

MINUTES OF THE

NEW MEXICO SMALL BUSINESS INVESTMENT CORP.

December 9, 2013

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

A quorum was present:

Members Present

Ms. Roxanna Meyers, Chair
Mr. Joseph H. Badal, Past Board Chair
Mr. Alan Fowler, Vice Chair [arriving at 10:20 a.m.]
Mr. Lupe Garcia
Mr. Steven E. Morgan, Secretary/Treasurer

Members Excused

Mr. Clarence L. Smith [designee of Hon. James Lewis, State Treasurer]
Ms. Launa Waller

Financial Adviser to Board

Mr. Russell Cummins

Board Legal Counsel:

Mr. Randy McDonald

Recording Secretary:

Ms. Judith Beatty

Guests Present:

Mr. Robert De Pasquale, Pulakos CPAs
Mr. Leroy Pacheco, The Loan Fund
Mr. Joe Justice, The Loan Fund

REVIEW AND ACCEPTANCE OF AGENDA

Mr. Badal moved to accept the agenda, as presented. Mr. Morgan seconded the motion, which passed unanimously by voice vote.

REVIEW AND ACCEPTANCE OF OCTOBER 2013 BOARD MINUTES

Mr. Garcia moved approval of the October minutes, as submitted. Mr. Morgan seconded the motion, which passed unanimously by voice vote.

SEPTEMBER AND OCTOBER 2013 FINANCIAL REPORTS

Mr. Cummins presented highlights of the October financial report. September financial statements had been provided to Board members via email.

Mr. Cummins noted that Verge had a successful exit of its investment in ZTEC, resulting in distributions from Verge I, Verge I.5 and Verge II to the NMSBIC totaling \$1,057,117. The ZTEC sale might produce additional future payments because part of the sale price is based on company performance over the next several months.

Responding to Mr. Badal, Mr. Cummins said charge-offs of Accion loans for the four months ended October 31 were \$7,700. By contrast, charge-offs of Accion loans were \$38,000 during the fiscal year ended June 30, 2013.

Mr. Badal asked Mr. Cummins to convey the Board's positive feelings about Accion's very impressive turnaround over the past year.

Mr. Badal moved approval of the September and October 2013 financial reports. Mr. Garcia seconded the motion, which passed unanimously by voice vote.

NMSBIC TAX RETURN, FORM 990

ROBERT DE PASQUALE, SENIOR TAX MANAGER, PULAKOS CPAS

Mr. De Pasquale reviewed the Form 990 with the Board.

Mr. Badal moved to accept the NMSBIC tax return, Form 990. Mr. Morgan seconded the motion, which passed unanimously by voice vote.

EXECUTIVE DIRECTOR/INVESTMENT ADVISORY REPORT

- **Loan Reports**
- **Equity Partner Detail**
- **Take Away Report**

Accion

-- The new agreement with Accion has been executed effective November 1. Loans will continue to run off under the old agreement. A new agreement is in place for \$5 million; however, Accion can only fund \$1.5 million under the new agreement because there is a \$3.5 million in outstanding loans under the old agreement.

Mr. Cummins agreed to prepare a summary report on the status of loans in the Accion portfolio.

The Loan Fund

-- Amended and restated loan documents were executed effective September 30. Changes included removing the 5 percent over-collateralization requirement, removing the 5 percent cash reserve requirement, and extending the 2 percent interest rate from October 2014 to February 2018, after which the interest rate would increase to 2.5 percent.

WESST Corp

-- As of October 31, 2013, two loans were delinquent 1-30 days, but have since been brought current.

Following a suggestion by Mr. Badal, Chair Meyers said she and Mr. Cummins would visit with WESST Corp Executive Director Kim Blueher to discuss WESST Corp's lending program and ideas for building its lending side.

Flywheel Ventures

-- Kim Sanchez Rael has resigned as general partner to work on her husband's campaign for governor, leaving Trevor Loy as the sole remaining general partner. Flywheel has hired former Flywheel employee Chris Traylor to assist in the management and oversight of the NM Gap Fund companies.

New Mexico Mezzanine Partners

-- Mike Doolittle plans to make a presentation at the January NMSBIC Board meeting about a proposed NMMP Fund II.

-- NMMP exercised a put option on a loan that was paid off about a year ago and received \$250,000. NMMP determined it did not need cash from the \$240,000 capital call that NMSIC paid to NMMP in September 2013, and NMMP returned the cash to NMSBIC.

Verge Fund

-- In October, Mr. Cummins attended Verge Fund's annual meeting and met with the executives with several of Verge's companies.

-- Verge Fund announced its first successful exit with the sale of ZTEC to LitePoint, a division of Teradyne. The NMSBIC received distributions from Verge I, Verge 1.5 and Verge II totaling \$1,057,125 as a result.

Mr. Cummins added that, to the extent that the NMSBIC has realized gains greater than its operating expenses and management fees, it may be making a distribution to the Severance Tax Permanent Fund at the end of the year.

Mr. McDonald noted that the formula for determining the amount of such a distribution has not been completely clarified. He said he would review the statute.

-- Verge II issued a capital call in September and is now 100 percent funded. However, there is a provision in the Verge II agreement stating that if investment proceeds are distributed to limited partners, the partnership can "re-call" funds up to the amount of the partnership expenses, organizational expenses or management fees. It appears that NMSBIC is now subject to possible re-call of Verge II capital given that a distribution has been made related to the ZTEC sale. Mr. Cummins has asked Tom Stephenson to provide information regarding the amount of Verge II capital subject to being re-called.

Board members expressed concern about contingent liability in that Verge could re-call the capital after distributions might have been made by the NMSBIC to the Severance Tax Permanent Fund. Mr. McDonald said he would review the Verge II agreement with Mr. Cummins and then talk with Chair Meyers about meeting with Verge to discuss amending the agreement.

Davos Commercial Loan Fund

Mr. Cummins reported that, following the last Board meeting, he informed Les Matthews that the proposed investment in the Davos Fund would not fit with NMSBIC's investment objectives.

Mr. Cummins said Mr. Matthews then asked if the Board would reconsider an investment in this commercial loan fund if he were to resign as general partner. Mr. Cummins pointed out that the fund's limited partnership structure is an equity investment and the NMSBIC is not interested in equity investments at this time. Also, these are loans for development of commercial properties; and while there might be some jobs component, there does not appear to be a strong link to job growth.

Board members agreed that, even without Mr. Matthews' involvement, this would not appear to be a good fit for the NMSIBC.

Meeting with Chief of Staff Keith Gardner

Mr. Cummins reported that, on October 15, he and Mr. Badal met with Chief of Staff Keith Gardner, who expressed support for the NMSBIC's focus on expanding its lending program, but also suggested the NMSBIC not pursue legislation to increase funding from the Severance Tax Permanent Fund.

Mr. Cummins stated that there may be an opportunity to work with the NM State Investment Council on finding ways to increase funding to the NMSBIC and thus allow it to expand its lending program going forward. Mr. Cummins said he and Chair Meyers are scheduled to meet with State Investment Officer Steve Moise tomorrow to continue discussions about possible new sources of funding from the NMSIC.

**NMCLDF (THE LOAN FUND), PROPOSED MODIFICATION TO LOAN AGREEMENT:
LEROY PACHECO, PRESIDENT AND CEO**

[Mr. Fowler joined the proceedings in the course of this item.]

Mr. Pacheco, appearing with Community Development Officer Joe Justice, distributed and reviewed informational materials on The Loan Fund.

- Since 1989, 1,312 loans have been made totaling \$52,193,000, creating 7,109 jobs.
- In 2013, The Loan Fund received 127 loan applications and made 78 loans totaling \$4 million.

Mr. Pacheco made a presentation with the following requests:

1. Increase the maximum available funding from \$8.5 million to \$10 million.
2. Revise the current staggered maturity dates to a single, 10-year maturity date.

Current maturity dates are based on dates that were 10 years from the date that increases in funding were approved, as follows:

<u>Amount</u>	<u>Maturity</u>
\$3,500,000	07/13/2017
\$2,000,000	02/15/2018
\$2,000,000	10/15/2019
\$1,000,000	01/01/2022

3. Remove the requirement that no more than 70 percent of The Loan Fund's borrowings be from NMSBIC.

4. Change capital calls to monthly based on a monthly loan trial balance, with quarterly reporting related to loan delinquencies and compliance with loan covenants.

Mr. Pacheco noted that The Loan Fund does not have a loan participation agreement with NMSBIC, unlike the NMSBIC's other lending partners, and that in his opinion, the NMSBIC is offering more favorable terms to the other lending partners than it is to The Loan Fund.

Mr. Cummins reviewed the four requests being made by The Loan Fund and recommended that all four requests be approved.

Mr. Pacheco and Mr. Justice left the meeting.

Mr. Badal moved to approve Items 1-4, amending the language in #2 that \$1.5 million increase would be added to the \$3.5 million with a maturity 10 years from the agreement date, thus creating a \$5 million revolving loan facility; that the \$2 million maturity date be changed from 02/15/2018 to 10/15/2019; and that the maturity date for the \$1,000,000 remain at 01/01/2022. Mr. Fowler seconded the motion.

Chair Meyers commented that multiple maturity dates could be difficult to administer. It was noted under other lending partner agreements, NMSBIC has the ability to terminate on 90 days' written notice and that if NMSBIC agreed to a single 10-year maturity date it would be prudent to include a 90-day termination provision in The Loan Fund, which would be consistent with those of the NMSBIC's other lending partners.

The motion and second were withdrawn.

Mr. Fowler moved to approve Items 1, 3 and 4, and that Item 2 be amended to create a 10-year maturity from the date of the agreement for the entire \$10 million, and insert a 90-day termination provision, i.e., that any loans outstanding at the end of the 90-day period would be allowed to run off and no further loans would be made after the 90 days. Mr. Morgan seconded the motion, which passed unanimously by voice vote.

[Break.]

**CENTER FOR APPLIED ENTREPRENEURIAL STUDIES (CAES), ENDORSEMENT
REQUEST: LEE TRUSSELL, PRESIDENT AND CEO**

Mr. Trussell asked that the NMSBIC Board endorse a program that he developed during his eleven years with Technology Ventures Corporation. In his capacity as Director of

Entrepreneurial Training at TVC, he developed, wrote, and presented a series of seminars under the title "Center for Commercialization and Entrepreneurial Training" (CCET). Mr. Trussell said he has now formed his own organization, "Center for Applied Entrepreneurial Studies" (CAES).

Mr. Trussell stated that CAES is dedicated to assisting startup and expanding business to reach their full potential through the process of learning and planning. CAES assists startup and expanding entrepreneurs by providing them with the tools and best practices in business organization and management, and enhancing their skills and potential for success.

Mr. Trussell said the program is designed to take the student through various planning processes. Over 18,000 students have attended the seminars at eight business locations in New Mexico, Nevada, Idaho and California since the start of the program in January 2003.

Mr. Trussell noted that endorsements come from TVC, New Mexico Angels, Sandia Science & Technology Park Development Corporation, Albuquerque Department of Economic Development, Small Business Development Center, and other organizations.

Mr. Badal moved that the Board allow Mr. Trussell to add the NMSBIC to his list of endorsements. Mr. Morgan seconded the motion, which passed unanimously by voice vote.

NMSBIC ALLOWANCE FOR LOAN LOSS RECOMMENDATION

Mr. Cummins presented the following recommendation regarding the NMSBIC's allowance for loan and lease losses (ALLL).

1. Specific loan risk related to NMSBIC's participation agreements will be monitored and adjusted as needed. Recommended ALLL percentages are as follows:

	<u>% of Outstanding Loan Balance</u>
Accion Previous Participation Agreement:	8.0% (no change)
Accion New Participation Agreement:	1.0% (new)
WESST Participation Agreement:	8.0% (no change)

2. Continue the current practice of disclosing loan terms in notes to the audited financial statements.
3. Do not provide any ALLL loan loss recorded related to organization risk because (i) the risk of organizational failure for any of the lending partners is not considered probable at this time, and (ii) losses related to organizational failure of any of the NMSBIC's lending partners cannot be reasonably estimated.

4. Monitor lending partner performance and financial stability. Establish appropriate ALLL reserves if any loans become impaired related to lending partner organizational risk, or for any other reason.

Mr. Badal moved for approval of the recommendation. Mr. Fowler seconded the motion, which passed unanimously by voice vote.

NMSBIC BOARD CONTINUING EDUCATION: ARTICLES OF INCORPORATION AND BYLAWS

Mr. Cummins stated that, in the course of doing the risk analysis he presented to the Board in January, he noted that there is a risk related to compliance with the NMSBIC's laws, regulations and AG opinions, and it is important to stay up to date and be aware of rules and regulations as a way to mitigate that risk. To that end, he would present information at each Board meeting going forward.

Mr. Cummins, the Board, and Mr. McDonald reviewed the NMSBIC Articles of Incorporation and Bylaws.

2014 NMSBIC BOARD MEETING SCHEDULE

[Informational.]

CHAIRMAN'S COMMENTS

None.

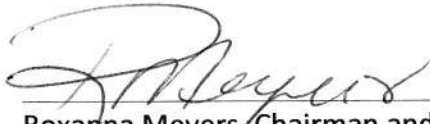
SAM COBB PRESENTATION

Past Board member Sam Cobb received a Nambé plaque with an inscription recognizing "your visionary leadership, passion, and service as a dedicated and distinguished member of the New Mexico Small Business Investment Corporation Board of Directors – 2003-2013."

Mr. Cobb commended the Board for carrying on the vision and passion of the NMSBIC.

ADJOURNMENT

Its business completed, the NMSBIC Board adjourned the meeting at 12:00 p.m.



Roxanna Meyers, Chairman and President

1-24-14

Date