

## ACTION SUMMARY

### NM SMALL BUSINESS INVESTMENT CORP

January 23, 2012

<u>Item</u>	<u>Action</u>	<u>Page</u>
<u>APPROVAL OF AGENDA</u>	Approved	2
<u>APPROVAL OF MINUTES:</u> December 12, 2012	Approved	2
FINANCIAL REPORT	Approved	2
NM MEZZANINE FUND PRESENTATION	Informational	3
FINANCE NM PRESENTATION: THE HOLLY COMPANY: a. Possible Vote to Renew Contract for 2012	Approve through 6/30/12; in March decide whether to continue support	6
ADVISOR'S REPORT	Informational	9
DISCUSSION AND POSSIBLE VOTE: NM BROAD BAND HOLDING OPTION	Tabled to Feb.	10
DISCUSSION AND POSSIBLE VOTE TO AMEND NMCC LP AGREEMENT	Approved	10
DISCUSSION AND POSSIBLE VOTE TO AMEND ACCION NM LOAN AGREEMENT	Approved	11
DISCUSSION AND POSSIBLE VOTE ON NM ANGEL MEMBERSHIP	Approved	12
ADVISOR'S REPORT: TALKING POINTS	Informational	12
REVIEW AND APPROVE 2012 MEETING SCHEDULE	Informational	13
CHAIRMAN'S COMMENTS	Informational	14

**MINUTES OF THE**  
**NEW MEXICO SMALL BUSINESS INVESTMENT CORP.**  
**REGULAR MEETING**

**January 23, 2012**

A regular meeting of the New Mexico Small Business Investment Corporation was called to order on this date at 8:00 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. Joseph H. Badal, Chair  
Mr. Sam Cobb  
Mr. Alan Fowler, Secretary/Treasurer  
Ms. Roxanna Meyers, Vice Chair  
Mr. Clarence L. Smith [designee of Hon. James Lewis, State Treasurer]  
Ms. Launa Waller

**Members Excused:**

Mr. Lupe Garcia

**Legal Counsel to Board:**

Mr. Randy McDonald

**Financial Advisor to Board:**

Mr. Paul Goblet

**Recording Secretary:**

Ms. Charmaine Clair [for Judith Beatty]

**Guests Present:**

Mr. Mike Doolittle, NMMF  
Mr. Dick Harding, NMMF  
Mr. David Boland, NMMF  
Mr. John Chavez, NMMF  
Mr. Lynn Carrozza, NMMF  
Ms. Holly Eakes, Holly Company  
Mr. Tom Eakes, Holly Company

## **APPROVAL OF AGENDA**

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

## **REVIEW AND ACCEPTANCE OF BOARD MINUTES: December 12, 2011**

**Ms. Meyers moved approval of the December 12, 2011 Minutes, as submitted. Ms. Waller seconded the motion, which passed unanimously by voice vote.**

## **REVIEW AND ACCEPTANCE OF FINANCIAL REPORT**

Mr. Goblet reviewed the December financials.

Mr. Goblet stated that he would recommend that the \$3,428 in the State Treasurer's Local Government Investment Pool [LGIP] account be closed out.

Mr. Goblet stated that the second line item, with a zero balance, is the State Treasurer's LGIP Restricted account. As background, he said the state was an investor in the Reserve Primary Fund when the fund was frozen due to its exposure to Lehman Brothers bankruptcy in 2008. To date the State Treasurer has received a return of about 99 cents per dollar invested. He said any settlement funds would come into this account and then be moved into the non-restricted account.

Mr. Goblet noted that the most recent net asset value provided by the equity partners is \$12.7 million. He said most of the fund commitments date back to 2005-2007 and other than Verge II is nearly finished with their investment life. He said there may be add-on calls, but none of these funds is expected to make any additional new investments with the exception of Verge 2 and NM Gap Fund

Mr. Cobb asked Mr. Goblet to report back on how much of the remaining commitment of \$6 million is projected to go to management fees so the Board can understand how much is available, and also to provide a breakdown of how much has gone to management fees versus capital calls in each of the funds to date.

Mr. Cobb stated that it would be useful to see how these breakdowns compare with national averages.

Chair Badal commented that, because of the economy, the life of the various investments has been extended out, and the longer a fund is extended, the greater the management fees. He said it almost becomes a self-fulfilling negative prophecy because the cost of carrying the investment then is greater than anticipated.

**Mr. Cobb moved to accept the December financials. Mr. Fowler seconded the motion and it passed by unanimous voice vote.**

future EBITDA margins of at least 5% with annual revenues of at least \$1 million. He said NMMF would propose instead that it achieve positive EBITDA or have the ability to do that, with reasonable projections, within 12-18 months.

Mr. Harding also requested that the Partnership Agreement be amended to extend the life of the Fund by 2 years (from 6 to 8 years), and to extend the investment period by 3 years (from 3 to 6 years).

To the Chairman's question, Mr. Harding said NMMF structures things a little bit differently on a deal-by-deal basis than they might have three years ago – especially, for example, making the covenants and the tranching guidelines somewhat more lenient while watching them more closely and having the milestones come up more frequently. If NMMF were to go earlier into a company and not require the \$1 million in revenue, they would tighten the covenants and monitor the company more closely because of the changed risk profile.

Chairman Badal suggested that NMMF consider being more like a bank than a mezzanine fund over the next two years.

Mr. Harding responded that their coupon rates and potential returns would have to come down under that scenario. He added that NMMF brings a bank in on some deals, since it adds value and liquidity that NMMF might not have.

Chairman Badal said he was suggesting there could be a window of opportunity over the next couple of years. He knows people who are making private equity deals with perfectly bankable companies and they are charging 11- 13% interest.

Chairman Badal commented that there is a tremendous need for mezzanine funding in New Mexico, but the environment has changed – so how can NMMF and the NMSBIC take advantage of that.

Mr. Harding responded that, by tweaking the investment guidelines as proposed, and moving to slightly earlier stage, it would open up a lot of opportunities.

Mr. Boland added that there wouldn't be a significant shift in the risk profile because the tranching would mirror the performance metrics and there would be the goal of preserving the capital through various milestones, with closer monitoring throughout the process. He said they would then go from a sub-debt position to a more senior position so they would have more collateral base to secure that.

Chairman Badal asked Mr. Goblet to meet with NMMF representatives and discuss hypothetical investment scenarios so the Board could have a better idea of how they might be able to tweak the investment guidelines.

Mr. Doolittle stated that there are three potential deals that could be considered under the proposed investment guidelines, although the window of opportunity for one of them would close soon.

Ms. Meyers said she was personally in favor of amending the guidelines as soon as possible.

Following discussion, the Board agreed that one or two designees would meet with NMMF within the next few days to satisfy questions and concerns expressed at this meeting, and in anticipation of action to be taken at the February 27 NMSBIC meeting.

Mr. Chavez explained the New Mexico Angels invests in early stage capital and has 70 accredited investors who are core members, and 15 to 30 sponsors. Last year, he said they deployed \$1.3 million worth of capital in six deals and are the most active entity in doing deals.

Mr. Chavez invited Board members to the NM Angels annual dinner on Thursday at the Hotel Albuquerque.

## **FINANCE NEW MEXICO PRESENTATION: THE HOLLY COMPANY**

### **a. Discussion and Possible Vote to Renew Contract for 2012**

Holly Company owners Tom Eakes and Holly Eakes made a presentation describing the background and history of Finance New Mexico, which was started in 2007 with the goal of educating businesses about the availability of NMSBIC investment funds, and to prepare them to access those funds via the weekly dissemination of business financial literacy, which would enable business's growth and job creation.

Ms. Eakes stated that FNM's efforts are statewide and reach into New Mexico's smaller communities using multiple methods, largely through published articles in community newspapers, FNM's weekly electronic newsletter, a website archive and social media (now included on Biz Calendar). Additionally, FNM put all of the previously published articles into a book and CD and distributed it to financial institutions around the state. She said FNM also tweets several times a day with 550-600 followers, and has a page on Facebook.

Ms. Eakes distributed a sampling of articles published in recent months. She said the articles are having a longer shelf life than anticipated – an article published in February 2011 by the *Albuquerque Journal* was picked up again in November.

Ms. Eakes noted that they are now halfway through their fifth year and have three private sector sponsors: Century Bank, LANB and an accounting/consulting group with six offices in New Mexico and one in Lubbock. She said other sponsors include the NMSBIC and State Economic Development Department.

Ms. Eakes said their plan going forward is to create a one-stop resource for businesses and to add more information to the ED Calendar website, which hasn't been updated for about three years. She said New Mexico Community Capital created the website about three years ago called Access to Capital, which is no longer hosted. Holly Company would like to include that information on the FNM website as well. Additionally, they want to increase their distribution channels and expand

the dialogue through Linked In and other networks. They also see an opportunity with veterans and believe that a lot of veterans come back to New Mexico and want to start businesses. She has spoken to the Veterans Research Outreach Center and wants to do more with them.

Responding to Ms. Meyers on The Holly Company budget, Ms. Eakes said the first year budget was \$50,000; the second year was \$70,000 and the third year went to \$74,500, which is where they are now. She said the NMSBIC represents \$35,000 of that.

Ms. Eakes said an annual report was e-mailed in September to Board members and included a budget breakdown. Early on, she said they spent 50% of their time on articles and now that has increased to about 70%.

Chair Badal asked if any of the NMSBIC investment partners fund the project, and Mr. McDonald answered that when the program was started, they asked the Attorney General's Office if they saw any statutory problem with this concept and also with using investment partner money. The AGO responded that they saw no problem with the contractual arrangement but did not want any of FNM's funding to come from the investment partners.

Mr. McDonald read from the Attorney General's letter, which stated, "Our concern was with the proposed paragraph regarding the above-mentioned companies [referring to the description of seeking funding for this program from Verge, Flywheel and ACCION]. Although the paragraph advises the NMSBIC Board to make clear that its future investment decisions in companies will not be linked to their financial contributions or lack thereof to the program, we believe that this situation, even if artfully stated or drafted, will always create an appearance of impropriety. The recent financial scandals in New Mexico have created a perception that government is based on a quid pro quo or pay-to-play basis and we strongly suggest that your letter be drafted to the NMSBIC Board not to seek financial contributions from these companies."

Chair Badal asked if it would still be a problem if The Holly Company solicited money from the investment partners, and Mr. McDonald responded that it might not be a problem if the NMSBIC were not supporting the program.

[Holly Company representatives left the meeting.]

[Break.]

Mr. Goblet reviewed the contract and scope of work. He noted six months of the contract has been paid through 12/31 (\$17,500), and a quarterly billing has been received for the next quarter for half of the \$17,500. Because of the change in Board members, action on the contract has been postponed. He recommended the Board continue the contract through the remainder of the year (\$17,500 through June 30 in two payments).

Responding to a question from Ms. Meyers, Mr. Goblet said The Holly Company owns the Finance New Mexico domain name.

Board members agreed that the NMSBIC should own the domain name, not The Holly Company.

Chairman Badal commented that the Board should decide first whether it wants to continue funding this program into the future. He said the question is whether the NMSBIC can afford to spend \$35,000 when income is down and the NMSBIC is no longer in as strong a position as it was when the program started. If the NMSBIC were no longer a participant in the program, it could be in The Holly Company's interest, given their reported success story, to go out and raise the \$35,000 on their own directly from the loan partners and investment partners.

**Mr. Fowler moved that the Board approve the current contract with Holly Company through June and that, by March, the Board determine whether or not to continue support. Mr. Smith seconded the motion, which passed by unanimous voice vote.**

Ms. Meyers said she would be interested in knowing how many hits Finance New Mexico is getting on the Internet, and suggested they may be interested in doing a Survey Monkey or other online survey to determine what the demographic is. This would be very helpful to the Holly Company if they have to go out and replace the NMSBIC's funding.

Mr. McDonald noted that Holly Company also provides web-hosting services for the NMSBIC under a separate agreement.

Mr. Cobb stated that the \$35,000 contract has a 120-day termination clause.

Before making a decision, Mr. Fowler said he would want to evaluate the Holly Company's ability to get support on their own and continue with Finance New Mexico without NMSBIC participation.

Chairman Badal said it wasn't clear from today's presentation whether the \$35,000 is actually a good investment for the NMSBIC.

Mr. Cobb suggested asking that of the SBDCs, as well as The Loan Fund, ACCION, etc., and the investment partners.

Chairman Badal agreed. He suggested asking the investment partners: 1) if the NMSBIC were to walk away from funding this program, would they be willing to provide some funding; and 2) have the articles created any value for them – has this brought deals to them, has that been worthwhile and, if so, would they offer financial support to the Holly Company to continue.

### **ADVISOR'S REPORT**

Mr. Goblet said Chairman Badal had asked for a breakdown of Verge Fund's management fees versus investments, which he reviewed.

Mr. Goblet commented that, as a result of the economy, the ability of smaller venture funds around the country to continue to raise capital has virtually disappeared, and this is graphically illustrated with venture funds in New Mexico – they are not receiving follow-on commitments from their larger funders because few have received distributions back, and now they are going back to their LPs and asking to extend the life of their fund. He cited Flywheel is one example – while they raised \$31 million in their first fund, their second fund is closer to \$7 million, and this is because there is no commitment from their largest investor, the State of New Mexico SIC.

Mr. Goblet said what tends to happen on fund extension requests is that the GPs will reduce their management fees while overseeing the orderly liquidation of their portfolios. He said this is happening to an increasing number of funds. Because the NMSBIC's first fund was in 2004, this is not expected to happen until those funds reach their tenth year.

Mr. Goblet said his greatest concern is that New Mexico is going to lose skilled and experienced investment professionals because they will not be able to raise money here, and it will take 10-15 years to replace that intellectual capital.

#### The Loan Fund

Mr. Goblet reported that, on January 1, the NMSBIC's facility was increased to \$8.5 million, so The Loan Fund has about \$2 million in forward borrowing capacity from the NMSBIC. Any future calls are governed based on compliance with all conditions of the facility.

Mr. Goblet said the facility currently stands at \$6.5 million over 116 outstanding loans, for an average loan balance of \$56,000. While The Loan Fund must replace any loans greater than 180 days past due, they have only three loans totaling about \$200,000 that are greater than 90 days past due.

Chair Badal asked Mr. Goblet the number of committed but un-deployed funds in the Loan Fund.

Mr. Goblet said currently their liabilities are \$10 million and \$6.6 million of that is NMSBIC, LANB and others.

Mr. Goblet reviewed a 5-page loan spreadsheet. He noted \$18.5 million in total loans have been made since the creation of the facility in 2005, \$5 million of which were to businesses outside of Albuquerque.

#### **DISCUSSION AND POSSIBLE VOTE ON NM BROADBAND HOLDING OPTION (REQUEST TO TABLE)**

---

Following up on the Board's decision at the last meeting to request a 5-year option to purchase the NMSBIC's pro rata ownership portion of New Mexico Broad Band Holding for \$17,000, Mr. Goblet said that their attorney's response was they were uncomfortable putting anything in writing at this time, which might be construed as a security.



Mr. Goblet asked that this item be tabled pending further discussion with Mesa Ventures.

**By consensus, this item was tabled to the February meeting.**

### **DISCUSSION AND POSSIBLE VOTE TO AMEND NM COMMUNITY CAPITAL LP AGREEMENT**

Mr. Goblet reported that he and Chairman Badal had a 90-minute meeting with CEO Leslie Elgood and managing director Michael Schafer, when the request was made to amend the LP agreement for the purpose of clarification and to ensure that the fund has the maximum investment flexibility as its portfolio companies enter the harvesting phase. He said NMCC cannot make any investments in new portfolio companies, but does have the ability and likely need to make add-on investments in its best-performing companies.

Mr. Goblet stated that the amendment request was the result of an inquiry that NMCC received in November from limited partner Maddox Foundation's new legal counsel, who asked what "15% of partnership's aggregate capital" meant in section 3(a)(ii) of the LP agreement. In doing the calculations, he said NMCC determined that the aggregate committed capital is equal to \$14.65 million, so the 15% cap is \$2,197,500. NMCC was asking to amend the section to delete the cap and provide access to the total investment fund, as there was a \$152,000 shortfall of reserve due to the cap.

Mr. Goblet reviewed tables submitted by NMCC reflecting investments, management fees and projected valuations and returns.

Mr. Goblet stated that, by amending language in the LP agreement, the Fund could call all of the remaining capital over the next 1 to 3 years as needed, both for add-on investments as well as ongoing management fees and expenses. The difference in the interpretation of the LP agreement totals \$152,000, of which the NMSBIC's pro rata portion would be about \$72,500. Should the LP agreement not be amended, he said the GP would be limited to calling approximately 99% of the committed capital versus 100%.

Mr. Goblet recommended that the Board approve the amendment, based on the conversation with the Fund, which included an update of the portfolio and their sense of need for funding flexibility.

Chairman Badal commented that \$152,000 in add-on investments will not make a great deal of difference in terms of whether the companies in the portfolio will make it or not – the bulk of this might go toward management fees – but NMCC is one of the better commitments the NMSBIC has made and Michael Schafer is a very experienced fund manager. Additionally, the fund is relatively young.

Mr. Goblet added that 9 out of the 10 companies in the NMCC portfolio are still alive, which is very impressive.

**Mr. Cobb moved to approve the amendment. Ms. Meyers seconded the motion, which passed by unanimous voice vote.**

#### **DISCUSSION AND POSSIBLE VOTE TO AMEND ACCION NM LOAN AGREEMENT**

Mr. Goblet stated that, when NMSBIC amended the agreement with ACCION 4 years ago, it stated if there were losses greater than \$150,000 a year, it would reduce the size of the facility by any amount greater than the \$150,000 benchmark. He stated that the original agreement with ACCION was for \$5 million and currently stands at \$4,858,000.

Mr. Goblet said the new interim CEO is willing to adjust the facility to \$3.5 million instead of \$4.8. They have new initiatives in place and think they will see loan increases over the next 3 to 6 months. He said they would like the ability to come back and revisit this if the demand warrants it.

Chairman Badal said this was a response to a Board request from last month, and appreciated Mr. Goblet's follow-up.

Mr. Cobb commented that having the ability for ACCION to revisit this is certainly an option, but under no circumstances should that imply that the covenants will change – the NMSBIC is simply lowering the line of credit.

Chairman Badal concurred.

Mr. Goblet recommended that the facility be reduced to \$3.5 million and that the automatic trigger in the agreement be adjusted such that the facility is reduced annually and automatically if there are loan losses greater than 3%.

**Mr. Fowler so moved. Ms. Meyers seconded the motion and it passed by unanimous voice vote.**

#### **DISCUSSION AND POSSIBLE VOTE ON NM ANGEL MEMBERSHIP**

Mr. Goblet stated that the New Mexico Angels annual dinner meeting is taking place on January 26 at Hotel Albuquerque, and he has received an invoice for \$900 to cover the annual membership cost.

Mr. Goblet stated that, for the past few years, he pays \$300 of the membership to reflect the drinks and dinner and the NMSBIC has paid \$600.

Mr. Goblet recommended the Board continue the membership.

**Mr. Cobb moved to approve the membership. Ms. Waller seconded.**

Mr. Goblet stated that he would continue to pay the \$300 personally.

**The motion for the continued membership and payment of the invoice for \$600 passed by unanimous voice vote.**

#### OTHER DISCUSSION

Ms. Meyers said she understood WESST Corp essentially funds artisans, and asked Mr. Goblet to talk with Ms. Blueher about the possibility of expanding the loan agreement criteria to get more money deployed.

Mr. Goblet said Ms. Blueher has explained in the past that WESST Corp does not see itself exclusively as a lender, but focuses primarily on providing technical assistance.

Chairman Badal commented that this goes back to the discussion at the strategic planning meeting about what is the highest and best use of NMSBIC's funding.

#### ADVISOR'S REPORT: TALKING POINTS

##### Short term deposits

Mr. Goblet said the Board has expressed an interest in trying to move its deposits back to local financial institutions; accordingly, in September, \$4 million was deposited in First National Bank of Santa Fe in a fully collateralized CD at an interest rate competitive with the CDARs rate. He said the NMSBIC currently has \$13.8 million in CD deposits in First National Bank of Santa Fe and New Mexico Bank & Trust. He said \$6.7 million sits in a CDARs program and will mature on March 8th.

Mr. Goblet asked if the Board would like him to pursue a continued course of searching for local banks that will provide 100% collateralization.

Chairman Badal said he thought it made the most sense to keep NMSBIC money inside of New Mexico, spread among two or three banks around the state, provided the money is 100% collateralized.

Mr. Goblet said he would present options at the February meeting.

##### Venture/vulture capital

Mr. Goblet noted that venture capital has come under a high degree of scrutiny and criticism in the national and local press and the political race has elevated the activities of Bain Capital and others due to claims and counterclaims of job creation.

Mr. Goblet stated that, in its early days, Bain Capital was an early/growth stage fund that morphed into a buyout fund, but unlike Bain and other leveraged buyout funds, all of the New Mexico funds are based on startup and growth capital. He said virtually every state has established or increased its investments to attract and support local business growth, but New Mexico, because of slower-than-expected investment performance and charges of corruption at the SIC, has dramatically reduced its local investment activity. He said the SIC has not committed money to a local fund in 3-4 years, and the last equity commitment by the NMSBIC was in Verge II in 2010.

Mr. Goblet said equity capital is a relatively new phenomenon in New Mexico; and while it may be currently uncomfortable for political and financial reasons, he believes it is essential if New Mexico is going to capitalize on its technology resources or build a viable and robust business community.

### **REVIEW AND APPROVE 2012 MEETING SCHEDULE**

Mr. Goblet said it was suggested by Board members to host meetings around the state, and suggested Clovis, Hobbs or Espanola. He said it typically takes 2 to 3 months to organize the details and schedule a meeting.

Mr. Goblet said he would work with Board members on dates and venues.

Mr. Goblet submitted his job description and said he would be happy to help over the next four months as the Board considers an RFP process. He commented that it might be healthy for the Board to have a new financial advisor, ideally in the new fiscal year. He thought the RFP process could take two months and another two months to transition.

Chairman Badal said that, at the strategic planning meeting, Board members discussed the passion Mr. Goblet has for the organization and the contribution he has made. He said he personally wants Mr. Goblet to continue to have a role at NMSBIC.

### **NEXT MEETING -- TENTATIVELY MONDAY FEB. 27**

Chairman Badal said he could not attend the February 27 meeting.

### **CHAIRMAN COMMENTS**

Chairman Badal said he was impressed with New Mexico Community Capital during the recent meeting with them, and feels that this Fund has a very good chance of success, given the companies in its portfolio.

Chairman Badal said he met with Jeremiah Ritchey, the new Director of Boards and Commissions for the State of New Mexico. He said Mr. Richey and Mr. Cobb have communicated about getting Mr. Cobb reappointed to the Board, and Chairman Badal has communicated his desire that Mr. Cobb be reappointed.

Chairman Badal said he had lunch with Leroy Pacheco from the Loan Fund, and asked him at what point he thought The Loan Fund would be self-sustaining and not have a need for grants, etc. to cover all their expenses. He said he has asked Mr. Pacheco to appear before the Board with that information as well as the previously requested business plan.

Ms. Meyers stated that she will have to leave the February 27 meeting at 11:30 to attend the NAIOP lunch. She is one of the sponsors, and the topic is, "What Makes Cities Great?" She said she will send an invitation to Board members.

Mr. Cobb discussed companies that have received funding and are locating in Hobbs. He said another company located in Hobbs has developed a molecular process with varied applications, and is in a strategic partnership with Patagonia, the major clothing outfitter, to waterproof goose down. He said he has talked with the Hobbs Economic Development Corporation about finding a commercial lender and the possibility of the NMSBIC bringing in some type of gap funding or mezzanine lending. He stated that he would like them to make a presentation to the Board in February or March.

Mr. Cobb said he wasn't averse to the idea of the NM Mezzanine Fund, but thought the cost of their capital is very high and this could be why they are not attracting more businesses.

#### **ADJOURNMENT**

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

  
\_\_\_\_\_  
Joe Badal, President

*2-27-12*  
\_\_\_\_\_  
Date