualifying exempt businesses for the purpose of partially financing the acquisition of machinery and working capital needs and a note receivable from a third party for investment commissions. Notes receivable as of June 30, 2010 and 2009 consist of the following (in thousands):

	<u>2010</u>	<u>2009</u>
<u>PRIDCO</u>		
Note receivable from third party in the original amount of \$766 thousand, payable in semiannual installments of \$112 thousand beginning on November 1, 2009 through 2012, bearing interest at 3.22%.	\$ 452	676
<u>PRIIF</u>		
Nonrevolving loan to qualified exempt business for the purpose of partially financing the acquisition of machinery and working capital needs, bearing interest at 6.55% during the term of the loan, payable in quarterly installments of \$137 thousand commencing on August 31, 2000 through May 31, 2011. Paid in fully at June 30, 2010.	—	2,112
Nonrevolving loan to qualified exempt business for the purpose of partially financing the acquisition of machinery and working capital needs, bearing interest at 8% during the term of the loan. This note is due in monthly installments of \$1 thousand commencing on December 1, 2003 over a 20-year period, and is collateralized by a lien on machinery and equipment and insurance policies covering the replacement value of equipment and machinery. Balance was fully reserved.	460	498
Nonrevolving loan to qualified exempt business for the purpose of partially financing the acquisition of machinery and working capital needs, bearing interest at 8% during the term of the loan. This note is due in monthly installments of \$2 thousand commencing on December 1, 2004 over a 20-year period, and is collateralized by a lien on machinery and equipment and insurance policies covering the replacement value of equipment and machinery. Balance was fully reserved.	454	454
Nonrevolving loan to qualified exempt business for the purpose of partially financing the acquisition of machinery and working capital needs, bearing interest at 9% during the term of the loan. This note is due in monthly installments of \$4 thousand commencing on December 1, 2003 over a 10-year period. Balance was fully reserved.	398	398
	<u>1,312</u>	<u>3,462</u>
Total	1,764	4,138
Less allowance for uncollectible amounts	(1,312)	(1,350)
Less current maturities	<u>(224)</u>	<u>(1,699)</u>
Notes receivable, noncurrent portion	<u>\$ 228</u>	<u>1,089</u>

Under these credit facilities, the outstanding principal balance may be prepaid without penalty.

Puerto Rico Industrial Development Company

(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Basic Financial Statements

Years Ended June 30, 2010 and 2009

During the year ended June 30, 2009, PRIDCO received a note receivable related to commission sales collected in excess by RD Capital, Inc., (third party doing business on behalf and representing PRIDCO) on the sale of U.S. Treasury STRIPS. RD Capital, Inc. agreed to pay PRIDCO \$766 thousand. The remainder, approximately \$462 thousand, including interest, shall be paid in semi-annual installments of \$112 thousand, each beginning on November 1, 2009 through 2012, and a similar amount semi-annually thereafter until the full amount of this note and accrued interest shall be fully paid. All payments shall be first applied to accrued interest and the balance to the principal. Interest shall accrue beginning on May, 1, 2009, on the outstanding balance and shall be at the rate of 3.22%.

6. INTERFUND BALANCES AND TRANSACTIONS

Following is a summary of the interfund balances as of June 30, 2010 and 2009 (in thousands):

<u>Receivable by</u>	<u>Payable by</u>	<u>Purpose</u>	<u>2010</u>	<u>2009</u>
PRIDCO	PRIICO	Administrative and operating expenses	\$ 42,939	30,456
PRIICO	PRIDCO	Rent receivable	35,090	34,425
PRIICO	PRIDCO	Other tenant rent receivable	41,912	35,872
		Total	<u>\$ 119,941</u>	<u>100,753</u>

7. INVESTMENTS IN EQUITY SECURITIES

Investments in equity securities are mostly composed of preferred stock shares amounting to \$11.9 million acquired through advances received from the Special Fund for Economic Development (FEDE) in relation to an Agreement for Research and Development Incentive Funds with the Hewlett Packard Technology Center, Inc. (HPTC) located in Aguadilla, which is related to Hewlett Packard, a worldwide renowned technology company.

The agreement was for \$46.4 million, divided in a cash grant of approximately \$21.4 million and an investment in preferred stock of \$25 million, to carry out research and development activities for a period of five years.

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Puerto Rico Industrial Development Company*(A Component Unit of the Commonwealth of Puerto Rico)**Notes to Basic Financial Statements**Years Ended June 30, 2010 and 2009***8. CAPITAL ASSETS**

Capital assets activity for the years ended June 30, 2010 and 2009 consist of the following (in thousands):

	June 30, 2010			
	Puerto Rico Industrial Development Company			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land held for improvement	\$ 169,040	3,730	(11,603)	161,167
Land on leased projects	67,805	1,896	(721)	68,980
Construction in progress	377	3,077	(1,977)	1,477
Total capital assets not being depreciated	<u>237,222</u>	<u>8,703</u>	<u>(14,301)</u>	<u>231,624</u>
Capital assets being depreciated:				
Buildings and improvements	727,269	22,922	(10,074)	740,117
Machinery and equipment	64,931	1,483	(112)	66,302
Furniture and vehicles	13,643	154	(134)	13,663
Total capital assets being depreciated	<u>805,843</u>	<u>24,559</u>	<u>(10,320)</u>	<u>820,082</u>
Less accumulated depreciation for:				
Buildings and improvements	(293,084)	(18,799)	3,091	(308,792)
Machinery and equipment	(42,989)	(3,036)	108	(45,917)
Furniture and vehicles	(6,955)	(1,193)	138	(8,010)
Total accumulated depreciation	<u>(343,028)</u>	<u>(23,028)</u>	<u>3,337</u>	<u>(362,719)</u>
Total capital assets being depreciated, net	<u>462,815</u>	<u>1,531</u>	<u>(6,983)</u>	<u>457,363</u>
Total capital assets, net	<u>\$ 700,037</u>	<u>10,234</u>	<u>(21,284)</u>	<u>688,987</u>

PRIDCO evaluated its capital assets for impairment and recorded a provision of approximately \$1.7 million which is included as an addition to accumulated depreciation.

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Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Basic Financial Statements
Years Ended June 30, 2010 and 2009

June 30, 2009				
Puerto Rico Industrial Development Company				
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land held for improvement	\$ 136,537	36,589	(4,086)	169,040
Land on leased projects	69,710	967	(2,872)	67,805
Construction in progress	29,650	7,650	(36,923)	377
Total capital assets not being depreciated	<u>235,897</u>	<u>45,206</u>	<u>(43,881)</u>	<u>237,222</u>
Capital assets being depreciated:				
Buildings and improvements	698,192	41,518	(12,441)	727,269
Machinery and equipment	60,583	4,843	(495)	64,931
Furniture and vehicles	12,159	1,681	(197)	13,643
Total capital assets being depreciated	<u>770,934</u>	<u>48,042</u>	<u>(13,133)</u>	<u>805,843</u>
Less accumulated depreciation for:				
Buildings and improvements	(259,459)	(36,137)	2,512	(293,084)
Machinery and equipment	(40,085)	(3,791)	887	(42,989)
Furniture and vehicles	(5,731)	(1,358)	134	(6,955)
Total accumulated depreciation	<u>(305,275)</u>	<u>(41,286)</u>	<u>3,533</u>	<u>(343,028)</u>
Total capital assets being depreciated, net	<u>465,659</u>	<u>6,756</u>	<u>(9,600)</u>	<u>462,815</u>
Total capital assets, net	<u>\$ 701,556</u>	<u>51,962</u>	<u>(53,481)</u>	<u>700,037</u>

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Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Basic Financial Statements
Years Ended June 30, 2010 and 2009

	June 30, 2010			
	Puerto Rico Industrial Investment Corp.			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land on leased projects	\$ 830	—	—	830
Total capital assets not being depreciated	<u>830</u>	<u>—</u>	<u>—</u>	<u>830</u>
Capital assets being depreciated:				
Buildings and improvements	22,661	—	—	22,661
Machinery and equipment	10,132	7	(568)	9,571
Total capital assets being depreciated	<u>32,793</u>	<u>7</u>	<u>(568)</u>	<u>32,232</u>
Less accumulated depreciation for:				
Buildings and improvements	(11,307)	(651)	—	(11,958)
Machinery and equipment	(5,079)	(57)	—	(5,136)
Total accumulated depreciation	<u>(16,386)</u>	<u>(708)</u>	<u>—</u>	<u>(17,094)</u>
Total capital assets being depreciated, net	<u>16,407</u>	<u>(701)</u>	<u>(568)</u>	<u>15,138</u>
Total capital assets, net	<u>\$ 17,237</u>	<u>(701)</u>	<u>(568)</u>	<u>15,968</u>

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Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Basic Financial Statements
Years Ended June 30, 2010 and 2009

	June 30, 2009			
	Puerto Rico Industrial Investment Corp.			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land on leased projects	\$ 830	—	—	830
Total capital assets not being depreciated	830	—	—	830
Capital assets being depreciated:				
Buildings and improvements	22,808	—	(147)	22,661
Machinery and equipment	10,522	147	(537)	10,132
Total capital assets being depreciated	33,330	147	(684)	32,793
Less accumulated depreciation for:				
Buildings and improvements	(10,656)	(651)	—	(11,307)
Machinery and equipment	(5,022)	(57)	—	(5,079)
Total accumulated depreciation	(15,678)	(708)	—	(16,386)
Total capital assets being depreciated, net	17,652	(561)	(684)	16,407
Total capital assets, net	\$ 18,482	(561)	(684)	17,237

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Puerto Rico Industrial Development Company

(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Basic Financial Statements

Years Ended June 30, 2010 and 2009

9. ACCOUNTS PAYABLE AND OTHER ACCRUED LIABILITIES

Accounts payable and other accrued liabilities as of June 30, 2010 and 2009 consist of the following (in thousands):

	June 30, 2010			
	PRIDCO	PRIICO	PRIIF	Total
Accounts payable	\$ 7,926	199	8	8,133
Accrued vacations and payroll related expenses	7,546	—	—	7,546
Environmental and legal liabilities	15,813	—	—	15,813
Other accrued liabilities	2,142	—	—	2,142
Total	\$ 33,427	199	8	33,634

	June 30, 2009			
	PRIDCO	PRIICO	PRIIF	Total
Accounts payable	\$ 7,111	—	8	7,119
Accrued vacations and payroll related expenses	9,548	—	—	9,548
Environmental and legal liabilities	20,846	—	—	20,846
Other accrued liabilities	3,586	130	—	3,716
Total	\$ 41,091	130	8	41,229

10. DUE TO THE COMMONWEALTH

Amounts due to the Commonwealth consist of the following (in thousands):

Payable to	Purpose	2010	2009
Special Fund for Economic Development	Advance for acquisition of investment securities	\$ 11,914	11,914
Rums of Puerto Rico Fund	Operating advances	7,075	7,075
Special Incentives Fund	Operating advances	255	255
	Total	\$ 19,244	19,244

These funds are administered by PRIDCO on behalf of the Commonwealth but do not constitute funds of PRIDCO. Accordingly, they are not presented in the accompanying basic financial statements.

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Puerto Rico Industrial Development Company*(A Component Unit of the Commonwealth of Puerto Rico)**Notes to Basic Financial Statements**Years Ended June 30, 2010 and 2009***11. LINES OF CREDIT AND LONG-TERM DEBT ACTIVITY**

Lines of credit and long-term debt activity for the years ended June 30, 2010 and 2009 were as follows (in thousands):

June 30, 2010						
PRIDCO						
	Beginning Balance	Additions	Accretion	Reductions	Ending Balance	Due within one year
Bonds payable	\$ 265,984	—	377	(17,064)	249,297	11,885
Less: Bond discount	(346)	—	—	14	(332)	(10)
Subtotal	265,638	—	377	(17,050)	248,965	11,875
Notes payable to GDB	90,928	718	—	(1,576)	90,070	90,070
Obligations under capital leases	312	210	—	(175)	347	172
Total	<u>\$ 356,878</u>	<u>928</u>	<u>377</u>	<u>(18,801)</u>	<u>339,382</u>	<u>102,117</u>
June 30, 2009						
PRIDCO						
	Beginning Balance	Additions	Accretion	Reductions	Ending Balance	Due within one year
Bonds payable	\$ 276,214	—	1,090	(11,320)	265,984	11,097
Less: Bond discount	(355)	—	—	9	(346)	(10)
Subtotal	275,859	—	1,090	(11,311)	265,638	11,087
Notes payable to GDB	91,566	277	—	(915)	90,928	90,928
Obligations under capital leases	63	595	—	(346)	312	190
Total	<u>\$ 367,488</u>	<u>872</u>	<u>1,090</u>	<u>(12,572)</u>	<u>356,878</u>	<u>102,205</u>

Loans and notes payable to commercial banks are composed of the following (in thousands):

June 30, 2010					
PRICO					
	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Loan payable	\$ 45,365	—	(2,035)	43,330	2,167
Notes payable	38,638	4,441	(2,744)	40,335	2,970
Total	<u>\$ 84,003</u>	<u>4,441</u>	<u>(4,779)</u>	<u>83,665</u>	<u>5,137</u>
June 30, 2009					
PRICO					
	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Loan payable	\$ 47,285	115	(2,035)	45,365	2,035
Notes payable	41,245	122	(2,729)	38,638	2,640
Total	<u>\$ 88,530</u>	<u>237</u>	<u>(4,764)</u>	<u>84,003</u>	<u>4,675</u>

Puerto Rico Industrial Development Company
(A Component Unit of the Commonwealth of Puerto Rico)
Notes to Basic Financial Statements
Years Ended June 30, 2010 and 2009

Loans and notes payable to commercial banks consist of the following (in thousands):

	<u>2010</u>	<u>2009</u>
Term loan payable in 180 monthly installments of \$53 thousand including interest and is due on January 2012. The loan bears interest at 5.10% is jointly and severally guaranteed by PRIDCO.	\$ 977	1,548
Term loan payable in 180 monthly installments of \$137 thousand including interest and is due on March 2018. The loan bears interest at 6.97% is jointly and severally guaranteed by PRIDCO.	15,806	16,360
Term loan payable in 179 monthly installments of \$118 thousand including interest, bearing interest at 5.46% and a final balloon payment due on October 2019. The loan is jointly and severally guaranteed by PRIDCO.	10,457	11,269
Non-revolving line of credit with 24 interest only payments then converted into a term loan payable in 216 monthly installments of \$110 thousand including interest and is due on December 2024. The loan bears interest at 6.06% and is jointly and severally guaranteed by PRIDCO.	12,722	13,240
Non-revolving line of credit with 24 interest only payments then converted into a term loan payable in 216 monthly installments of \$72 thousand including interest and is due on December 2024. The loan bears interest at 6.061% and is jointly and severally guaranteed by PRIDCO.	8,249	8,588
Term loan payable in monthly installments of \$56 thousand including interest and is due on August 2016. The loan bears interest at 5.26% and is jointly and severally guaranteed by PRIDCO.	3,558	3,992
Term loan payable in 180 monthly installments of \$268 thousand including interest with a balloon payment for the remainder balance including interest due on June 2022 . The loan bears interest at 6.06% is jointly and severally guaranteed by PRIDCO.	27,524	29,006
Term loan payable in 119 monthly installments of \$38 thousand including interest and a last balloon payment due on February 2020. The loan bears interest at 8.45% and is jointly and severally guaranteed by PRIDCO.	<u>4,372</u>	<u>—</u>
Total	83,665	84,003
Less current maturities	<u>(5,137)</u>	<u>(4,675)</u>
Loans and notes payable to commercial banks, noncurrent portion	<u>\$ 78,528</u>	<u>79,328</u>

Puerto Rico Industrial Development Company

(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Basic Financial Statements

Years Ended June 30, 2010 and 2009

Notes payable to the Government Development Bank for Puerto Rico (GDB) are comprised of four line of credit agreements with outstanding principal of approximately \$90 and \$91 million as of June 30, 2010 and 2009, respectively.

- The first agreement represents a non-revolving line of credit up to \$75 million with GDB to provide for payment of expenses related to the voluntary separation and early retirement plans. The note bears interest at LIBOR plus 125 base points revised on a quarterly basis. These credit terms were renewed during the current year. The note is due on December 31, 2010 and bears interest at 1.5% over prime with a 6% floor. The outstanding balance amounted to \$47 million and \$46 million as of June 30, 2010 and 2009, respectively. PRIDCO identified several properties to be disposed of for repayment of this debt and placed as collateral several other non-trusted properties.
- The remaining three notes payable are for providing industrial incentives under the Special Incentives Fund, a fund of the Commonwealth which is administered by PRIDCO, and as such, is excluded from PRIDCO's financial statements. Repayments for these notes are provided by the Commonwealth under legislative appropriations and are due on June 30, 2018 bearing interest at 7%. The outstanding balance amounted to \$43 million and \$45 million as of June 30, 2010 and 2009, respectively. Since these lines of credit are payable from resources to be provided by the Commonwealth, PRIDCO has recorded an amount due from Commonwealth of approximately \$43 and \$45 million at June 30, 2010 and 2009, respectively.

Amounts due to the Puerto Rico Land Administration as of June 30, 2010 and 2009 of \$1.3 million in both years consist of a note in the original amount of approximately \$6.5 million payable in annual installments of \$1.3 million. The note was due on December 2009, plus accrued interest at 5.25%.

Debt service requirements for the loans and notes payable to commercial banks and obligations under capital leases are as follows (in thousands):

	Due to commercial banks			Obligations under capital leases		
	Principal	Interest	Total	Principal	Interest	Total
Year ending June 30,						
2011	\$ 5,137	4,374	9,511	177	11	188
2012	5,168	4,811	9,979	82	7	89
2013	5,093	4,505	9,598	59	4	63
2014	5,429	4,166	9,595	25	1	26
2015	5,760	4,179	9,939	4	—	4
2016 to 2020	41,823	11,579	53,402	—	—	—
2021 to 2025	15,255	1,777	17,032	—	—	—
Total	\$ 83,665	35,391	119,056	347	23	370

Puerto Rico Industrial Development Company

(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Basic Financial Statements

Years Ended June 30, 2010 and 2009

Bonds Payable

As required by the Trust Indenture dated July 1, 1964, as amended, between PRIDCO and U.S. Bank (the Trustee), PRIDCO has pledged and assigned to the Trustee the gross revenue from certain properties (known as trustee properties) for the payment of the Refunding and General Purpose Revenue Bonds, Series 1991 to 1997. In the event that the gross revenue from trustee properties and the amounts deposited with the Trustee are not sufficient, PRIDCO shall deposit with the Trustee such amounts as necessary to meet the debt service requirements.

During fiscal year 1998, PRIDCO issued approximately \$150 million in refunding bonds and general purpose revenue bonds. The proceeds of the fiscal year 1998 bond issuance destined to refund the previous outstanding bonds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments. As a result, all the Series prior to 1997, except for the Series 1991 serial and capital appreciation bonds, were considered defeased and the liability for those bonds was considered extinguished and has been removed from the accompanying basic financial statements.

In addition, in connection with the fiscal years 1998 and 2003 bond issuance, certain debt issue costs amounting to approximately \$2.7 million were deferred. These deferred issue costs are being amortized over the average terms of the 1998 and 2003 bonds, respectively, following a method substantially equivalent to the interest method. At June 30, 2010 and 2009, deferred debt issue costs amounted to approximately \$2.3 million and \$2.6 million, respectively.

Revenue refunding and general purpose revenue bonds outstanding at June 30, 2010 and 2009 are as follows (in thousands):

	<u>2010</u>	<u>2009</u>
Revenue Refunding Bonds and General Purpose Revenue Bonds:		
Series A 1997:		
Term bonds, 6.60%, due on July 1, 2011	\$ 18,025	23,780
Term bonds, 6.70%, due on July 1, 2015	54,845	54,845
Term bonds, 6.75%, due on July 1, 2021	21,405	21,405
Capital appreciation bonds, implicit interest rate of 6.68% to 6.71%, due on July 1, 2008 through July 1, 2009	—	11,320
Series B 1997, 5.375%, due on July 1, 2016	16,910	16,910
Series 2003 General Purpose Revenue Bonds:		
Serial Bonds, 5.10% to 5.15% due July 1, 2017 and 2018	2,395	2,395
Capital appreciation bonds, implicit interest rates of 5.15% to 5.20%, due on July 1, 2017 and July 1, 2018.	7,550	7,148
Term Bonds, 5.20%, due on July 1, 2023	48,925	48,925
Term Bonds, 5.25%, due on July 1, 2028	78,910	78,910
	<u>248,965</u>	<u>265,638</u>
Less current maturities	<u>(11,875)</u>	<u>(11,087)</u>
Bonds payable - noncurrent	<u>\$ 237,090</u>	<u>254,551</u>

Puerto Rico Industrial Development Company

(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Basic Financial Statements

Years Ended June 30, 2010 and 2009

Series 1997 and 2003 of the capital appreciation bonds will accrete to a maximum of \$22.6 million and \$11.6 million, respectively, through their corresponding maturity dates. The annual debt service requirements to maturity, including principal and interest, for bonds payable as of June 30, 2010 are as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30,			
2011	\$ 11,885	13,784	25,669
2012	12,680	12,999	25,679
2013	13,530	12,147	25,677
2014	14,445	11,233	25,678
2015	13,890	10,257	24,147
2016 to 2020	57,435	46,018	103,453
2021 to 2025	65,786	24,967	90,753
2026 to 2030	57,300	6,171	63,471
	<u>246,951</u>	<u>137,576</u>	<u>384,527</u>
Plus accreted discount	2,346		
Less deferred amounts:			
Bond discount	<u>(332)</u>		
Total	<u>\$ 248,965</u>		

12. RETIREMENT PLAN

Employees of PRIDCO participate in the Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (the System). The System is a defined benefit, cost-sharing, multi-employer plan sponsored by the Commonwealth under the terms of Act No. 447 of 1951, as amended. Participation is mandatory for regular employees. The System issues a publicly available financial report that includes its financial statements and required supplementary information.

Members who have attained at least 55 years of age and have completed at least 30 years of creditable service or members who have attained at least 58 years of age and have completed at least 10 years of creditable service are entitled to an annual benefit, payable monthly for life.

The amount of the annuity shall be 1.5% of the average compensation multiplied by the number of years of creditable service up to 20 years, plus 2% of the average compensation multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than \$400 per month.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive up to a maximum of 65% of the average compensation or if they have attained 55 years of age will receive up to a maximum of 75% of the average compensation. Disability retirement benefits are available to members for occupational and nonoccupational disability up to a maximum benefit of 50% of the average compensation. However, for nonoccupational disability, a member must have at least 10 years of creditable service.

Puerto Rico Industrial Development Company

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Notes to Basic Financial Statements

Years Ended June 30, 2010 and 2009

Act No. 1 of 1990 made certain amendments applicable to new participants joining the System effective April 1, 1990. These changes consist principally of the establishment of contributions at 8.275% of their monthly gross salary, an increase in the retirement age to 65, a decrease in the annuity benefit to 1.5% of the average compensation for all years of creditable service, a decrease in the maximum disability, and death benefits annuities from 50% to 40% of average compensation, and the elimination of the Merit Annuity for participants who have completed 30 years of creditable service.

The contribution requirements for both employees and employers are established by law and are not actuarially determined. Employees are required to contribute 5.775% or 8.275% of their monthly gross salary. PRIDCO is required to contribute 9.275% of its employees' gross salaries.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created the System, was enacted with the purpose of establishing a new pension program (System 2000). System 2000 became effective on January 1, 2000. Employees participating in the current system as of December 31, 1999 may elect either to stay in the defined benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000 will only be allowed to become members of System 2000.

System 2000 is a hybrid-defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets, which will be invested by the System, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note, or (2) earn a rate equal to 75% of the return of the System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions are not being granted under System 2000. The employees' contributions (9.275% of the employees' salary) will be used to fund the current plan.

System 2000 reduces the retirement age from 65 years to 60 years for those employees who joined the current plan on or after April 1, 1990.

Funding Policy

Contribution requirements are established by law and are as follows:

PRIDCO	9.275% of gross salary
Employees:	
Hired on or before March 31, 1990	5.775% of gross salary up to \$6,600
	8.275% of gross salary over \$6,600
Hired on or after April 1, 1990	8.275% of gross salary

Puerto Rico Industrial Development Company

(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Basic Financial Statements

Years Ended June 30, 2010 and 2009

PRIDCO's contractually required contributions for the years ended June 30, 2009, 2008 and 2007 amounted to \$1.3 million, for each year. The percentage of PRIDCO's required contributions were equal to the ones actually made to the System for the years ended June 30, 2009, 2008, and 2007.

Additional information on the System is provided in its financial statements for the years ended June 30, 2009 and 2008, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities, P.O. Box 42003, San Juan, PR 00940-2003.

13. REORGANIZATION PLAN AND VOLUNTARY SEPARATION PLAN

PRIDCO entered into a reorganization plan during the year ended June 30, 2007. As a result, effective November 22, 2006, as per Law No. 143, PRIDCO established an early retirement plan (the Retirement Plan) to allow all those employees with at least 24 ½ years or more of service as participants of the System to be entitled to receive 75% of the last year's average salary, total liquidation of accrued sick and vacation days and medical plan coverage for the next two (2) years after retirement.

In addition to the above mentioned plan, PRIDCO established the Voluntary Separation Plan (the Separation Plan) which main objective was to reduce the workforce by offering wages incentives.

Total expense amounted to approximately \$885 thousand for the year ended June 30, 2009.

14. COMMITMENTS

Construction Program

For the fiscal year ending June 30, 2011, PRIDCO estimates to invest approximately \$10 million for construction, land acquisition, and development. The investment in property will be financed through internally generated funds, federal grants, legislative infrastructure incentives, and external financing sources.

Other Commitments

PRIDCO administers the Special Incentives Fund, the Economic Development Special Fund, and Puerto Rican Rums Program, which are funds appropriated by the Commonwealth's Legislature. Upon receipt of funds from the Commonwealth, PRIDCO deposits such funds in a special account over which PRIDCO only has administrative responsibilities.

PRIDCO administers the Procurement Technical Assistance Program (PTAC), a federal financial assistance program and is required to comply with the audit requirements established by Office of Management and Budget Circular A-133, Audits of State and Local Governments. During the year ended June 30, 2010, PRIDCO received approximately \$262 thousand from federal programs. In addition, during 2009, PRIDCO recorded approximately \$479 thousand owed to the federal agency for questioned costs from previous years.

Puerto Rico Industrial Development Company

(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Basic Financial Statements

Years Ended June 30, 2010 and 2009

PRIDCO maintains a joint agreement with the University of Puerto Rico for the administration of the Bioprocess Development and Training Complex (BDTC) in Mayagüez. Under said agreement, PRIDCO constructed a modern building with state of the art facilities was constructed for rental by pharmaceutical and high end technological industries with research and development projects. The BDTC is therefore renting the building to PRIDCO. During the year ended June 30, 2009, PRIDCO received \$4.5 million from the Special Fund for Economic Development Fund, a fund of the Commonwealth, in order to cover for the \$5 million share that the University of Puerto Rico did not provide and \$2.2 million in 2010 from the Economic Development Agency (EDA). The construction concluded during 2009 and costs approximated \$11.3 million as of June 30, 2009. For the year ended June 30, 2010, the BDTC has received funding solely from the Special Fund for Economic Development, a fund of the Commonwealth.

PRIDCO maintains a joint interagency agreement along with the Puerto Rico Tourism Company (The Company). Both entities agreed to provide \$1 million each for the Office of Land Use Planning. PRIDCO is responsible for the purchase of office equipment as well as professional services necessary for the operations of said office. PRIDCO received \$1 million from The Company and total expenditures amounted to \$672 thousand. The Company has not made any contribution during the years ended June 30, 2010 and 2009.

PRIDCO leases office in New York City under an operating lease with a third party expiring in the year 2022. Rent expense including common area maintenance, taxes and other charges amounted to \$347 thousand in 2010 and 2009, respectively. Said office space is shared with GDB, the Company, and Rums of Puerto Rico aiming towards the presence of the Commonwealth of Puerto Rico in one of the most important cities of the world. PRIDCO charges rent back to the previously mentioned governmental agencies based on space occupancy allocation.

Future annual minimum lease payments under the operating lease agreement are as follows (in thousands):

	<u>PRIDCO</u>	<u>Other</u>	<u>Total Rent</u>
Year ending June 30,			
2011	\$ 307	532	839
2012	307	532	839
2013	323	560	883
2014	323	560	883
2015	323	560	883
Thereafter	2,345	4,055	6,400
Total	<u>\$ 3,928</u>	<u>6,799</u>	<u>10,727</u>

15. CONTINGENCIES

PRIDCO is a party to certain other lawsuits resulting from the normal course of business, including but not limited to labor, torts, and breach of contract. Management believes that it has a reasonable possibility of prevailing in these cases.

Puerto Rico Industrial Development Company

(A Component Unit of the Commonwealth of Puerto Rico)

Notes to Basic Financial Statements

Years Ended June 30, 2010 and 2009

During the year ended June 30, 2009, PRIDCO recorded \$14.1 million as part of the legal reserve for the payment of land expropriated in the Municipality of Canóvanas as ordered by the Puerto Rico Department of Justice.

16. RISK MANAGEMENT

The Treasury Department of PRIDCO is responsible of assuring that PRIDCO's property is properly insured. Annually, the Treasury Department in conjunction with other departments of PRIDCO compiles the information of all property owned and its respective market value. After evaluating this information, it is submitted to the Area of Public Insurance at the Department of the Treasury of the Commonwealth, which is responsible for purchasing all property and casualty insurance policies of all governmental instrumentalities. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

17. SUBSEQUENT EVENTS

On July 2, 2010, Act No. 70, the Incentivized Retirement and Training Program Law established a program under which eligible employees may retire or voluntarily separate from their employment with the Commonwealth in exchange for an early pension and an economic incentive, among others. This program was created as part of several economic measures set by the Commonwealth to stabilize public finances. The Law exempted agencies and public corporations that are proprietary funds, such as PRIDCO but encourages the establishment of their own retirement program. PRIDCO is currently undergoing a pertinent analysis of the establishment of the program.

On August 18, 2010, PRIDCO initiated a program to look for alternate uses for properties that have been underused for several years. Under this program, PRIDCO identified certain properties that will be transferred to PRIICO, a component unit of PRIDCO. The book value of the properties has not been determined yet. PRIICO, in turn, will lease these properties to municipalities in Puerto Rico for the nominal amount of \$1 per month for a 30-year period. This municipal economic development program calls for each municipality to invest in the reconditioning of each property and to carry out qualified economic development activities.

On October 31, 2010, PRIDCO entered into a Master Agreement for Termination of Agreement for Research and Development Incentives Funds with HPTC. As a result, PRIDCO agreed to cancel the remaining \$13.4 million of preferred stock and to redeem the \$11.6 million preferred stock outstanding in exchange for a payment of approximately \$5.3 million and future royalties to be paid by HPTC based on 0.75% of the gross revenues generated by products or services covered by patents included within the agreement subject to certain covenants. Such royalties shall continue in full force and in effect until the earlier of an additional period of 15 years following the agreement date or until the date that royalty payments reach approximately \$7.6 million.

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PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
(A Component Unit of the Commonwealth of Puerto Rico)

Schedule of Changes in Cash and Sinking Fund per Trust Indenture

Year Ended June 30, 2010

(In thousands)

	Total	General fund	U.S. Bank Trust Indenture Sinking Fund	
			Principal and interest	Reserve account
Balance, June 30, 2009	\$ 69,151	16,596	15,774	36,781
Cash provided by (used in) operating activities	23,724	(1,945)	25,669	—
Sale of property and equipment and land held for improvement or sale	4,450	4,450	—	—
Additions to property and equipment and land held for improvement or sale	(2,049)	(2,049)	—	—
Payment of bonds, due on July 1, 2009 and January 1, 2010	(17,050)	(5,963)	(11,087)	—
Payment of interest	(16,683)	3,641	(20,324)	—
Appreciation (depreciation) in fair value of investments	(444)	(2,009)	(4)	1,569
Payment of note and capital lease obligations	(175)	(175)	—	—
Contributions received from U.S. Government	2,264	2,264	—	—
Collections from notes receivable	222	222	—	—
Interest collected	1,971	1,971	—	—
Net payments to component units	(8,028)	(8,028)	—	—
Balance, June 30, 2010	\$ 57,353	8,975	10,028	38,350
Balance, June 30, 2010 represented by:				
Cash and cash equivalents and available for operations	\$ 8,975	8,975	—	—
Cash and cash equivalents held by the Trustee	10,028	—	10,028	—
Investment in U.S. Treasury bond strips, held by the Trustee, at market value	38,350	—	—	38,350
	\$ 57,353	8,975	10,028	38,350