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NM SMALL BUSINESS INVESTMENT CORP

June 21, 2010

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MINUTES OF THE

REGULAR MEETING

NEW MEXICO SMALL BUSINESS INVESTMENT CORP.

June 21, 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 La Fonda Hotel, 108 S. Plaza, Taos, New Mexico.

A quorum was present:

Members Present:

Mr. Andrew Baca, Chair

Mr. Kit Caldwell [by telephone]

Mr. Sam Cobb, Vice Chair

Ms. Mary A. Garza

Mr. Billy Knight

Mr. Greg Kulka [State Investment Council designee]

Ms. Marie Longserre, Treasurer

Mr. Clarence L. Smith [designee of State Treasurer James Lewis]

Members Excused:

None.

Legal Counsel to Board:

Mr. Randy McDonald

Financial Advisor to Board:

Mr. Paul Goblet

Recording Secretary:

Ms. Judith S. Beatty

Guests Present:

Ms. Leslie Elgood, NMCC

Ms. Shyla Sheppard, NMCC

APPROVAL OF AGENDA

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

APPROVAL OF MINUTES: May 24, 2010

Ms. Garza moved for approval of the May 24 Minutes, as submitted. Mr. Knight seconded the motion, which passed by voice vote.

REVIEW AND ACCEPTANCE OF FINANCIAL REPORT

Mr. Goblet said the NMSBIC has received a letter from the IRS stating that, because of a heavy workload, they will not be able to respond to the Form 990 filing for another 45 days.

Mr. Goblet reviewed the April and May financials as provided by Dee Brescia.

Chairman Baca commented that he was impressed by the level of detail in Ms. Brescia's reports.

Mr. Goblet said first quarter reports are now in from all of the funds and will be reflected in next month's financials.

Ms. Longserre moved approval of the financial report. Mr. Knight seconded the motion, which passed by voice vote.

REVIEW AND POSSIBLE VOTE ON SERVICE CONTRACTS

Judith Beatty

Mr. Goblet stated that there was no change in this contract from last year.

Ms. Garza moved for approval. Mr. Cobb seconded the motion, which passed by voice vote.

Randall McDonald

Mr. Goblet stated that there was no change in this contract from last year.

Ms. Longserre moved for approval. Mr. Cobb seconded the motion, which passed by voice vote.

Secretary position

Mr. Kulka reported that it is the wish of the State Investment Officer that the SIC maintain its seat on the Board but that the SIC designee not be an officer of the Board. He said the SIC General Counsel will be submitting a letter to that effect.

Mr. Goblet said the August agenda would include election of a new Board Secretary.

In light of the upcoming gubernatorial election and the fact that the terms of some Board members would end around that time, Mr. Cobb and Ms. Longserre said they thought it important that all Board members' terms be current so that all actions by the Board during the transition period would be valid. Mr. McDonald agreed to look into this issue.

DISCUSSION OF SBIC'S COMMUNICATIONS POLICY

Mr. McDonald distributed copies of a draft Policy on Media Communications, which would apply to all members of the Board, contract professional service providers and employees of the NMSBIC. He said the policy would govern the release of public information of the NMSBIC, which is defined as information in any form provided to news, information, public, or social media; for example, responses to media inquiries, press releases, media advisories and news features.

In discussion on the sections calling for approval by the Chairman of all affirmative written materials (press releases, etc., as well as letters to the editor, etc.), Mr. Kulka suggested that a copy be provided to all Board members, as well as legal counsel, prior to release/submission and, when possible, sufficiently in advance to allow Board members to comment.

Ms. Longserre noted that, in her experience, media requests tend to have tight deadlines—a few hours at most—so that Board members wishing to comment would have to act quickly.

Mr. Kulka moved for approval of the Policy on Media Communications, amended to reflect the comments of the Board today. Ms. Garza seconded the motion and it passed by voice vote.

Mr. McDonald said he would submit a redlined version of the policy by email for the Board's review, and that any suggestions for additional changes could be reviewed and considered for adoption at the August meeting.

REVIEW AND POSSIBLE VOTE ON D&O POLICY

Mr. Goblet stated that, since approximately 2003, the NMSBIC has had a D&O policy in place with the Manuel Lujan Agency to supplement its risk management policy. He reviewed a 12-month renewal proposal from the Lujan Agency in the amount of \$2,479. He said the agency pared the total by \$80 to this amount after it was clarified that the NMSBIC does not require Employment Practices Liability coverage because it uses independent contractors.

Mr. Goblet stated that he did not seek other proposals but would be happy to do so if the Board wished. He noted that the current policy expires on 6/23, two days from now.

Ms. Longserre commented that it might be prudent to shop around. She said she serves on three other boards with D&O policies and it appears that a premium of about \$1,800, with a deductible of \$1,000 to \$2,500, would seem appropriate for a board of this size. She noted that the Lujan Agency policy has a \$5,000 deductible.

Chairman Baca asked Mr. McDonald to review the definition of Employment Practices Liability in the policy to see if contractual relationships could be construed as employment relationships. Mr. McDonald agreed to do so.

Mr. Goblet agreed to get quotes from three or four other organizations and initiate coverage at the lowest price with a reputable firm.

Ms. Garza so moved. Mr. Smith seconded the motion, and it passed by voice vote.

NM COMMUNITY CAPITAL PRESENTATION: SHYLA SHEPPARD

NMCC CEO Leslie Elgood thanked the Board for this opportunity to discuss a new equity initiative championed by Shyla Sheppard. She said Ms. Sheppard has been working on this initiative for the past year and NMCC recently received a \$650,000 grant in a competitive award process from the Department of the Treasury as a result.

Ms. Sheppard first presented an update of NMCC's newest portfolio companies.

Ms. Sheppard said that, in March, NMCC led the buyout of several disgruntled shareholders in IntelliCyt, whose lack of industry experience and unrealistic expectations were threatening the progress of the company. She said that, after prolonged negotiations, NMCC was able to gain a significant stake in the company, thus ensuring the survival of this fast-growing company for the benefit of its employees and existing stakeholders.

Ms. Elgood added that the disgruntled angel investors mentioned by Ms. Sheppard were California based; and NMCC's negotiations with those individuals were driven by its concerns that the company stay in New Mexico.

Ms. Sheppard said Aspen Avionics, founded by former Eclipse employees who are aviation enthusiasts, is NMCC's most recent portfolio company. She said Aspen has developed a product that consolidates the antiquated artificial horizon gauges within a general aviation cockpit into a single panel. She commented that the company, which has a very strong and impressive management team, is growing quickly.

Ms. Elgood added that, when Eclipse closed, there was enough of an aviation and aerospace cluster already established in New Mexico to absorb some of this top talent that otherwise might have gone elsewhere. She commented that NMCC considered itself lucky to be able to invest in Aspen, which has just been ranked as the top revenue producer of New Mexico's top 40 technology companies.

Ms. Sheppard discussed the work she has done in the past year in meeting with tribal leaders and looking at the idea of working in partnership with individual tribes in building tribal enterprises. She said the Tribal Business Initiative is based on a model she is currently refining in terms of how NMCC would work with a sovereign nation, what are the legal institutions and structures that need to be in place, and so forth.

Ms. Sheppard stated that, last October, NMCC applied for a grant through the Department of the Treasury's Community Development Financial Institution Program, and was notified in April 2010 that it would receive \$650,000, \$500,000 of which would go toward one micro-equity pilot investment. She said the remaining \$150,000 will be used to address the legal complexities that are inherent in dealing with a sovereign nation, and engaging consultants to further refine and develop the model.

Ms. Sheppard commented that she is hoping to develop a pipeline of potential future partners. She stated that many tribes are very excited about diversifying away from gaming and developing tribal enterprises. She said she is taking the approach of developing a pre-negotiated purchase agreement with some of the tribes where they agree to buy out NMCC's position at some future point, a structure not unlike that of the NMSBIC.

[Break.]

ADVISOR'S REPORT

Mr. Goblet circulated a newspaper report about First State Bank's intent to purchase \$95.2 million of its own debt for \$14.3 million in cash as part of an effort to raise capital and improve its balance sheet. He said this action will not impact the

NMSBIC, but thought it important to bring to the Board's attention because First State owns First Community Bank, where the NMSBIC has \$8 million in CDs, and this action will dramatically strengthen First State's balance sheet.

Mr. Goblet circulated a second newspaper clipping reporting on the ERB's plan to use \$1.5 million out of its pension fund to pay for private lawyers for board members who have been sued. He said he included this in the packet as an informational item in light of the Board's action earlier in this meeting to renew its D&O insurance coverage.

ACCION NM

Mr. Goblet noted that this Fund's outstanding balance now stands at \$3 million—the lowest it has been since 2008—and their approval process has become much tougher in this economic climate. He said they reported \$8,273 in net loan losses for May, bringing the total for the 11-month period to \$157,400, exceeding the \$150,000 annual cap. He stated that he will meet with ACCION in July to better understand the collection process and results of judgment filings. Once the final net loan loss numbers are in for the fiscal year, he said the facility will be reduced by an estimated \$20,000 to reflect loan losses exceeding \$150,000.

Mr. Cobb commented that, while the NMSBIC has lost \$200,000 over five years, that covered 1,500 loans—and that he doubted that there were many lending institutions in New Mexico with a revolving loan fund that has performed that well over that period.

The Loan Fund

Mr. Goblet stated that The Loan Fund requested a capital call in May, which he agreed to, and they reduced two loans that were greater than \$350,000, which resulted in a larger number for replaced loans. He said this capital call brings the facility to \$7,292,157 and leaves them with about \$200,000 in availability.

Mr. Goblet said The Loan Fund will very likely call the remainder of their capital in July, which is now about \$300,000.

Mr. Goblet reviewed the highlights of The Loan Fund's 2009-2013 Strategic Plan, which stated that, by 12/31/13, The Loan Fund will reach \$20 million in total fund capitalization, and will achieve 75% fund utilization with \$15 million in outstanding loans. He said the Board will recall Director Leroy Pacheco's assertions that The Loan Fund plans to accomplish this by seeking capital from other sources.

Mr. Goblet stated that, as The Loan Fund calls the remainder of available capital and seeks to expand its support from the NMSBIC, this Board will then have an opportunity to amend the loan agreement to reflect its wishes.

Board members agreed that, while The Loan Fund should continue identifying borrower names in its Quarterly Collateral/Performance Reports to Mr. Goblet so that he can monitor their portfolio, those names should be removed from the reports when they are photocopied for the Board packets.

WESST Corp

Mr. Goblet reported that WESST Corp has a current portfolio of \$140,338, of which the NMSBIC represents \$105,253. He said WESST Corp has made 24 loans since inception totaling \$338,000, with only one loan loss.

NM Gap Fund

Mr. Goblet said The Gap Fund still has sufficient capital left to do two to three more investments, and they believe that one or two investments will be made in the third quarter. He stated that their last two investments were for \$50,000 and \$75,000. He said he expects \$150,000 in capital calls in FY 2010-11.

Mr. Goblet commented that most of the 11 portfolio companies, despite the fact that they are very early stage, have made it through this tough economic cycle—a remarkable achievement.

Flywheel Ventures

Mr. Goblet noted that all of the NMSBIC's more mature funds are working toward liquidation events over the next two years, and he believes that the Board will see exits in both Verge and Flywheel within that window. He said he expects Flywheel will make \$10,000 in capital calls in FY 2010-11.

NM Mezzanine Fund

Mr. Goblet said he expects \$750,000 to \$1,000,000 in capital calls in FY 2010-11. He noted that the Fund is in due diligence on two deals.

New Mexico Community Capital

Mr. Goblet said NMCC has just provided its first quarter report, and all companies are operating at or near cash flow breakeven.

Verge Funds

Mr. Goblet stated that all three funds agreed to invest capital in Wellkeeper, IntelliCyt and Boomtime, and a fourth investment of about \$300,000 from Verge 2, in Vertical Power, has just been approved. He noted that Verge is spending most of its time working toward a liquidation event, since otherwise they will not be able to come back and raise additional capital.

Mr. Goblet stated that the Verge 2 Conflict of Interest Committee will meet next week to review a potential cross investment in Vertical Power, and Verge 2 is also looking at two new investment opportunities. He said he expects Verge 2 to call \$500,000 to \$1,000,000 in FY 2010-11.

NM Growth Funds

Mr. Goblet said they have listed the Deming plant, which they believe will bring in about \$750,000. He said ClingZ continues to make progress, with May being the best revenue month in over two years for them. He stated that Aridien hopes to complete a funding agreement with a major partner to support manufacturing operation and market rollout.

State Investment Council Report

Mr. Goblet discussed the highlights of his report to the SIC, which included the financial valuations of the NMSBIC's investments and the purpose and role of the NMSBIC.

FUTURE MEETING SCHEDULE

Mr. Goblet distributed the 2010 meeting schedule. As in previous years, he said there would be no July meeting.

TAOS PUBLIC PRESENTATION

Mr. Goblet reviewed the schedule for the public presentation and gave directions to the San Geronimo Lodge.

WEBSITE DEVELOPMENT & RELATED ISSUES

Mr. Goblet reviewed THC's revised proposal for creating the NMSBIC website. He said Ms. Eakes feels that it would make sense to mimic the SIC's website and use a shared server.

Mr. Goblet stated that THC proposes to manage the project and keep the website up to date for a fee of approximately \$4,500, based on the selection of Don Mickey Designs or EVO Web Development as the NMSBIC website design firm.

Ms. Longserre noted that THC's proposal does not include the posting of minutes and agendas. Mr. Goblet said he would ask THC to incorporate that into their proposal.

Mr. Goblet recommended that the Board accept this proposal based on THC's approximate fee of \$4,500 and the selection of either Don Mickey Designs or EVO Web Development.

Mr. Cobb so moved. Ms. Garza seconded the motion, which passed by voice vote.

Mr. Goblet referred to Ms. Brescia's financial report to the Board, containing suggestions regarding a "virtual office space/hosted network." He noted that Ms. Brescia has suggested that the NMSBIC consider organizing its electronic files on a hosted server with VPN access to the files through the Internet for those individuals with approved access.

Mr. Goblet said he would bring back the specifics of a shared website, along with quotes, at the August meeting.

Ms. Longserre asked Mr. Goblet if he was comfortable with Ms. Brescia's suggestion that the NMSBIC ladder its CDs more evenly throughout the year. She noted that most of the NMSBIC's CDs roll off in the fall at this point. She said she thought Ms. Brescia's suggestion was a good one, since it would help to avoid problems with early capital calls and resulting fees.

Mr. Goblet responded that he was fine with that.

Ms. Longserre noted that Ms. Brescia has created schedules for each investment fund for FY 2010 activity and would like to expand these retroactively to prior years with the intent of capturing the cumulative activity in the accounts. She commented that this sounds like a lot of work, and wondered if Ms. Brescia is proposing to do that or should the NMSBIC hire someone to do it.

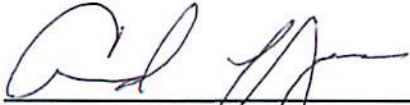
Mr. Goblet responded that Ms. Brescia will do the work.

Ms. Longserre said the previous accountant has submitted a bill for "various conversations at various times on various dates" for a grand total of \$4218.

Mr. Goblet responded that this bill is the final bill and is based on a flat fee of \$1,800 a month.

ADJOURNMENT

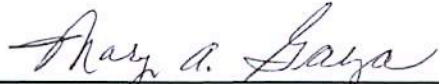
Its business completed, the NMSBIC Board adjourned the meeting at approximately 11:50 a.m.



Andrew Baca, President

8/23/10

Date



~~State Investment Council Representative~~

Mary Gonzales, Secretary

8/23/10

Date