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NM SMALL BUSINESS INVESTMENT CORP

May 24, 2010

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MINUTES OF THE

REGULAR MEETING

NEW MEXICO SMALL BUSINESS INVESTMENT CORP.

May 24, 2010

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. 4th Street, S.W., Albuquerque, New Mexico.

A quorum was present:

Members Present:

Mr. Andrew Baca, Chair

Mr. Kit Caldwell

Mr. Sam Cobb, Vice Chair [by phone]

Ms. Mary A. Garza

Mr. Billy Knight

Mr. Greg Kulka [State Investment Council designee]

Ms. Marie Longserre, Treasurer

Members Excused:

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

Legal Counsel to Board:

Mr. Randy McDonald

Financial Advisor to Board:

Mr. Paul Goblet

Accountant:

Ms. Dee Brescia

Recording Secretary:

Ms. Judith S. Beatty

Guests Present:

Mr. Tom Eakes

Ms. Holly Eakes

APPROVAL OF AGENDA

Upon motion by Ms. Garza and seconded by Mr. Knight, the Agenda was approved by voice vote, as published.

INTRODUCTION OF DEE BRESCIA

Ms. Brescia introduced herself to Board members. She said she has been doing accounting work for more than 25 years, is a CPA, and focuses her efforts on smaller companies that cannot necessarily afford to have an accountant on staff, but need the professional expertise that goes beyond a bookkeeper.

Mr. Goblet described the steps taken in transitioning the financial records from REDW to Ms. Brescia. He said he sees Ms. Brescia's role as an off-balance-sheet CFO for this organization. He commented that an enormous amount of information has been flowing back and forth between Pulakos, REDW and Ms. Brescia. He said that the transition should be completed by the end of June.

APPROVAL OF MINUTES: April 19, 2010

Ms. Longserre moved for approval of the April 19 Minutes, as submitted. Ms. Garza seconded the motion, which passed by voice vote.

FINANCIAL REPORT

The February and March financials were in the packet in draft form.

Mr. Goblet noted that first quarter results are just beginning to come in from the equity partners. He said the Board should see more reliable numbers at next month's meeting.

UPDATE ON IRS 990 FILING

Mr. Goblet reported that the 990 Form was filed a week prior to the May 15 extension deadline.

Mr. McDonald noted that the recommendations made by Board members at the last meeting were incorporated into the return.

A) Discussion and Possible Vote on 2010 Auditor

Mr. Goblet stated that a meeting was held with Pulakos representatives last week, and Pulakos presented a proposal for the 2011 audit work. He said the proposal calls for

\$22,000 for the financial audit and \$7,500 for tax preparation, to be billed in three increments: 40%, 40% and 20%.

Mr. Goblet said the proposal mirrors last year's contract, except that the overall fee has been reduced by \$400.

Mr. Goblet commented that, in his opinion, this is the best professional audit relationship the NMSBIC has had since its inception from the standpoint of accounting or audit work.

Ms. Longserre moved to accept the proposal from Pulakos. Mr. Caldwell seconded the motion, which passed by voice vote.

UPDATE ON ENGAGEMENT FOR ACCOUNTING SERVICES

Mr. McDonald said a contract has been signed with Dee Brescia in response to action taken at the last meeting.

Mr. McDonald said he would send REDW a letter notifying them that the contract between REDW and the NMSBIC is officially terminated.

REVIEW AND ADOPTION OF NEW POLICY

A) Document Retention Policy

Mr. McDonald said he provided copies of a draft document retention and destruction policy to Board members electronically late last week.

Mr. McDonald stated that the Board can adopt the policy at this meeting or at the June meeting. He said it should be in place by June 30 and effective for FY 2010-11.

Mr. McDonald said the Document Retention and Destruction Policy states that emails relating to activities of the organization should be maintained, and that a person can maintain them by sending copies to the organization's email account. He said Mr. Goblet is in the process of having the website updated, and that will include the email storage account.

Board members agreed with a suggestion by Mr. Kulka that people have their own separate NMSBIC email account instead of using their personal email account.

Ms. Longserre commented that she has recently been reviewing various document retention policies and was comfortable with this one. She recommended that the information packet handed out to Board members annually include where the records are located and how are they accessed physically and/or electronically.

Mr. Kulka indicated that he will be meeting with the State Investment Officer later this week to discuss whether or not the SIC representative should resign as Board Secretary.

Ms. Garza moved to adopt the Document Retention and Destruction Policy, as presented. Mr. Knight seconded the motion, which passed by voice vote.

ADVISOR'S REPORT

ACCION NM

Mr. Goblet noted that ACCION's portfolio has been rolling down every month and now stands at \$3,057,000, the lowest level since July 2008. He said ACCION is very concerned with the amount of debt that the small businesses in the portfolio have and the ability of those businesses to service that debt; and their approvals and volume are shrinking as they have toughened their lending criteria. He said total loans made now stand at 1,573, with 402 loans currently outstanding.

Mr. Goblet said the NMSBIC's original intent was to find pools of capital that complemented one another; so while ACCION has loans that average \$11,000, it complements The Loan Fund, which has higher average loan size. Both alternative lenders are critical to meet the needs of small businesses in NM.

WESST Corp

Mr. Goblet reported that WESST Corp has originated two new loans totaling \$13,500, bringing the total number of loans to 24 since inception.

The Loan Fund

Mr. Goblet stated that The Loan Fund will be calling almost all of their remaining capital in early July, and then they will be at \$7.5 million outstanding with no additional capacity.

Mr. Goblet said he will be meeting with Leroy Pacheco today to discuss the various issues raised by the Board in recent months.

New Mexico Community Capital

Mr. Goblet stated that NMCC has made two major investments in the last two months: on May 16, they closed a \$1 million participation in a convertible round in Aspen Avionics, of which the NMSBIC's portion will be \$488,816; and closed a similar sized round in IntelliCyt in April, leaving the Fund with approximately \$2 million of remaining investment capital. He commented that both investments have the potential to generate very attractive returns over a fairly short time horizon, and, if successful will be the catalysts to begin conversations relative to a second fund.

Mr. Goblet noted that NMCC received a big boost last month when it received a \$649,000 Native American Community Assistance award from CDFI, largely the result of efforts by Shyla Sheppard. He said Ms. Sheppard will be managing this tribal business initiative for NMCC.

Flywheel Ventures

Mr. Goblet reported that Flywheel recently made a number of changes without communicating those changes to the Advisory Committee, which resulted in a conference call with the LPAC and Flywheel. He said the founder of the fund, Trevor Loy, will be spending a significant amount of time in the Far East, raising concerns. He said the second concern is that Flywheel started out with a goal to raise a \$50-\$70 million in a second fund, but have only had a \$6 million first close. He said a third concern has been over various personnel changes.

Mr. Goblet said Flywheel covered numerous issues in the conference call, which lasted 90 minutes and was very productive. He stated that Flywheel has a major portion of the portfolio in Astria Semiconductor, where Mr. Loy is acting chairman, so Mr. Loy is spending a lot of time in the Far East trying to help that company, along with other companies in the portfolio that have activities in the Far East. Mr. Goblet added that NMSBIC money is not part of the Astria investment.

NM Gap Fund

Mr. Goblet reported that The Gap Fund invested \$50,000 in TxtEagle and \$75,000 in Retail Planet during the first quarter of 2010. He said there was also a small add-on investment in Tred Displays. He stated that, while there have been closures of three companies, eight have survived the economic challenges of the last two years.

Mr. Goblet said Lawrence Chavez will be spending less time on new portfolio investments and will be working on the establishment of a similar fund in West Texas and Las Cruces. He said Scott Caruso will be taking on the day-to-day responsibilities of the Fund.

NM Mezzanine Fund

Mr. Goblet said NM Mezzanine Fund has returned all investment capital (after taking management fees and expenses) and is in the process of reviewing two new investments. He noted that, because this is a debt fund and companies must have sufficient cash flow to pay an interest rate of 10-12%, the approval process is more difficult. He added that mezzanine capital is becoming more attractive to a larger number of companies because traditional banks are forcing businesses to find alternative funding sources. He said this should result in more deals.

NM Growth Fund 1 & 2

Mr. Goblet reported that there are three companies left in NMGF 2—ClingZ, Hatch Valley Farms (formerly High Desert Chile) and Aridien. He said ClingZ's revenues have

averaged approximately \$400,000 a month since January, and Hatch Valley Farms has begun production in the Mexican facility. He stated that there appears to be interest in their Deming facility, which is now owned by the Fund, and that could generate a sale price of \$750,000 that would be distributed back to the LPs. He commented that the sale of the Deming facility would be significant, given that year-end valuations will reduce the value of Fund 2 to \$1,092,000, a loss of \$1.5 million.

Mr. Goblet said Aridien is the sole survivor in Fund 1, although they have not secured any major pharmaceutical clients at this point.

Verge Fund 1 and 1.5

Mr. Goblet said both funds have approved small add-on investments in three companies: IntelliCyt, Boomtime and Wellkeeper, at about \$300,000 apiece. He said there is sufficient capital for small add-on investments in other portfolio companies over the coming months.

Mr. Goblet stated that, while the first quarter financials are not yet available, the collective funds showed a \$555,000 reduction in value at year end; and based on the number of investments, the two funds have performed the best of all of the NMSBIC's partnerships.

Verge Fund 2

Mr. Goblet said Verge Fund 2 had a meeting of its Conflict of Interest Committee to review potential cross investments in four current portfolio companies, which are allowed based on certain criteria and disclosure of all conflicts of interest. He said the Committee approved approximate \$300,000 investments in IntelliCyt, Wellkeeper and Boomtime, while the fourth investment was tabled.

Short Term Cash

Mr. Goblet reported NMSBIC balances in CDs and money market accounts, totaling \$18,191,450.

Capital Calls

Mr. Goblet said he expects the NMSBIC to have balances of approximately \$17 million on June 30, \$15 million on December 31, and about \$12 million at December 2011.

REVIEW OF SIC REPORT

Mr. Goblet reviewed a slide presentation that he had prepared for distribution to the newly restructured State Investment Council.

FINANCE NEW MEXICO PRESENTATION

A) Discussion/Possible Vote Regarding 2010-11 Sponsorship

Tom and Holly Eakes of The Holly Company distributed and reviewed an update synopsis of Finance New Mexico's activities.

Ms. Eakes noted that website traffic is increasing and newspaper participation is holding steady. She said they continue to meet with banks and other organizations to try to further increase the visibility of FNM.

Ms. Eakes said that, while their original mission was to get the word out in various ways to people looking for a lender or equity partner, now they are getting comments and calls from banks that cannot serve their customers and who see Finance New Mexico as a source for referring people to the appropriate resources.

Mr. Eakes commented that Finance New Mexico is now a brand in New Mexico—something the NMSBIC should be proud of, given that it didn't exist just three years ago.

Ms. Eakes said The Holly Company is still doing one article a week and is always looking for new material and new organizations.

Ms. Eakes commented that the NMSBIC has really contributed the lion's share of resources to this project, which they certainly appreciate, but feel that the NMSBIC would probably like to see its share of costs decreased. She said The Holly Company feels it would help the project if they created a public/private partnership, where they would look to the private sector for some of the funding support of Finance New Mexico.

Mr. Eakes said these private sector businesses would include companies that serve other smaller companies in the financial sector, e.g., banks, CPAs and attorneys. He said many of these individuals are familiar with Finance New Mexico and would like to be part of it.

Ms. Eakes said these companies would have the opportunity to create a number of articles, with Finance New Mexico having total editorial control. She stated that the articles must contain resources or content that must be helpful to small businesses, and would be published under Finance New Mexico's masthead.

Ms. Eakes stated that The Holly Company feels that a \$75,000 annual budget is appropriate to continue this project, as proposed. She asked the Board to consider approving \$35,000 (last year's amount), to be paid in two six-month installments of \$17,500. She said they would bill the NMSBIC \$17,500 for the first six months, then seek additional funding from outside sources that they hoped would diminish the NMSBIC's second payment. Mr. Eakes said their goal is to reduce the NMSBIC's overall annual payment to \$25,000. Ms. Eakes added that, once they reach \$70,000, they will start to diminish the second \$17,500 payment.

Ms. Longserre commented that this is a great idea, since it will disseminate information to businesses in the private sector and result in more buy-in. She stressed the importance of managing its lists—if The Holly Company goes to private sector people and also has a subscription service for chambers and professional organizations, there is the possibility of going to the same well with the same people.

Ms. Longserre suggested that Mr. Goblet look over the list of people and groups The Holly Company plans to approach to make sure the NMSBIC is comfortable with the names.

Ms. Longserre also suggested that The Holly Company initially ask for small amounts—\$2,500 or \$3,000—since these are difficult times for virtually everybody.

Ms. Eakes clarified that The Holly Company would not be paying chambers of commerce to use their email lists. She said they would charge a one-time setup fee to set up an account for them, create a masthead with their sponsors, and import their email lists. She said The Holly Company would be sending out its information to the chambers' constituents, but the chambers would be getting their own sponsors whose names could be on the masthead. She said Finance New Mexico's name would appear underneath that along with the article.

Mr. Kulka commented that this amounts to forming secondary associations that The Holly Company may not necessarily have control over. He said this may not be a good thing depending on who the other parties are.

Ms. Eakes said she sees this more as a syndication scenario—Finance New Mexico is sending its own article out every week or two weeks under the masthead of the chamber and its sponsor(s).

Mr. McDonald reminded the Board that the Attorney General has suggested that it would not be a good idea for NMSBIC to approach its financial partners to ask for contributions.

Mr. Goblet recommended adoption of this proposal by The Holly Company. He said he thought the proposal to be very reasonable, adding that this is the only sponsorship the NMSBIC has.

Ms. Longserre moved to approve the proposal presented by The Holly Company up to \$37,500. Ms. Garza seconded the motion, which passed by voice vote.

B) Discussion/Possible Vote Regarding Creation of New NMSBIC Website

Tom and Holly Eakes distributed and reviewed a proposal to rebuild the NMSBIC website.

Ms. Eakes said estimates were obtained from three website development companies to rebuild the NMSBIC website. She said Don Mickey Designs Inc. quoted a rate of \$4,212 versus the two other proposals of \$4,350 and \$5,300.

Ms. Eakes stated that The Holly Company would perform additional services for a fee of \$1,800. She said those services were: design of a simple logo; development of a simple tag line; design and implementation of specifications; obtaining photos and licenses; and updating of the *News & Announcements* section as needed.

Board members agreed that this is a badly needed service.

[The Eakeses left the meeting.]

Ms. Longserre stressed the need to decide what is appropriate for the website but to keep it simple in order to avoid unnecessary ongoing costs.

Mr. Kulka suggested that the website be similar to the SIC's in terms of content. He said the SIC website includes policies, minutes, targeted programs and other links so people can easily access information that is commonly requested.

Raising some points the Board may want to keep in mind going forward, Mr. McDonald commented that, with respect to the discussion around Finance New Mexico and bringing in other people as sponsors, there was some question about what is FNM and who really controls it. He said NMSBIC may want to continue to control it, or perhaps the Eakeses might want to turn it over to the NMSBIC to run and then the NMSBIC can decide whether or not it wants to continue to put money into it. He said Finance New Mexico could also be set up and run as a separate nonprofit.


Mr. Knight moved to approve the website concept and to come back in June with a specific proposal detailing all of the costs. Ms. Garza seconded the motion, which passed by voice vote.

NEXT MEETING

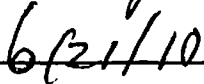
9:00 A.M. Monday, June 21, 2010: La Fonda Hotel, Taos, NM
Public Presentation Site and Time TBA

ADJOURNMENT

Its business completed, the NMSBIC Board adjourned the meeting at approximately 12:00 P.M.



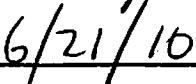
Andrew Baca, President



Date



State Investment Council Representative



Date