

MINUTES OF THE
NEW MEXICO SMALL BUSINESS INVESTMENT CORP.
REGULAR MEETING
December 13, 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. 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 [teleconference]
Mr. Billy Knight [teleconference]
Mr. Greg Kulka [State Investment Council designee]
Ms. Marie Longserre, Treasurer

Members Excused:

Ms. Mary A. Garza, Secretary
Mr. Clarence L. Smith [designee of State Treasurer James Lewis]

Legal Counsel to Board:

Mr. Randy McDonald

Financial Advisor to Board:

Mr. Paul Goblet

Recording Secretary:

Ms. Judith S. Beatty

Guests Present:

Ms. Kim Sanchez Rael, Flywheel Ventures
Mr. Tom Stephenson, Verge
Mr. Robert DePasquale, Pulakos

REVIEW AND ACCEPTANCE OF AGENDA

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

APPROVAL OF MINUTES

September 20, 2010

[Deferred to the next meeting.]

November 8, 2010

Upon motion by Mr. Kulka, seconded by Mr. Caldwell, the Minutes of the November 8 meeting were approved by voice vote, as submitted.

DISCUSSION AND POSSIBLE ELECTION OF ASST. SECRETARY

Mr. Goblet said this item is on the agenda because Ms. Garza has not been present to sign the November and December minutes because she is recuperating from surgery.

Rather than appoint an Assistant Secretary, the Board agreed with Mr. Cobb's suggestion that the minutes be sent to Secretary Garza for her signature so they can be scanned and emailed for posting on the website as soon as possible.

PRESENTATION AND APPROVAL OF IRS FORM 990

Robert DePasquale of the Pulakos firm reviewed the Form 990 and responded to questions from the Board.

Mr. Kulka noted that the NMSBIC's mission is stated on the form as: "To create new job opportunities by making equity investments in land, buildings or infrastructure," etc., and says nothing about lending activity.

Mr. Goblet said the language comes from the original statute.

Mr. McDonald noted that the statute now also refers to debt investments to create new job opportunities. He agreed with Mr. Kulka that the language on the form should include that.

Ms. Longserre moved for approval of the Form 990, as amended. Mr. Caldwell seconded the motion, which passed by voice vote.

FINANCIAL REPORT

Mr. Goblet reviewed the November financial reports.

Ms. Longserre moved to accept the November financial report. Mr. Caldwell seconded the motion, which passed by voice vote.

VERGE FUND 2 PRESENTATION: TOM STEPHENSON

Mr. Stephenson updated the Board on the status of Verge 1 and Verge 1.5, and the strategy for Verge 2. He said his hope was that the NMSBIC would commit the final \$500,000 piece of its original \$3 million commitment in Verge 2.

Mr. Stephenson said Verge 2 had its first close in December 2009, with \$2.5 million of the \$5 million coming from the NMSBIC. Since then, they have raised additional capital commitments (including the NMSBIC's) of about \$7.5 million, and will move toward a final close in the first quarter or early second quarter of 2011 with an ultimate target of about \$10 million.

Mr. Stephenson noted that 13 of the 16 investments in Verge 1 are active, with 9 companies generating significant revenues and 7 companies resident in Verge's building in downtown Albuquerque. He said the year-over-year revenue growth of the portfolio is about 70% for the trailing 12 months ending 9-30-10 versus 9-30-09. Revenue growth since inception is 800%, and job growth (modest because of conservative hiring plans) is about 120 jobs, 90% of which are in New Mexico.

Mr. Stephenson said Fund 2 has 5 relatively small cross investments from Verge 1 and 1.5, and he expects 1 or 2 more cross investments in that portfolio plus another 4 or 5 investments in new companies. He said the hope is that 1 or 2 of those will be Los Alamos companies.

Mr. Goblet noted that the first investment in Verge 1 was in 2004, and asked Mr. Stephenson to discuss exit strategy.

Mr. Stephenson responded that Verge has been focusing on the most promising companies to determine the key drivers behind the sale of these companies in their particular industries. He said the broad target is \$10 million in revenue to sell the companies on a fundamentals basis that will provide the necessary returns for Verge and its LPs.

Mr. Kulka recalled Mr. Stephenson originally said that 20-25% of Verge 2 would be invested outside of New Mexico, in the El Paso area.

Mr. Stephenson responded that the greater likelihood is that Verge will be looking at 1 to 2 deals outside of New Mexico, or about 10-20% of the portfolio. He said they spent a lot of time focusing on the market around El Paso and Las Cruces but did not make any investment decisions. He stressed that the agreement with the NMSBIC is structured such that its money only goes to New Mexico, so the NMSBIC would be excluded from participating in any Verge deal outside of the state.

Mr. Caldwell asked Mr. Stephenson if Verge has any plans to do cross investments with other funds.

Mr. Stephenson responded that Verge has several portfolio investments with syndication partners that include funds that have participation from the NMSBIC, including Flywheel and New Mexico Community Capital. He said the deals Verge focuses on are less likely to be strong syndicate candidates, so there will likely be less of that in Verge 2.

DISCUSSION REGARDING FUNDING STRATEGIES

Mr. Goblet reviewed proposed legislation that would reconstitute the NMSBIC Board. He said it is realistic to assume that these changes, should they be adopted, would take place on July 1, 2011. In the interim, he said he believed the Board, through its duties outlined in statute, would continue to make investments in small businesses with and through its financial partners.

Mr. Goblet said the Board has asked for advice as to the best use of its remaining uncommitted capital, and his advice remains unchanged from last summer's Strategic Meeting, which is to commit an additional \$1 million to small business lending and an additional \$1 million to one or more micro-equity investors. He said the NMSBIC has accordingly just committed \$1 million to The Loan Fund contingent on several key ratio tests and conditions.

Mr. Goblet said that, assuming The Loan Fund commitment closes as outlined, the amount of capital left will be \$1.9 million. During the Strategic Meeting, the Board felt it would be prudent to reserve \$500,000 to \$1 million and make additional commitments to micro-equity funds like the Gap Fund and KickStart. He said the Gap Fund has made 12 very small investments to date, expects to make two more new investments over the next few months, and recently completed add-on investments in two companies. He said the \$500,000 request for an added commitment to the Gap Fund is a logical extension of the NMSBIC's previous commitments to the funds, as the NMSBIC is virtually the sole limited partner. He said this would bring the uncommitted capital down to \$1.4 million.

Mr. Goblet stated that, while there has been discussion about the need for more lending support to the small business community and the possibility of attracting new entities into the state to target specific investment shortfalls, he feels this would not be possible to accomplish in the short term.

Mr. Goblet said the Board today has heard a presentation from Verge Fund 2, requesting an additional \$500,000 commitment. He said the NMSBIC made a \$3 million commitment to Verge approximately a year and a half ago subject to the Fund being at least \$6 million in size and the NMSBIC not having more than a 50% ownership stake in the Fund. As Verge worked through the challenges of the economy and fundraising, it became apparent that they would not reach the \$6 million goal, and in fact would only get to a \$5 million close. He said the NMSBIC at that point agreed to roll back its commitment to \$2.5 million so it would be no more than 50% of the Fund.

Mr. Goblet said he thought it made sense to seriously consider making additional commitments to the Gap Fund and to Verge Fund 2 at \$500,000 each. He said this would mean reopening the original commitment to Verge Fund 2, which would call for an increase from \$2.5 million to \$3 million. He said the NMSBIC's ownership stake would then be at 37% of the Fund.

Ms. Longserre noted that this would leave a cash balance of around \$900,000, and it is highly likely that no further investments will be made in NM Growth Fund II, freeing up another \$500,000, for a total of \$1.4 million.

Ms. Longserre commented that she has given a lot of thought about how the NMSBIC should approach its decisions at this time, given that the Board may be restructured in a few months; and because the NMSBIC's policies and goals will not change, and given that the Board has consistently acted in an apolitical fashion, she feels the Board should continue to carry out its statutory duties and responsibilities to the best of its ability in the interim.

Mr. Kulka responded that the Board sets policies on how to carry out the statute, which is very broad and only speaks to distributing money to small businesses in New Mexico through debt or equity. If the Board is going to change significantly, he saw no reason why the Board couldn't wait a few days until the new Governor is seated and the new Board has an opportunity to decide on the direction of the organization. He said the new Board may prefer focusing on the lending side versus the equity side, for instance, given investment losses to date. He commented that no harm would be done to either the Gap Fund or Verge between now and the January 24 NMSBIC meeting.

Mr. Kulka said he also felt Mr. Goblet should consult with the Governor-elect's transition team to find out what the composition of the Board will be and what direction it wants the organization to go in.

Ms. Longserre responded that this Board has never acted politically before and to approach the Governor in this fashion would be inappropriate. Further, she said it could be months before a new Board is appointed.

Mr. Kulka stated that the Board should nonetheless ask the Governor's appointees, once they are seated on the Board, how the NMSBIC should move forward.

Mr. Kulka said he felt the new Board would be seated relatively quickly, given the sentiment expressed at legislative committee hearings about economically targeted investments and the need to try something different.

Mr. Caldwell commented that his bias has always been toward the debt side, but in the year he has been on the Board, he has not seen many opportunities to expand in that area – so what Verge and the Gap Fund are doing is very applicable here. He also stated that the \$2.9 million in uncommitted capital will very likely grow to at least \$5 million through interest income and distributions coming back to the Fund.

Mr. Caldwell agreed with Ms. Longserre that the Board should be completely apolitical and should focus on executing its charge.

Mr. Knight said he agreed with Ms. Longserre. While the dynamic and structure of the Board will change in the future, he could not understand why the Board's continuing to carry out its legislative mandate in the meantime could be considered a negative thing. He commented to Mr. Kulka that he found it troubling that some people are holding the NMSBIC responsible for losses that no one could have anticipated given the national economic environment.

Mr. Kulka said he wasn't suggesting that the Board stop its activities. He commented that Verge has done the best job in New Mexico in terms of getting equity money to work across a lot of companies, but if the NMSBIC organization is going to continue with the stellar record that it has, he did not want it to appear to be pushing on the side of making more risky investments at this point in time, since a new Board may want to go in an entirely different direction.

DISCUSSION AND POSSIBLE VOTE ON \$500,000 INCREASE TO VERGE FUND 2

Mr. Caldwell moved to approve an increase of \$500,000 to Verge Fund 2. Mr. Knight seconded the motion, which passed by voice vote, with Mr. Kulka voting against the motion. [Mr. Cobb was not present for the vote.]

DISCUSSION AND POSSIBLE VOTE ON \$500,000 INCREASE TO NM GAP FUND

Mr. Goblet noted that NM Gap Fund made a presentation to the Board at last month's meeting requesting an additional \$500,000 commitment.

Mr. Caldwell moved to approve an increase of \$500,000 to the NM Gap Fund. Ms. Longserre seconded the motion, which passed by voice vote, with Mr. Kulka voting against the motion. [Mr. Cobb was not present for the vote.]

ADVISOR'S REPORT

Verge Fund 1 & 1.5

Mr. Goblet reported that, while NMCC and Flywheel have significantly written down their investments in TruTouch Technology, Verge Fund has reduced their valuation but has chosen to continue to invest in and support the company. He said two recent large grants and a major strategic relationship may lead to a new round of financing, which could place TruTouch in a much better light and increase its value.

New Mexico Community Capital

Mr. Goblet reported that he met with NMCC last week, which has about \$1 million of cash reserved for add-on investments in one or two companies. NMCC is very focused on exits in order to move forward with Fund 2 and is also moving forward with a Native American fund.

NM Growth Fund 1 and NM Growth Fund 2

As was approved by the Board at the November meeting, NM Growth Fund 1 asked for and received consent from the NMSBIC and all fund LPs to extend the life of the Fund by one year, but did not receive consent to waive annual audit requirements. Mr. Goblet said there are two investments remaining in the Fund, both of which will have likely run their course in the next six months. At that point, he said the Board and other LPs can decide whether a final audit should be done.

Regarding Fund 2, Mr. Goblet said ClingZ is at cash flow breakeven, and High Desert Chile's Deming property is listed for sale at about \$750,000. He said the NMSBIC represents 44% of the Fund.

NM Mezzanine Fund

Mr. Goblet reported that the Fund seems to be making progress toward its next investment. Its most recent investment, Exagen, has closed an acquisition of a similar diagnostic company.

ACCION NM

Mr. Goblet reported that the portfolio now stands at \$2.6 million over 402 current loans, the smallest outstanding balance in more than four years. He said he has been meeting monthly with ACCION to review the process and management of loan loss collections.

WESST Corp

Mr. Goblet stated that WESST Corp reported a total of \$2,785 collected in principal and interest for November.

Deposits

Mr. Goblet said the NMSBIC has \$2,039,802 in its operating accounts at First Community Bank, and a small balance in the LGIP, the majority of which is still restricted.

Mr. Goblet stated that all other deposits have been moved to NM Bank and Trust and the vast majority of them are in a CDARs account. He stated that \$5 million plus accrued interest matures on December 30, and he would suggest that the total be rolled over into 3-month CDs at the then-prevailing rate, or about .34%. If there are higher rates available on 6-month CDs, it would make sense to get a higher rate given that \$6,755,000 comes due in March.

Mr. Caldwell moved to roll over the \$5 million into a 3-month CD at 34 basis points. Ms. Longserre seconded the motion, which passed by voice vote.

Proposed legislation to change NMSBIC membership, etc.

Board members reviewed the discussion draft.

NMSBIC file outline

Mr. McDonald presented a list of NMSBIC files and where they are maintained.

WEB RELEASE

Mr. Goblet reviewed with Board members the features of the newly designed website, which is ready to go live.

NEXT MEETING: **Monday, January 24, 2011 [NMMFA]**
 Monday, February 14, 2011 [NMMFA]

ADJOURNMENT

Its business completed, the NMSBIC Board adjourned the meeting at approximately 11:30 a.m.



Andrew Baca, President

1/24/11

Date



Mary A. Garza, Secretary

1/24/11

Date