

ACTION SUMMARY

NM SMALL BUSINESS INVESTMENT CORP

September 19, 2011

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MINUTES OF THE
NEW MEXICO SMALL BUSINESS INVESTMENT CORP.

REGULAR MEETING

September 19, 2011

A regular meeting of the New Mexico Small Business Investment Corporation was called to order on this date at 9:00 a.m. in the conference room of the WESST Enterprise Center, 609 Broadway Blvd., N.E., Albuquerque, New Mexico.

A quorum was present:

Members Present:

Mr. Sam Cobb, Acting Chairman
Mr. Joseph Badal
Mr. Lupe Garcia
Ms. Roxanna Meyers
Ms. Launa Waller [leaving at 12:00 p.m.]

Members Excused:

Mr. Alan Fowler
Mr. Clarence L. Smith [designee of 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:

Ms. Mary Garza, former NMSBIC Board member
Ms. Marie Longserre, former NMSBIC Board member
Mr. Billy Knight, former NMSBIC Board member
Ms. Leslie Hoffman, ACCION NM
Mr. Greg Henderson, ACCION NM
Mr. Danny Griego, ACCION NM
Mr. Juan Pablo Trevizo, ACCION NM
Ms. Jessie Cardenas, ACCION NM
Mr. Tom Stephenson, VERGE

WELCOME FROM WESST

Doug Lee, Managing Director of the WESST Enterprise Center, welcomed Board members to the WESST facility. He said WESST is now, by budget, the third-largest economic development organization in New Mexico, with five regional offices. He said it began 21 years ago as the Women's Economic Self Sufficiency Team, headed up by President Agnes Noonan. He said WESST opened a business incubator two and a half years ago; in the first two years, the ten companies locating at WESST have created a total of 136 jobs.

[Executive Director Kim Blueher arrived a few minutes later and addressed the Board. See this item following approval of the minutes.]

BOARD RECOGNITION

Acting Chair Cobb commented that the NMSBIC has been blessed with having some of the best, brightest and most dedicated people on its Board, and that tradition continues with the new members. He said it is appropriate to recognize those who have served before, because as the new Board is finding out, it takes a lot of personal time and commitment for it to be successful.

Past members Mary Garza, Billy Knight and Marie Longserre were presented with framed certificates thanking them for their years of service. [Past members Andrew Baca and Kit Caldwell were not present to receive their certificates.]

APPROVAL OF AGENDA

Ms. Meyers moved for approval of the Agenda, as presented. Mr. Garcia seconded the motion, which passed unanimously by voice vote.

REVIEW AND ACCEPTANCE OF BOARD MINUTES: August 15, 2011

Mr. Garcia moved approval of the August 15 minutes, as submitted. Ms. Waller seconded the motion, which passed unanimously by voice vote.

WELCOME FROM WESST (Cont'd)

Executive Director Kim Blueher stated that the WESST Loan Fund maximum is \$50,000, which they have exceeded twice (with WESST board approval). Their loan fund has \$1.3 million outstanding in its portfolio, 128 clients (the largest ever), and last year they lent out \$700,000. The average loan size is \$13,000.

Ms. Blueher said a WESST client only has to be a resident of New Mexico – they can be thinking about starting a business, just started one, or have an existing business.

Ms. Blueher said a loan client has to be thinking about a business or have a business that is not engaged in any activities that WESST is uncomfortable with – weapons, liquor and the like – and WESST does not lend to nonprofits. They require that a startup business owner (somebody with a business either starting or in business for 12 months or less) write up a business plan and do a cash flow projection. If the business has been operational longer than 12 months, they have to complete a form that asks business plan-like questions, e.g., pricing strategy. They also do a cash flow projection. WESST is very flexible with collateral, but requires 100% collateralization.

Responding to Acting Chair Cobb, Ms. Blueher said WESST's access to capital has been fine, and the administration has been very supportive of getting capital out into the community. Now that Washington is focusing more on pulling back on government programs and making them more efficient, she is not so sure how much capital will be available in the future.

Mr. Badal asked Ms. Blueher how many clients WESST Corp. could handle given its current loan capacity, and Ms. Blueher responded that she is essentially the only person making the loans. She said ideally one loan officer should not manage more than 70 to 80 clients, and she has 128 at the current time. She said she is looking for another loan officer.

Ms. Blueher clarified for Mr. Badal that WESST Corp. only needs additional knowledgeable staff to increase the number of loans. WESST Corp. has an extremely detailed and "holistic" way of considering applications, and is not focused on high volume and fast growth, etc., and it is very difficult to find loan officers experienced in this approach.

Ms. Blueher stated that charge-offs in the loan portfolio are less than 2% and the delinquency rate is about 4%.

Mr. Badal noted that the NMSBIC's mission is to get money out to businesses that don't have other alternatives, and part of the NMSBIC's mission is to create jobs – WESST Corp is doing that, has a mechanism to do it well, and is nurturing clients and taking a responsible approach to lending. He said he would be interested in seeing a business plan at some point with the idea that the NMSBIC might help fund part of that business plan.

Ms. Meyers commented that she wasn't sure Ms. Blueher would be interested in that growth when essentially WESST's focus isn't necessarily lending – their focus is educating and developing very good businesspeople.

Ms. Blueher stated that the loan piece is really the tail of the dog called WESST; however, as the years have gone by and the loan program has grown, they have come to appreciate the interest income from the program, which is the largest contributor of earned income to WESST. Furthermore, it is a great complement to the educational programs.

Mr. Badal said he wasn't suggesting that WESST change its business model, but if they want to grow the lending side of the business, they might consider approaching the NMSBIC with a proposal.

Ms. Meyers commented that it may almost be worth it for the NMSBIC to consider funding an intern for WESST Corp., because duplicating Ms. Blueher is extremely difficult – bankers are no longer trained in this way. Ms. Blueher agreed.

Mr. Badal said maybe the solution is finding an underwriter, which would free up Ms. Blueher to spend more time on counseling. Ms. Blueher added that this would also allow her to spend more time in the field.

FINANCIAL REPORT

Upon Mr. Badal's suggestion, the Board agreed that Ms. Brescia's presence is only required for quarterly reports unless she feels there is an issue she needs to discuss in depth with the Board, and it is not necessary for her to be at the October meeting unless the audit is done.

Mr. Goblet reviewed the August financials.

Mr. Badal moved to approve the August financials. Ms. Meyers seconded the motion, which passed unanimously by voice vote.

REVIEW AND ACCEPTANCE OF 2011-12 BUDGET

Mr. Goblet noted that the forecast this year is \$267,000 of earned income, down from \$2 million 4 years ago largely because interest rates have dropped in that time from 4% to 10 basis points. He said the proposed budget is \$252,000, slightly less than last year.

Ms. Meyers moved approval of the 2011-12 budget. Mr. Garcia seconded the motion.

Acting Chair Cobb commented the NMSBIC is looking at \$14,000 in net profits, so funding an underwriter for WESST Corp would likely mean using money from the fund corpus. Mr. Badal said he understood that, but was assuming WESST Corp would have other sources of funds besides the NMSBIC.

The motion passed unanimously.

Mr. Garcia stated that such a low balance is a concern, and Acting Chair Cobb responded that the Board began a discussion two years ago about how much it could lend out. He said the NMSBIC needs some liquidity events now that the J-curve has lengthened.

Mr. Badal asked Mr. Goblet if there are any equity partners in the portfolio where their status is such that the NMSBIC might be better off not granting them any more capital calls.

Mr. Goblet responded no, with the exception of New Mexico Growth Fund I and II, which have been written off.

Acting Chair Cobb pointed out, though, that issues could flush out later that might cause Mr. Goblet and/or the Board to take another position. He added that Mr. Goblet is in constant contact with all of the equity partners and has been consistent in calling the Board's attention to any issues of concern.

Mr. Badal disclosed that he had a meeting with Economic Development Secretary Jon Barela, who brought in T. Greg Merrion, a member of the Board of New Mexico Community Capital. Mr. Badal said he had not known at the time that Mr. Merrion was associated with one of the NMSBIC's equity partners. He stated that Mr. Merrion had a list of points that the SIC wanted to be changed and was concerned that the NMSBIC Board was not going to make any more equity investments. Mr. Badal said he clarified that no such decision had been made.

PRESENTATION BY ACCION NM: LESLIE HOFFMAN

ACCION NM representatives Leslie Hoffman, Greg Henderson, Danny Griego and Juan Pablo Trevizo made a presentation.

- ACCION's first participation loan with NMSBIC was issued in February 2004.
- The partnership has made possible nearly 1,900 loans for more than \$20 million.
- ACCION has made loans in 167 communities from Alamogordo to Zuni Pueblo.
- About 91% of ACCION's clients are low- to moderate-income, minority or women.
- Nearly half of the businesses ACCION has funded in 2011 have been start-ups.
- Businesses served range from home-based seamstresses and childcare providers to regional food manufacturers and information technology firms.
- The average business employs between one and five people.
- Average credit score for 2011 loan recipients is 643.
- Average loan size for a NM borrower in 2011 is \$7,300. Through August, 60% of loans were \$5,000 or less.

Mr. Henderson reviewed a summary of SBIC loans made over the life of the partnership, which have created an average annual earnings impact of \$9.6 million.

Acting Chair Cobb asked for information on total revenues and employees from companies in the ACCION/NMSBIC relationship.

Mr. Henderson reviewed the results of an economic analysis that ACCION commissioned from TXP, Inc., a Texas-based economic analysis and public policy consulting firm. The goal was to analyze economic and tax revenue impact of ACCION's lending. He said the model used by TXP estimates regional input-output multipliers, measures economic activity based on geography and business industry type, and uses multipliers to estimate total impact.

Ms. Meyers commented that studies can be manipulated in various ways. She said she would like to know whether businesses that were given loans five years ago are still in business; and if so, where are they now and how many employees do they have.

Mr. Badal asked if ACCION has information on clients that have graduated and moved on.

Mr. Henderson responded that ACCION does not have the kind of statistical information being requested. He said the information they have is largely anecdotal.

Ms. Hoffman stated that the microlending industry is grappling with the whole impact issue – how can they make sure that the numbers they provide speak to the kind of economic impact that people are trying to capture. She said the challenge is that, once someone is through with a loan, they aren't required to maintain contact with ACCION, so there is no way to systematically track them.

To Ms. Meyers' request, Ms. Hoffman said ACCION participates in a number of different efforts to capture outcomes, including the MicroTest Client Outcomes Survey, which is a national annual survey of 150 microfinance organizations.

Responding to Mr. Badal, Ms. Hoffman said about two-thirds of their borrowers are new borrowers, so approximately one-third are returning borrowers – either through financing, or coming back after paying back the previous loan.

Mr. Griego and Mr. Trevizo explained ACCION's process for collecting on past-due loans and discussed statistical information for 2011.

-- August delinquency ended at 3.95%, well below the comparable average going back to at least 2007.

-- Write-offs, driven partially by a surge in foreclosure-related bankruptcies, have decreased 37% from 2010.

-- 2011 recovery of funds after write-off stands at \$60,284 through August, surpassing full-year recovery totals since at least 2007.

Ms. Hoffman introduced Yashoda Naidoo, president and founder of Annapurna's World Vegetarian Café, who discussed her involvement with ACCION and the resulting success of her business.

DISCUSSION AND POSSIBLE VOTE TO EXPAND LOAN FUND FACILITY

Ms. Meyers reported on a two-hour visit she made at The Loan Fund offices last week, where she met all four of their loan officers, IT manager and controller. She said the loan officers all have solid backgrounds in commercial lending and go out and do their own collections, which is impressive. She said her general synopsis is that The Loan Fund is a great organization with a good business model.

Ms. Meyers noted that The Loan Fund is highly dependent on the staff and their capabilities – so if they had too much money and they didn't have an intern to help out, they could be overwhelmed. She said she thought the Board should consider this possibility for not only The Loan Fund but also for ACCION. She also stated that an intern makes more sense than simply hiring someone from outside, because the only way to learn the ropes in this type of lending arena is to actually have hands-on experience.

Ms. Meyers said she reviewed some of the loan documentation at The Loan Fund and feels comfortable with the representations made at the August NMSBIC meeting.

Ms. Meyers commented that the loans she reviewed are very significant and are making a serious impact, and came away from her visit with the realization that the loans made by ACCION aren't enough to really make a difference. Rather than making these small loans, she said it would make sense to sit down with those people who have good ideas, put them in touch with the people who can educate them on how to run a business, etc., and then lend them enough money to help them grow into something successful.

Acting Chair Cobb said he didn't entirely agree that ACCION's loans are too small to make a difference – someone might borrow \$5,000 to buy two mowers to start a yard service and build that to 15 employees now doing landscaping. He said he feels there is a niche for people like this.

Ms. Meyers recommended that the Board agree to increase The Loan Fund's credit facility by another \$1 million; beyond that, she would hesitate only because they have not brought up enough staff.

Mr. Badal agreed and said that was why he suggested at the last meeting that The Loan Fund present a business plan on how they get to the next step.

In view of statutory changes to be proposed by the SIC at the upcoming Legislature, Mr. Badal said he thought it crucial that the NMSBIC Board hold a strategy session as soon as possible to decide what it wants the NMSBIC to be, and what it supports and doesn't support.

Ms. Meyers responded that she felt the newly seated Board has thoughtful people on it and it may take many months for the members to decide on a strategic plan.

Ms. Meyers and Mr. Badal agreed it might be useful to meet with State Investment Officer Steve Moise to discuss the Board's feelings. Mr. Badal said he felt the Board needed time to decide on what its mission should be going forward.

Acting Chair Cobb agreed that the new Board should sit down and discuss strategy.

Acting Chair Cobb commented that one of the reasons he agreed to serve early on was because it appeared to him and the Board at the time that the NMSBIC could stay above the political fray – because if it had to go to the Legislature every year, no long-term planning would be possible, nor could any partnerships be created. He said perhaps the upcoming Legislature can correct some perceived flaws in this organization, but he stressed that any mistakes or failures made over the past few years were not the result of any kind of favoritism – some of the deals did go south, but overall, the organization has met its legislative intent.

Mr. Goblet stated that the SIC feels that Economically Targeted Investments, which includes the NMSBIC and the film loan program, are negatively affecting the SIC's overall portfolio performance, which is a concern for the SIC given its mandate to return as much investment as possible.

Mr. Goblet said the amended proposal calls for an increase in the credit facility from \$7,500,000 to \$8,500,000, subject to the following:

- 1) That the NMSBIC's called capital represents no more than 70% of the total outstanding loan portfolio on a quarterly basis.**
- 2) That the debt to equity ratio is no greater than 10 to 1.**
- 3) That the NMSBIC's credit facility remains 100% collateralized with specific loans of which no loans are greater than 180 days past due.**
- 4) That the NMSBIC's credit facility be over-collateralized by 5% with specifically identified loans of which none is greater than 180 days past due.**
- 5) That the increased capital be used for loans originated in the last 90 days.**
- 6) That none of the NMSBIC's pledged loans are restructured more than once in any calendar year.**
- 7) That The Loan Fund maintain a liquidity ratio of 5% of its loan portfolio.**

Ms. Meyers so moved, to include the above terms, that the increase in the credit facility of The Loan Fund from \$7,500,000 to \$8,500,000 be approved, and that Mr. Cobb be and hereby is given the authority to execute and deliver any documents necessary and appropriate to effect such increase. Mr. Badal seconded the motion, which passed unanimously by voice vote.

[Ms. Waller excused herself from the proceedings.]

VERGE FUND PRESENTATION: TOM STEPHENSON

Mr. Stephenson made a presentation with the following highlights:

-- There are 12 of 16 companies still operating from the Verge 1 portfolio, 7 of which have \$1 million or more in revenues. At June 30, the companies had annualized revenue of \$19 million, a 50% increase from the previous year. A total of 130 jobs have been created.

-- Verge II has made 8 investments.

Mr. Stephenson said Verge focuses on four industry sectors: software services; cleantech; electronics and instrumentation; and "human factors," i.e., measurements of the human body that don't have a regulatory component associated with them. He said Verge makes seed and pre-seed investments; in pre-seed, Verge is the first investor in an idea or a technology transfer opportunity and helps to create the company.

Mr. Stephenson discussed Verge's portfolio investments, all of which are in Albuquerque-based companies, 8 of which are located in the Verge building. He highlighted three investments:

-- Altela: water purification for the oil and gas industry. Employs 40 people. Should reach cash flow breakeven this year.

-- Wellkeeper: remote monitoring for oil and gas wells. About 20 employees, including 4 in Texas and 1 in Oklahoma. Revenues are \$3 million.

-- BoomTime: provides an e-commerce platform for thousands of small businesses. Expects \$1.5 million to \$1.7 million in sales this year. Created by Verge partner Bill Bice.

Responding to Mr. Goblet on when Verge expects to generate returns back to the partners, Mr. Stephenson said that for Verge 1 in particular, they are 7 years into the typical 10-year life of a venture capital fund. He said there is no question that their opportunities for exit were delayed by two years due to the recession, and now they are focused on helping the companies grow and preparing them for exit in 2012-2013. He said the goal is a 2x return to the limited partners.

Mr. Stephenson said Verge exits companies by selling them to a strategic partner. Their goal is to build their companies to \$5-\$10 million in revenues and sell them for \$30-\$50 million. Unfortunately, the time hasn't arrived when companies are making those acquisitions.

Responding to Mr. Garcia, Mr. Stephenson said the hope is that the companies Verge exits will stay in New Mexico, but their responsibility to the LPs is to sell a company at the best price it can get. If the company decides to leave the state, at least Verge has created more wealth for New Mexicans.

Mr. Goblet stated that the NMSBIC committed \$1.8 million to Verge 1, which has called \$1.6 million. Today, it is carried on the books at \$1,720,000. Given Verge's goal of a cash-on-cash return of 2x, the NMSBIC would receive \$3.2 million back as the companies are sold.

Mr. Goblet stated that the NMSBIC has a \$3 million commitment to Verge 1.5, of which \$2.6 million of capital has been called. Today, the investment is being carried on the NMSBIC's books as \$2,640,000. Based on a 2x return, the NMSBIC would get \$5.2 million back.

Mr. Goblet said Verge II, a very new fund, was created to take advantage of the fact that some of the companies had progressed to a point where the NMSBIC would cross invest. He said the NMSBIC has committed \$3 million, of which \$600,000 has been called. The goal of this fund is a 2.5x return.

Mr. Stephenson said the NMSBIC's role in catalyzing Verge's initial closing cannot be overstated – there is not a lot of history of institutions making investments in New Mexico venture capital funds as a lead investor, so this was extraordinarily catalytic in making other investors comfortable enough to participate and help grow Verge.

ADVISOR'S REPORT

Discussion and Possible Vote on Maturing CDARs

Mr. Goblet stated that the NMSBIC just rolled over \$3,011,938 on 9/2 at .14 for a 3-month period in the CDARs program at New Mexico Bank & Trust. The following week, it rolled \$6,773,212 at the same rate for the same time period, also in CDARs. The NMSBIC now has \$5,013,873 maturing on 9/29.

Mr. Goblet said Mr. Badal asked him to check with First National Bank of Santa Fe, as they had expressed interest in providing fully collateralized deposits. He said he also asked First Community, NM Bank & Trust and LANB. The banks quoted the following:

	<u>3 months</u>	<u>6 months</u>
First National SF	.05%	.20%
NM Bank & Trust	No quote	No quote
LANB	No quote	No quote
First Community	.05%	.10%
CDARs	.14%	.14%

Mr. Goblet said the 6 additional basis points for a 6-month CD at First National Bank of Santa Fe would be \$1,500 in this instance.

Ms. Meyers asked if there would be legal fees associated with this move, and Mr. McDonald responded that legal fees would eat up at least half of the \$1,500, as the collateral documents will have to be reviewed closely.

Mr. Badal disclosed that he is doing some consulting work for First National on the mortgage side, and so would abstain from the vote.

Mr. Goblet recommended taking \$1 million of cash from the \$5,013,875 to deposit in First Community and cover capital calls.

Mr. Garcia moved to open an account at First National Bank of Santa Fe and to roll over \$4,013,873 into a 6-month CD, with the remaining \$1 million transferred to First Community Bank; and that the Board adopts and accepts any banking resolutions that First National Bank of Santa Fe requires to be adopted.

Ms. Meyers seconded the motion, which passed by majority voice vote, with Mr. Badal in abstention.

Mr. Goblet continued with his Advisor's Report.

EQUITY PARTNERS

New Mexico Community Capital

Mr. Goblet said NMCC would like to present to the NMSBIC Board in October.

Mr. Goblet said NMCC has entered the later stage of its investment life and cannot make any new investments. The Fund has invested \$7.8 million in 10 companies and all but one (Desert Power) are still in business. Write-downs have been taken in TruTouch Technology and Armed Response Team while small increases in value have been noted in IntelliCyt and MIOX.

Mr. Goblet said NMCC is in the process of trying to create a second fund aimed at targeting strategic Native American tribal investors as LPs, and have already received commitments from McCune Foundation and Merrion Foundation, as well as three letters of intent from tribal entities.

Mr. Goblet said he expects continued capital calls for a few follow-on investments over the next three years, but believes that \$1 million of the \$7 million NMCC commitment will not be called, which will give the Board some additional capacity to make new commitments either to equity or lending partners.

Mr. Goblet agreed to address a reduction in the commitment to ACCION at the October meeting.

NM Mezzanine Fund

Mr. Goblet reported that the NM Mezzanine Fund (NMMF) is in the process of closing 3 investments between now and September 26; and all 3 were exceptions to the NMMF investment policy. For an investment to take place, the Fund requires the approval of their investment advisors and a second group of fund advisors. He said the NMSBIC never crosses the line between being just a Limited Partner and making an opinion on those investments; rather, it participates in conflict of interest committees.

Mr. Goblet stated that the NMMF Advisory Committee is made up of 5 LP investors in this \$6.3 million Fund, the three largest being NMSBIC (where he represents the NMSBIC Board), \$3 million; Sandia Pueblo, \$2 million; and LANB, \$1 million. The remaining 2 are individual investors. He stated that the Advisory Committee reviewed all 3 investments and unanimously approved an exception to NMMF's investment policy. He explained that all 3 new loans are exceptions primarily because they have not had 6 months of positive EBITDA; however, in 2 of the 3 cases, there is no senior lender ahead of the Fund, and the capital draws will be based on each company achieving strict benchmarks.

Mr. Goblet noted that, because of the mezzanine structure, this area is the least risky of the NMSBIC's equity-like activities.

Responding to Mr. Badal, Mr. Goblet explained that his vote on the NMMF Advisory Committee does not currently require approval from the NMSBIC Board, although the NMSBIC Board may want to change that. He noted that he represents the Board on all of the equity partners' conflict of interest and investment advisory committees.

Mr. McDonald stated that the documents call for the creation of the Advisory Committee, and one of the powers of the Committee is to make exceptions to the loan policy in certain cases. He said the Committee is not required to seek approval from the NMSBIC to do that; however, the NMSBIC's interests are protected through the vote of its financial advisor, Paul Goblet.

Ms. Meyers commented that this can be one of the items discussed when the Board schedules its strategy meeting.

Mr. Badal said he was very concerned that the Advisory Committee would vote to make three exceptions to such a basic tenet of the Fund's investment policy. He stated that he would have recommended that the NMSBIC Board direct Mr. Goblet to vote against the exceptions had he been aware of them.

Mr. Goblet responded that the problem was timing – the NMSBIC Board wasn't scheduled to meet until today, and he wasn't made aware of these deals until two weeks ago and the Advisory Committee met shortly after that.

Mr. Badal said he feels the Board should have information proactively as opposed to retroactively; in this case, there are no financial details available to the Board about the three companies involved.

Acting Chair Cobb agreed that it would be to everyone's benefit for the Board to be more involved in the future on these issues.

NM Growth Fund 1 and 2

Ms. Meyers said the strategic planning discussion should include the matter of cross lending – in this case, she was surprised to see that The Loan Fund had made a loan to High Desert Chile, a company in the NM Growth Fund 2 portfolio.

[Other fund details were in Advisor's Report.]

LEGAL UPDATE AND COMMENTS: RANDY MCDONALD

None.

NEXT MEETING: Monday, October 17, 2011: NMMFA

The Board discussed possible dates for a strategy session.

ADJOURNMENT

Its business completed, the NMSBIC Board adjourned the meeting at approximately 2:30 p.m.



Sam Cobb, Acting Chairman/President

10/17/2011

Date