



The Honorable Bill Richardson
Office of the Governor
490 Old Santa Fe Trail
Suite 400
Santa Fe, New Mexico
87501

5 Feb. 2010

Dear Governor Richardson;

The New Mexico Small Business Investment Corporation (NMSBIC) was formed in 2001 by the Small Business Investment Act, NMSA 58-29-1 et. seq., to create new job opportunities in communities statewide and is funded by an allocation from the Severance Tax Permanent Fund pursuant to NMSA 7-27-5.15. Upon receipt of the independent audited financial statements, the NMSBIC is charged with reporting its financial results to you in accordance with the provision of the Act. The purpose of this letter is to report to you on the state of the NMSBIC. A copy of the report of the independent auditors for the corporation's fiscal year ended June 30, 2009 is enclosed.

As Board Chair, I am charged with reporting the following results for the fiscal year ending June 30, 2009. This has been our most difficult year since inception, particularly as it relates to our equity investments. I would also like to report the continued progress of the NMSBIC in its efforts delivering lending and investment capital to small businesses around the State.

FINANCIAL OVERVIEW

Set out below is the overview of the financial condition of the organization as of June 30, 2009, as reflected in the enclosed independent audit report.

• Interest and Dividend Income (Loss)	\$ 820,545
• Equity Fund Management Fees	\$ 846,068
• NMSBIC Direct Operating Expenses	\$ 261,053
• Realized Loss on Investments	\$3,464,730
• Total Income or (Loss)	(\$4,041,098)
• Net Assets at Year-end	\$41,504,494

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LENDING ACTIVITY

Perhaps the greatest success of the NMSBIC is the breadth of its lending activities throughout the State through cooperative agreements with ACCION, The Loan Fund, and WESST Corp. Our largest lending cooperative agreement (\$5,500,000 committed by NMSBIC) is with the Loan Fund, an organization that tends to make loans to more mature businesses, with the average loan being \$35,000. These loans are generally long term in nature and are secured by fixed assets. Currently 129 business loans are outstanding through the Loan Fund and there have been no loan losses experienced in the fiscal year. In addition, the Loan Fund's NMSBIC portfolio supports approximately 1,170 jobs.

ACCION NM is our most active lending partner, and tends to make much smaller loans (\$9,600 average loan) to very small businesses or start-up businesses. At the end of the fiscal year there were 448 loans outstanding and loan losses were \$152,582 or 4.47% of ACCION's average outstanding loan balance. This is despite an extremely difficult economic environment. Since 2004, ACCION NM has utilized the NMSBIC's capital to make 1,448 loans totaling \$17,155,924 to businesses that employ approximately 2,575 New Mexicans.

WESST Corp. primarily provides technical training and assistance to small businesses, however they also provide valuable support through a small loan fund. With their assistance, an additional 20 loans have been made, with a focus towards artisan businesses. Again, no loan losses were incurred in this portfolio.

The combined activities of the Loan Fund, ACCION NM and WEST Corp. since the creation of this lending activity in 2004 now includes over 1,700 loans totaling over \$27,000,000. Loans have been made to businesses in virtually every community in the State. Nearly one half the loans have been made to businesses outside of Albuquerque. The total loan loss experience for this fiscal year was 1.85% of the entire lending portfolio of the NMSBIC. This is outstanding portfolio performance, particularly in this economic environment.

Since inception in 2004 through June 30, 2009, lending activity is as follows:

Organization	Total # of Loans	Dollars Lent	Employees Supported
ACCION NM	1,448	\$17,155,924	2,575
The Loan Fund	235	\$ 9,849,812	1,170
WESST Corp.	20	\$ 285,665	118
Totals	1,703	\$27,291,401	3,863

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EQUITY ACTIVITIES

2009 represented one of the worst performing periods in history for all private equity funds. Virtually every private equity fund, particularly early stage funds, experienced major losses, as did every publicly traded equity index. Losses of 30% to 40% were common place for publicly traded stocks, and privately held companies were equally reduced in value. There were few exit opportunities nationally, either from IPO or acquisition, and none in New Mexico.

Since none of our equity partners existed prior to the establishment of the NMSBIC, each fund has been created to meet specific funding needs for equity capital around the State. As of June 30, 2009 the NMSBIC was a limiter partner in eight equity funds, of which four funds target more traditional, non-tech/low tech businesses like manufacturing and distribution. This has led to equity investments in local businesses in Aztec, Belen, Deming, Las Cruces and Santa Fe, which would not have been done otherwise. However, many of the equity investments have been made to businesses in and around Albuquerque.

The NMSBIC is typically the first institutional investor in these funds and tends to act as a catalyst to attract other investors. Two funds have attracted meaningful capital from out-of-state sources, as well as capital from the State Investment Council and local institutions. The NMSBIC has committed \$29,300,000 to these eight private equity funds, but it takes time to get this capital fully deployed. Given the extremely depressed economy, there were very few new investments made in this fiscal year.

As of June 30, 2009, approximately \$16,311,000 of the NMSBIC's equity commitments had been called for investments in over 35 New Mexico businesses. Many rural businesses lack the necessary competitive advantages that would allow them to grow large enough in size and investment value to attract equity capital. That is why the NMSBIC's lending partnerships are so essential in meeting some of those capital needs while balancing the investment risk.

Lastly, the economy has presented some major challenges for these companies, which has resulted in significant realized and unrealized investment in fiscal year 2008/09, which produced a negative return 21.2% on invested equity capital. As equity investors in these businesses, there are typically very few assets to provide collateral, which might help offset losses. Several investments were dramatically impaired, which caused these write downs or write offs. To help mitigate some of the equity risks, the NMSBIC helped create a new fund, New Mexico Mezzanine Fund, which is structured to be more of a subordinated loan.

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FINANCIAL EDUCATION

The NMSBIC, together with several financial and business partners continue to support efforts to enhance the business financial literacy throughout the State through a program created by the NMSBIC known as Finance New Mexico.

Over 100 articles have now been published in approximately 30 newspapers around the State, and a web site, www.financenewmexico.org has been established to provide cost effective, instantaneous dissemination of valuable financial information to virtually every community. These articles are electronically distributed to local Chamber of Commerce offices, the local SBDC offices, legislators, business development organizations, and recently to Rural Electric Cooperative newspapers, which reach 130,000 homes and businesses around the State.

In conclusion, the NMSBIC continues to be a cost effective conduit of capital. Due to our cooperative agreements with financial professionals, the NMSBIC has been able to provide loans to over 1,700 businesses and has indirectly invested equity in over 35 businesses. Due to the utilization of the skills, expertise and staffing of lending and equity partners, the NMSBIC has no offices or employees. The Board contracts for its legal, accounting and financial advisory services, hence has actual operating expenses of approximately \$260,000. This represents just over .005% on the contributed capital. As a financial steward of the taxpayer's money, the organization has constantly endeavored to keep its operating expenses low.

STATUTORY REQUIREMENTS

As required by NMSA 58-29-6 (B), I also provide you with the following information:

1. Due to realized and unrealized losses of 21.2% on its equity investments, the NMSBIC had an overall negative annual return of 8.87% on its total invested capital and a \$4,041,098 reduction in its net asset value. The NMSBIC is charged with making a distribution of its net excess income to the Severance Tax Permanent Fund, however based on the above performance, there will be no return of funds to the Severance Tax Permanent Fund with respect to the June 30, 2009 fiscal year.
2. The NMSBIC Board will strive to remain as the most cost effective conduit of capital in the State, seeking to offset its operating expense via generation of excess interest income and to protect the capital with which it has been entrusted.
3. With respect to the continuing operations of the corporation, the NMSBIC Board recommends that the corporation continue to prudently explore future

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means to increase the availability of lending and equity capital to small businesses while minimizing investment risk while continuing to help improve the economic climate of the State through the fulfillment of its mission.

The NMSBIC Board is extremely grateful for the continued support of the Governor, Lt. Governor, State Legislators, the State Investment Council, and its financial partners. Through the creation and expansion of the NMSBIC, New Mexico has created a unique, cost effective conduit of capital that has helped expand the capacity of its lending partners and develop the delivery systems for equity capital to support small businesses statewide.

Respectfully submitted,

Andrew Baca
Board Chair NMSBIC

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