

INDEX OF MINUTES

NM SMALL BUSINESS INVESTMENT CORP

May 16, 2011

<u>Item</u>	<u>Action</u>	<u>Page</u>
<u>APPROVAL OF AGENDA</u>	Approved	1
<u>APPROVAL OF MINUTES:</u> April 26, 2011	Deferred	2
FINANCIAL STATEMENTS	Approved	2
VOTE ON MATURING CD	Renew 3 months at NM Bank & Trust	2
LEGISLATIVE STRATEGY	Discussion	3
JUNE ANNUAL MEETING, OFFICER ELECTIONS, CONTRACT RENEWALS	Discussion	5
ADVISOR'S REPORT	Informational	5

MINUTES OF THE
NEW MEXICO SMALL BUSINESS INVESTMENT CORP.
REGULAR MEETING

May 16, 2011

A regular meeting of the New Mexico Small Business Investment Corporation was called to order on this date at 9:10 a.m. in the conference room of the New Mexico Mortgage Finance Authority, 344 S. 4th Street, S.W., Albuquerque, NM.

A quorum was present:

Members Present:

Mr. Andrew Baca, Chair
Mr. Kit Caldwell [by telephone]
Mr. Sam Cobb, Vice Chair [by telephone]
Ms. Mary A. Garza, Secretary
Mr. Billy Knight
Mr. Greg Kulka [State Investment Council designee]
Ms. Marie Longserre, Treasurer

Members Excused:

Mr. Clarence L. Smith [designee of the Hon. James Lewis, State Treasurer]

Legal Counsel to Board:

Mr. Randall J. McDonald

Financial Advisor to Board:

Mr. Paul Goblet

Recording Secretary:

Ms. Judith Beatty

Guests Present:

None.

APPROVAL OF AGENDA

Item #6 [Review of Insurance Coverage] was deferred to the next meeting.

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

ADDITIONAL COMMENTS

Mr. Goblet stated that, following the April 26 SIC meeting, Chairman Baca emailed him to say, "I'm so proud of what this Board has done, as we have truly contributed to our great state and helped support so many jobs in our community... No matter what happens in the future, we should all be proud of what we've done."

An article featuring Ms. Longserre was circulated. Ms. Longserre was recognized by New Mexico Business Weekly as one of 25 New Mexicans who play key roles in the state's technology community.

APPROVAL OF MINUTES: April 26, 2011

[Deferred.]

REVIEW AND ACCEPTANCE OF FINANCIAL STATEMENTS

The Board reviewed the April financial statements, reflecting total current assets of \$16.7 million.

Ms. Garza moved approval of the April financials. Ms. Longserre seconded the motion, which passed by voice vote.

DISCUSSION AND POSSIBLE VOTE ON MATURING CD

Mr. Goblet stated that the NMSBIC has a \$245,755 CD maturing at NM Bank and Trust on May 28. He said the new rate for a 3-month CD is 35 basis points, down 10 basis points from this CD. He stated that First Community Bank's quote was 10 basis points.

Mr. Goblet suggested renewing the CD for another 3 months at NM Bank and Trust at 35 basis points.

Mr. Knight so moved. Ms. Longserre seconded the motion, which passed by voice vote.

DISCUSSION ON LEGISLATIVE STRATEGY

Board members discussed a supplemental report that Mr. Goblet prepared in response to the SIC's request at the April 26 meeting for details on the NMSBIC's for-profit co-investors.

Mr. Knight observed that 50% of the companies have received a co-investment from funds that are part of the SIC's NM Program, as well.

Mr. Goblet noted that the NMSBIC is required to make annual reports to the Governor and LFC upon completion of the annual audit, but statutorily has no responsibility to report to the SIC, which he thought was a mistake given that the NMSBIC's capital flows down through the SIC. However, at its own initiation, the NMSBIC has always provided its annual report to the SIC. Given that the SIC will no longer have representation on the NMSBIC Board as of July 1, 2011, and given the change in administration and appointment of new SIC members, he said it might be beneficial to report twice a year, and to attempt to do so in person.

Mr. Goblet said he thought the NMSBIC should proactively communicate more broadly with more people, including the SIC and the Governor. He said he has met with the Governor's staff as well as with the Lt. Governor's staff and feels it would be of benefit to continue meeting with administration representatives every three to six months.

Mr. Goblet said new legislative committees are being announced, and he believes that the NMSBIC's accountability to the LFC would suggest that the NMSBIC immediately ask to present to the LFC and then attempt to participate in key committee hearings over the summer. Mr. Goblet said it would also be beneficial to schedule individual meetings with key legislators.

Board members discussed meeting with their own legislative representatives to help educate them about the NMSBIC, and putting together a concise message for this purpose.

Ms. Longserre added that the equity and loan partners are very good spokespersons for the NMSBIC – these are the people that legislators are particularly interested in hearing from.

Noting the NMSBIC's nonprofit 501(c)(4) status, Ms. Longserre said there may be lobbying restrictions similar to those of a 501(c)(3). If that is the case, the NMSBIC should consider filling out the appropriate election form to file with its tax returns, allowing a nonprofit to engage in educational activities.

Mr. McDonald stated that he would investigate restrictions, if any, but did not think that should hinder the Board unnecessarily in this process. He added that the NMSBIC is a quasi government agency, so has certain reporting requirements anyway.

In discussing the NMSBIC's financial direction, Mr. Goblet said he has always felt that the NMSBIC would be in a position to re-circulate the \$47 million it received from the Severance Tax Permanent Fund similar to what has transpired on the lending side. He said the NMSBIC will begin receiving distributions from equity funds over the next 12-18 months, hopefully based on increased valuations and company sales. With \$38.5 million in current net asset value, \$16.5 million in current liquid assets and \$5 million in uncommitted capital, he believes the NMSBIC is in a healthy financial position to continue being important to the State's capital delivery system.

Mr. Goblet said the NMSBIC has \$5 million in uncommitted capital and a cash balance of \$16.5 million due to capital calls that have not yet occurred. Over the next 12 months, he expects about \$4 million in capital calls primarily from The Loan Fund, NM Mezzanine Fund, Verge 2 and NMCC, leaving \$12.5 million in cash prior to any return distributions.

Mr. Goblet suggested that the Board consider setting aside \$2 million of capital for lending

activities and \$2 million for equity, leaving the NMSBIC with \$1 million of uncommitted capital over the next 12 months.

While the NMSBIC can expect relatively quick turnaround on the lending side that enables the recirculation of capital, Mr. Goblet said the same cannot be expected on the equity side given the 7-10 years (and longer) return window for most equity funds in the current economic environment. He noted that the SIC's New Mexico program has not made a commitment to a new fund in three years.

Mr. Goblet said he felt comfortable that the NMSBIC could continue to offset all of its operating expenses, as rates should increase and currently two-thirds of the NMSBIC's returns are coming from its lending partners. He said the NMSBIC's annual operating expenses for the last four years have been \$265,000 to \$275,000 and should continue at that level.

Mr. Goblet stated that he believed that any distraction from generating the highest possible return on investment for the STPF would be viewed as negative by the SIC; and that economically targeted investments that have the potential to enhance the local business economy or improve job retention or creation would not carry any weight with the SIC Board unless it also produced a positive return on investment. Since legislators mandated these programs, he said that they should be the primary focus of any targeted communication and education effort by the NMSBIC.

Ms. Longserre supported talking to legislators, educating them, and getting support from partners and recipients – the message being that the State could lose its conduits of capital for small businesses.

Ms. Longserre said she did not believe the NMSBIC should in any way encourage taking its program out of the permanent fund and putting it under one of the departments in the general fund, because from that point forward the NMSBIC would become a politicized organization having to lobby for its operating expenses every year.

At Mr. Knight's suggestion, Mr. Goblet said he would work on talking points that Board members could use in educating legislators and citizens in their own communities.

Ms. Longserre said she continues to support a third party professional impact study for the NMSBIC – not just for general educational purposes, but because it would be very useful information for Board members to have.

DISCUSSION ON JUNE ANNUAL MEETING, OFFICER ELECTIONS, CONTRACT RENEWALS

Mr. Goblet said all contracts expire on June 30, and asked for direction from the Board on whether or not to issue RFPs or RFIs for any of them. He noted that the NMSBIC has no legal obligation to do so.

Ms. Longserre said she was on the evaluation committee that put out the RFP for Mr. Goblet's contract, which agreed that the contract should be reviewed periodically. Given that this occurred a year and a half ago, given that very few people bid on it last time, given the cost involved in issuing the RFP, and given outside factors potentially affecting the NMSBIC, Ms. Longserre recommended

that Mr. Goblet prepare a new contract. She commented that his services provide good value to the organization.

Ms. Longserre noted the small size of the contracts for the auditors, Finance New Mexico, the recording secretary, the attorney and the accountants. Given the fact that very specific knowledge is needed, and that the NMSBIC has had some missteps in the past with some of the accounting and auditing firms it has used, and is now getting exceptional value, she recommended bringing them all back for renewal at the next meeting.

Board members agreed to communicate offline regarding a slate of officers.

DISCUSSION ON FUTURE USE OF AVAILABLE CAPITAL

Mr. Goblet said he would bring ideas forward for the Board to consider.

ADVISOR'S REPORT

ACCION NM

-- With two months remaining in the fiscal year, ACCION has reported net write-offs of \$144,521, which is below the \$150,000 limit; however, the percentage of loan losses has increased to just over 5% because the portfolio size now stands at \$2.4 million. An increase in bankruptcy filings remains an impediment to more successful collections.

-- ACCION continues to generate 10-15 new loans each month. Their loan approval process and servicing systems have greatly improved over the years. Credit quality of potential loan clientele has gone down over the past three years, however.

-- Businesses that have received loans from ACCION reported \$13.4 million in monthly revenues. At least 10% were loans to startups. These businesses employed 3,155 people; based on an average \$8 per hour wage, the resulting payroll translates to \$52 million annually, creating a significant impact on State revenues.

-- ACCION perceives Arizona and Colorado to be more robust economies with better quality companies, and their lending activity there has gone up while their lending activity in NM has decreased. If NMSBIC is looking for more diversification from lending activities, it will have to find additional lending partners.

The Loan Fund

-- The Loan Fund Board has agreed to all terms and conditions proposed by the NMSBIC and will be signing documents reflecting the first maturing portion of \$3.5 million in July 2017.

WESST Corp

-- WESST Corp reported \$2,752 collected in April, with \$2,813 due to the NMSBIC.

NM Gap Fund

-- First quarter report shows an increase in committed capital by the NMSBIC to \$2 million, or 87.2% of the total fund size. The Fund has invested \$744,000 in 11 companies, which are currently valued at \$696,000. Only 63.3% of the capital has been called, which should enable the Gap Fund to make 3-4 new investments and some small add-on investments.

Flywheel Ventures

-- Fourth quarter 2010 report includes updates on their four NM investments. TruTouch and CoMeT Solutions have underperformed for extended periods and have been carried at limited or significantly reduced values. Tred Display has performed poorly and is in default of its notes.

-- With 91% of the capital called and little likelihood of additional calls for add-on investments, the success of this fund most fully falls upon Miox Corp, and it will be critical to secure some value from CoMeT Solutions and Tred Display.

NM Mezzanine Fund

Mr. Goblet stated that NM Mezzanine Fund will be putting forth recommendations to amend their investment policy, which would require approval from two-thirds of the investors in the Fund. They have only made two investments to date, both exceptions to their investment policy, and they are finding it increasingly difficult to find qualified companies with 12 months of historical cash flow and sufficient debt service coverage. Many companies are being asked by their banks to find new banks so NM Mezzanine Fund believes they could take on the role of senior lender, however the debt service coverage may not meet their policy.

Mr. Goblet referred to the New Mexico Mezzanine Fund proposal. While no approval from the NMSBIC is required to amend their investment policy, they would like input from the Board on this proposed move.

The proposal would establish “a second tier of Investment Guidelines for situations in which the Fund could invest in the Senior Debt securities of potential portfolio companies that have not yet produced positive EBITDA, but can demonstrate that they will do so within 12 months of investment.”

Mr. Goblet commented that he thought this proposal made sense. While there would be more potential risk because the companies have not had positive EBITDA for the last 12 months, on the other side, as the sole senior lender NM Mezzanine Fund would be the only beneficiary of the company’s assets. More importantly, the lending agreements would be structured to only allow advances as certain benchmarks are met, which helps protect the NMSBIC.

Mr. Kulka commented that if the NM Mezzanine Fund can be in a senior position while getting the same rate as a subordinate lender, it makes more sense to do that.

Chairman Baca said he thought the Fund proposal made sense.

NM Growth Fund I

-- Aridien, the sole remaining investment in the fund, is actively pursuing options for the sale of the company or any possible recapitalization opportunities.

NM Growth Fund II

-- Mesa Ventures has scheduled an Advisory Committee meeting on June 2 to put forth the GP's recommendations on a forward strategy for the fund. No new dollars are being invested at this point.

Verge Funds 1 and 1.5

-- Three companies now have annual revenues greater than \$3 million. The fund could have 2-3 exits in another 18 months, with distributions to the NMSBIC.

Verge Fund 2

-- Since Verge Fund 2 primarily consists of cross investments in 5 of the most successful Verge I portfolio companies, results should be demonstrated sooner and at a better performance level of any NMSBIC fund commitment.

New Mexico Angels Sidecar Fund

Mr. Goblet reviewed a proposal from New Mexico Angels, which proposes to form a small sidecar fund that would mirror Desert Angels, a similar fund in Tucson. He said the proposal is very early stage and no action from the Board is requested at this time.

-- The investment criteria would be built in: for example, at least four Angels would have to commit capital to any one deal, so there wouldn't be an approval process of influencing a fund investment because it would happen automatically.

-- The fund would be relatively small, with the NMSBIC investing side by side with the Angels at \$500,000 each. The Angels feel that \$250,000 is more realistic for them, so are requesting a 2:1 match.

-- Typical investments would be \$50,000 to \$100,000; this would allow investments in 6-8 companies over a two-year period.

-- There would be no management fees, since decisions to investment would be automatic, based on direct commitments from the NM Angels.

-- The Angels have sent him the Tucson fund documents for review. Legal expenses would be virtually nothing given that the sidecar fund would replicate the Tucson fund.

-- The Angels would call 100 percent of the capital at one time and put it in escrow along

with their capital. If they do not invest it in two years, they will return all un-invested capital.

Mr. Kulka and Ms. Longserre asked for clarification on what expenses, if any, would be charged to the sidecar.

Mr. McDonald noted the statutory requirement that the NMSBIC make investments through cooperative agreements with people who have demonstrated expertise and experience. He said the proposal indicates that an investment is automatic if there are a certain number of investors, which implies that there is no diligence at the fund level. The question is who is the general partner running the fund and what are their responsibilities.

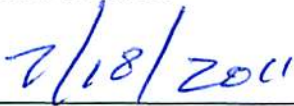
NEXT MEETING: **Monday, June 20, 2011 NMMFA**

ADJOURNMENT

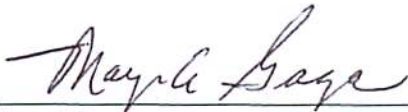
Its business completed, the NMSBIC Board adjourned the meeting at approximately 11:45 a.m.



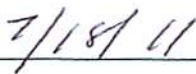
Board President



Date



Board Secretary



Date