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NM SMALL BUSINESS INVESTMENT CORP

January 24, 2011

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MINUTES OF THE
NEW MEXICO SMALL BUSINESS INVESTMENT CORP.

REGULAR MEETING

January 24, 2011

A regular meeting of the New Mexico Small Business Investment Corporation was called to order on this date at approximately 9:00 a.m. in the conference room of the New Mexico Mortgage Finance Authority, 344 S. Fourth Street, S.W., Albuquerque, New Mexico.

A quorum was present:

Members Present:

Mr. Andrew Baca, Chair
Mr. Kit Caldwell
Mr. Sam Cobb, Vice Chair
Ms. Mary A. Garza, Secretary
Mr. Billy Knight
Mr. Greg Kulka [State Investment Council designee]
Ms. Marie Longserre, Treasurer
Mr. Clarence L. Smith [designee of State Treasurer James Lewis]

Members Excused :

None.

Legal Counsel to Board:

Mr. Randy McDonald

Financial Advisor to Board:

Mr. Paul Goblet

Consulting CFO:

Ms. Dee Brescia

Recording Secretary:

Ms. Charmaine Clair

Guests Present:

Mr. Greg Henderson, ACCION
Mr. Danny Griego, ACCION
Mr. Juan Pablo Trevizo, ACCION
Ms. Fran Dever, ACCION
Mr. Michael Schafer, NMCC
Ms. Shyla Sheppard, NMCC

REVIEW AND ACCEPTANCE OF AGENDA

"Update: Emergent Technology" was added to the Advisor's Report.

Upon motion by Ms. Garza, seconded by Mr. Caldwell, the Agenda was approved by voice vote, as amended.

APPROVAL OF MINUTES

December 13, 2010

Upon motion by Mr. Caldwell and seconded by Ms. Garza, the Minutes of the December 13 meeting were approved by voice vote, as submitted.

September 20, 2010

Under the item, "Loan Fund Credit Facility," Mr. Cobb said it states that none of SBIC's loans are amended or restructured more than once in any calendar year beginning 6/30/2010. He said the wording implies that they could be restructured every year, so if they have a loan on the books for five years, it could be restructured five times.

Mr. Goblet said that was theoretically correct.

Mr. Caldwell commented that it sounded more lenient than he recalled.

Mr. McDonald stated that the Board could modify the provision at this point if it wished, since documents have not yet been signed.

Mr. Cobb said he thought the Board should get clarification on whether the minutes accurately reflect the Board's intent.

Mr. Goblet said he will be meeting with The Loan Fund tomorrow. They have pushed back on a couple of items, one being the 10% cash in escrow provision, so he plans to bring the entire agreement back to the Board at the February meeting. He suggested that the Board could refocus on the restructuring provision at that time.

Mr. Cobb commented that to give The Loan Fund the ability to restructure a loan once a year is too lenient, particularly given his feeling that the business community in New Mexico has not yet felt the full impact of the national economic downturn.

Mr. Goblet said he would review The Loan Fund's entire portfolio under his Advisor's Report, including the number of loans taken out and the number restructured.

Mr. Cobb said there needs to be some criteria about what "restructure" means.

Mr. McDonald suggested the Board could approve the minutes and the issue could be dealt with going forward, or it could postpone approval and listen to the recording to see if the minutes are accurate.

Mr. Kulka moved for approval of the September 20 Minutes, as submitted. Ms. Garza seconded the motion, which passed by voice vote.

FINANCIAL STATEMENT REVIEW

Ms. Brescia reviewed the December financial statements.

At Mr. Kulka's request, Ms. Brescia agreed to reformat future reports to make it easier to compare cumulative capital contributed against current market value for each of the private equity funds, including variances.

[Ms. Longserre joined the proceedings.]

Mr. Knight moved to approve the Financial Statement, as presented. Mr. Cobb seconded the motion, which passed by voice vote.

DISCUSSION AND POSSIBLE VOTE ON BANKING ACCOUNTS

Mr. Goblet stated that, in December, First Community Bank advised its depositors that its accounts would no longer be covered by an unlimited FDIC guarantee. Although First Community pledged collateral to its public depository accounts greater than \$250,000, the Board made the decision to move the majority of its deposits into a CDARs account to ensure 100% FDIC insurance.

Mr. Goblet stated that, in early January, he, Ms. Brescia and Mr. McDonald discussed the change in status, and felt it was the Board's intent that 100% of its deposits be insured. He said it was decided to change the account status to non-interest bearing, meaning it would be 100% insured, with the understanding that the Board would meet on January 24 and arrive at a more permanent decision. He said the reduction in interest income over the two-week period will result in earning \$200 less interest income.

Mr. Goblet said the NMSBIC currently has a deposit account and a checking account at First Community, both non-interest bearing. All capital calls are paid from the checking account, and all distributions from the financial partners are credited to the deposit account.

Mr. Goblet said it is the collective opinion that the NMSBIC should establish a backup interest bearing checking account at a different bank that would be of the size that qualifies for FDIC coverage (\$250,000), allowing the NMSBIC to respond to capital calls or expense payments without disruption. He said the remaining amount of capital would remain at First Community to cover expected capital calls over the next two or three months that would bring the balance down to \$500,000. If it wished, the NMSBIC could put another \$500,000

in the CDARs account, and earn 34 basis points, leaving about \$1.3 million in the deposit account.

Ms. Longserre said she thought the recommendation was a good idea; First Community works closely with the NMSBIC, and this plan would protect all of the money. And with a backup account, if the NMSBIC needs to transition to a different institution, the vehicle for that is already in place.

Mr. Caldwell expressed concern that it seems as though there has been an ongoing discussion, at least since he has been on the Board, regarding First Community Bank's weakening position and how to deal with it.

Mr. Goblet responded that First Community has consistently been responsive and receptive to the NMSBIC. The NMSBIC makes distributions from First Community to 11 or 12 different people, which would have to be adjusted, so this is largely an administrative issue. He added that First Community is not going away – the name may change, but the same people will be there.

Mr. Cobb suggested that the NMSBIC shop around for better interest rates, since New Mexico Bank & Trust may not offer the best possible rate – as the NMSBIC's margins narrow, it becomes increasingly important to look at what its expenses are.

Mr. Goblet commented that the NMSBIC could probably find another 25 basis points somewhere, and he has been approached a dozen times by local banks -- most recently by Merrill Lynch -- but his approach has consistently been to keep things cleaner and simpler given that the NMSBIC operates without a staff.

Mr. Goblet agreed to provide details on what NMSBIC is paying in fees to New Mexico Bank & Trust for the CDARs program. He said they also have \$240,000 that is apart from CDARs.

Mr. Kulka commented that it might be worthwhile to have relationships with a few local banks in the event the NMSBIC decides to move its checking account from First Community.

Mr. Knight commented that, in his experience, virtually every bank with a better rate has been taken over; and trying to find the best rate amounts to "kicking the can down the alley" because it is impossible to get a full year CD before the FDIC moves in.

Ms. Longserre and Mr. Kulka agreed that it is a good idea to have a secondary relationship with a local bank in the event the NMSBIC decides to move money there.

Mr. Kulka commented that, in some instances after a bank is taken over, a new management team can come in and do things significantly differently from before – so having a secondary bank to potentially transition into makes sense.

Mr. Goblet asked for Board approval to open up an interest-bearing account of up to \$250,000 that has electronic banking capabilities and where the NMSBIC has a good relationship.

Mr. Kulka moved to establish a secondary account at another local bank, to be determined by Mr. Goblet, Ms. Longserre and Ms. Brescia, and adoption of any banking resolutions required by the financial institution to open and establish the account. Mr. Smith seconded the motion, which passed by voice vote.

**ACCION NM PORTFOLIO UPDATE -- ECONOMIC IMPACT REVIEW:
GREG HENDERSON, DANNY GRIEGO, JUAN PABLO TREVIZO**

Mr. Goblet introduced Greg Henderson, Danny Griego, Juan Pablo Trevizo and Fran Dever to the Board.

Mr. Henderson presented highlights from an economic impact study done by TXP, a nationally recognized firm, on the current annual impact of the \$26.6 million ACCION lent from 1994-2009:

- Total economic activity of \$40 million annually.
- \$14 million in annual payroll earnings.
- State tax revenues of \$1.3 million each year.
- More than 500 jobs annually, and 4,000 jobs sustained annually.
- An annual return of 52 cents for every \$1 loaned and repaid.

Mr. Henderson noted that 91% of ACCION's lending from 2004 through 2010 has been with NMSBIC participation.

Addressing NMSBIC participation results, Mr. Henderson noted that ACCION has lent \$19 million, including refinances – without refinances, the amount is \$17.4 million. He said total interest paid to the NMSBIC is \$638,000 for the seven-year period; write-offs are \$935,000, for a net cost to the NMSBIC of \$300,000, or \$42,000 annually.

Mr. Trevizo stated that he heads ACCION's three-member team with over 60 years of experience in the field of collections. Their objective is to minimize losses from portfolio credit risk, and they take a highly disciplined and proactive approach throughout the entire recovery cycle.

Mr. Henderson said 69% of their write-offs in 2010 were bankruptcy driven, largely the result of foreclosures. He stated that ACCION watches for signs that a foreclosure may be imminent and steps in as soon as possible.

Mr. Cobb asked Mr. Henderson what he anticipates for New Mexico's small businesses in 2011-2012 given the anticipated cuts in state government.

Mr. Henderson responded that New Mexico isn't yet out of the woods, because it tends to trail national economic recovery by 9-12 months. He said ACCION didn't feel the impact of the 2008 economic downturn for another year, and that continues.

Ms. Dever said ACCION began including a bankruptcy prediction scoring in its initial credit pool for loan applications in late 2009. She stated that ACCION has also just started doing a review of bankruptcy scores on a quarterly basis for anyone who borrows in excess of \$30,000.

NM COMMUNITY CAPITAL PORTFOLIO UPDATE: PRESENTATION ON NM COMMUNITY CAPITAL 2: MICHAEL SCHAFER & SHYLA SHEPPARD

Mr. Schafer and Ms. Sheppard made a slide presentation.

Mr. Schafer discussed the status of Fund I's ten portfolio companies, which have produced 252 jobs and \$36 million in revenue against an investment total of \$7.4 million. He commented that the portfolio is still very young; with three investments made in 2005-2006 and everything else after 2007, they are looking at achieving some liquidity events later this year and quite a few liquidity events in 2012. NMCC had drawn down about \$7.4 million and expects have \$9.3 million fully invested in 2015 with projected returns of \$27.5 million. He commented that the rate of return is in the upper 20% range thanks to NMCC's decision to invest more heavily in companies expected to achieve earlier liquidity events – specifically, ProtoHIT, IntelliCyt and Aspen Avionics.

Responding to requests from Mr. Caldwell and Mr. Cobb, Mr. Schafer said NMCC would provide information on jobs, annual GRT and total payrolls.

Ms. Sheppard stated that NMCC was awarded \$650,000 in CDFI funding to support a Tribal Business Initiative in order to further explore opportunities within New Mexico's tribal communities. She commented that some tribes that previously had success in gaming have seen revenues drop by 40+% and are now looking at other ways they can become active participants in business development; at the same time, they recognize some of the deficiencies they have internally. She said a couple of tribes are interested in working with NMCC, because of the expertise it can bring to the table, to develop businesses and at the same time invest in businesses.

Ms. Sheppard noted that NMCC has added a board member who is the strategic investment manager for Cherokee Nation Businesses. She said she has also met with the senior people at Arctic Slope Regional Corporation, one of the most successful Alaskan native corporations, with operations globally. She commented that tribes see opportunities for diversification through investments as well as business activities; so by investing in NMCC's fund, they see it as an early opportunity to get an early look into some businesses they might eventually acquire.

Mr. Schafer stated that NMCC Fund II will be targeted at \$25 million with a focus on water, food, energy and healthcare industries, and will have a ten-year term with two optional single year extensions. He noted that NMCC has resident knowledge in water, food, and energy.

LEGISLATIVE UPDATE

Mr. Goblet reported that he has met with Governor Martinez's Deputy Chief of Staff Brian Moore, as well as Adam Feldman, Director of Boards and Commissions, and has been told that there will not be sweeping changes made to boards with the exception of those that the Administration feels are problematic.

Mr. Goblet commented that this was his sense when he told this Board at the December meeting that the NMSBIC should continue with business as usual.

Mr. Goblet said he also spoke with Sen. Tim Keller, who has introduced SB 24, which proposes changes to the NMSBIC Board composition. Sen. Keller commented that the bill may die if there is lengthy discussion and debate around it.

DISCUSSION AND POSSIBLE VOTE ON POTENTIAL COMMITMENT TO NMCC II

Mr. Goblet said he has been talking with NMCC about this potential commitment for the last four months, and has strongly encouraged them to pursue funding from nontraditional – specifically tribal – investors because they have the unique ability to attract them. While he does not feel that NMCC can realistically raise \$25 million in the immediate future, he does feel they can do a first close of \$10 million.

Mr. Goblet said he believes that the NMSBIC should be as active a supporter as possible of this Fund for several philosophical reasons:

-- This would be an extremely creative and unique fund which would pull together the capital and leadership resources of several New Mexico tribal organizations.

-- Since the NMSBIC has little remaining uncommitted capital, the amount of leverage related by commitments of other new equity providers would be significant.

-- Given the NMSBIC's experience in being catalytic to the formation of capital delivery systems, the NMSBIC could provide consultation and guidance to the Fund.

-- Based on the lack of success in deploying equity capital to more rural areas, this Fund may be able to establish a means to do so due to their strategic partners. This could create a very interesting way to generate economic development in areas that have been extremely difficult to penetrate and almost impossible to create jobs.

-- This would be a highly visible project, both nationally and at the state level, which would enjoy a high degree of political and social support and draw attention to New Mexico.

Mr. Goblet noted that, from a financial perspective, the Fund offers some attractive features. Their investment thesis, particularly in the areas of water, energy and emerging technology, are areas where New Mexico enjoys significant research and development funding. Further:

-- This would be an opportunity to bring together tribal entities with significant amounts of capital but a lack of expertise.

-- Several tribes enjoy significant competitive advantages; they are 8A contractors, own water rights, land, and natural resources.

-- The Fund managers have equity investment experience, are domiciled and have a track record in New Mexico, and have been designated by the U.S. Department of Treasury to receive a \$650,000 grant for investments in tribal businesses. A second fund would further strengthen the GP.

-- National banks may have a meaningful interest in such a fund since they have large lending and deposit relationships with tribal entities.

Addressing potential drawbacks, Mr. Goblet said this effort might distract NMCC from focusing on Fund 1; however, that fund is nearing the end of its investment life. He also stated that, with the exception of Sandia Pueblo and the Southern Utes, there is little known private equity investment history by tribal entities, and the question is whether strategic and financial relationships can be successfully created sufficient to raise \$7.5 million to \$10 million from these entities.

Mr. Goblet suggested the following to the Board:

1. That the Board considers recapturing some of its currently committed capital with the possibility of redeploying it with current or future financial partners.

Mr. Goblet stated that he has had a preliminary conversation with ACCION about reducing the NMSBIC's commitment to them by \$1 million to \$4 million, given that ACCION's loan portfolio is not expected to grow this year and could even diminish in size.

Mr. Goblet stated that the NMSBIC has \$17 million of cash and has committed all but \$900,000, so he would like to look at ways to deploy this capital.

Mr. Goblet said he suspected NMCC would use most of the remaining \$2 million in their first fund for follow-on funding and for one or two new investments.

Mr. Goblet said he believes that, in 2012, with Verge and some other equity partners, capital would be coming back to the NMSBIC.

Relative to that, Mr. Kulka noted that the NMSBIC is at 70% equity and 30% lending, so any commitments recaptured from the lending partners should go back into a potential lending fund.

2. That the Board encourage him to be of as much assistance as possible to advise and assist NMCC in the creation of the second fund, which would include the likelihood of possible NMSBIC commitment based upon the Fund's progress, further due diligence and NMSBIC's ability to commit.

3. That the Board direct him to revisit NMSBIC's strategic direction laid out in August 2010, including the likely possibility of Board reconstitution and any insights gathered from the legislative session and new Administration.

Mr. Goblet said he would also like to see the Board sit down over the next two months and collectively make some decisions as to recapturing capital and its ability to deploy capital; and given that there is pushback from The Loan Fund, what other lending partners exist. While there is a logic to diversifying, is there an ability to further diversify—and that is what he will bring back to the Board over the next month or two months.

Mr. Kulka responded that, while there may not be lending partners currently, that doesn't mean the NMSBIC should give it to equity partners who will have it locked up for 10-12 years.

Mr. Cobb commented that a hybrid might be possible that could serve NMCC as well, and suggested that Mr. Goblet think innovatively on how to kill two birds with one stone. He said the Board has an obligation to try to drive good agreements, as it has done with its other relationships, and in fact it has made some of its partners better because of the way it has driven those agreements. He commented that this is the role of the NMSBIC as it talks about being a player.

Mr. Goblet said this is not the right time to make a commitment to NMCC. The Fund will have to attract \$8 million of tribal or foundation money in order to be successful, and the NMSBIC can ride along and hopefully be valuable to them strategically on the front end.

To provide a more accurate picture to the Board on what monies remain uncommitted from NMSBIC, Mr. Goblet said he would project capital calls on a fund-by-fund basis in next month's report.

Mr. Knight moved to approve Mr. Goblet's three recommendations. Mr. Cobb seconded the motion, which passed by voice vote.

ADVISOR'S REPORT

ACCION NM

Mr. Goblet noted that ACCION's portfolio has been steadily decreasing and now stands at \$2.5 million. He said it is reasonable to suggest that they will not draw any significant amount of capital in 2011.

The Loan Fund

Mr. Goblet reviewed The Loan Fund's quarterly loan report. He stated that the outstanding portfolio now stands at \$7.3 million, with 131 loans currently outstanding, leaving a balance of \$130,000 that could be called in the future.

Mr. Goblet said he will meet with The Loan Fund tomorrow, at their request, to revisit some of the constraints imposed on the NMSBIC's commitment to them.

WESST Corp

Mr. Goblet said WESST Corp has originated a new \$35,000 loan, of which the NMSBIC's participation is \$26,250. This brings the total number of loans since inception to 26, with a current outstanding portfolio balance of \$119,352.

Verge Fund

Mr. Goblet reported that the NMSBIC documents have been signed, and Verge 2 will call capital at the end of January.

Mr. Goblet said Verge 1 and 1.5 funds continue to make small add-on investments in current portfolio companies. Primarily they are working with the companies to help maximize value and prepare for exits.

Gap Fund

Mr. Goblet said the NMSBIC closed its extended commitment to the Gap Fund in late December. They do not expect a capital call until later in the first quarter, but are actively looking at several new deals. He will attend their advisory committee meeting later today.

Flywheel Ventures

Mr. Goblet stated that Flywheel's advisory committee will meet later today, when there will be a portfolio review as part of the call and an update on exit strategies and valuation enhancement possibilities.

NM Growth Fund

Mr. Goblet said they have a contract in hand for their Deming facility; they paid \$525,000 for it, and it will apparently sell it for about \$475,000.

Mezzanine Fund

Mr. Goblet said NM Mezzanine is in the process of reviewing and preparing a commitment to an Albuquerque based business.

Letter from former Lt. Governor Diane Denish

Mr. Goblet read a letter from former Lt. Governor Denish thanking Chairman Baca and the Board for their service and dedication “to helping small business in New Mexico, and for your innovative thinking that has helped expand access to capital, and for the leadership role you have taken to make it happen.” He commented that, were it not for Lt. Governor Denish, the NMSBIC would very likely not exist.

State Investment Council

Mr. Goblet stated that he will attempt to get on the SIC agenda after the legislative session.

Ms. Longserre said she thought it very important for the SIC to know that Mr. Goblet has the support of the entire Board, which can be reinforced with letters from the NMSBIC's lending and equity partners – this makes it a coalition of businesses and people from all over the state.

Emergent Technologies

Mr. Goblet stated that a group in Lea County has brought in Emergent Technologies, a \$27 million VC fund out of Austin to assess where capital could be deployed to create economic upside and jobs. In addition, they are looking at what is happening at Sandia Labs, Los Alamos, etc., with the idea of creating a fund to focus on Lea County and the southeast part of the state. He said Emergent brings in their own technology and technologists, licenses the technology, and creates virtual companies.

Mr. Cobb said the Lea County Commission has committed \$300,000, and Emergent will make a report to the Commission in April. He stated that the oil and gas industry is generating a lot of tax revenues there, and YTD tax revenues are up \$10 million in Hobbs. He commented that people in Lea County understand that diversification is possible, such as through LES, which is constructing and operating a gas centrifuge uranium enrichment plant in Lea County. He said Emergent has been involved in an accelerator in Abilene that has focused on pharmaceutical research out of the Texas Tech pharmaceutical school branch in Abilene. He said Emergent looks not only at technology that impacts the oil and gas industry, but also at incubators. He said the County's cash reserves and tax base are continuing to grow, and he suspects there will be a bricks and mortar contribution on behalf of the County.

Mr. Cobb stated that Emergent will probably be approaching the NMSBIC at some point, since Lea County people are well aware that the NMSBIC is funded through the Severance Tax Permanent Fund and feel strongly that some of the money should come back to their area.

Mr. Goblet said he will be going to Lea County in April to visit with Emergent and other people in the business community.

DISCUSSION AND POSSIBLE VOTE ON NM ANGELS MEMBERSHIP RENEWAL

Mr. Goblet said he has received the \$900 annual billing from New Mexico Angels. He pays \$300 of that each year to cover his meals.

Ms. Longserre said she supported the NMSBIC's continuing membership.

Mr. Smith moved for approval. Mr. Cobb seconded the motion, which passed by voice vote.

**NEXT MEETINGS: Monday, February 14, 2011: NMMFA
Monday, March 21, 2011: NMMFA**

ADJOURNMENT


Its business completed, the NMSBIC Board adjourned the meeting at approximately 12:10 p.m.



Andrew Baca, President

2/14/11

Date



Mary A. Garza, Secretary

2/14/11

Date