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By [Michael Volker](#)

American - Canadian Deals, What's Up, IPO Watch, Capital Pool Corps Update

American - Canadian Deals

I had an interesting discussion this week with a friend who is CEO of a NASDAQ listed Silicon Valley software company (I won't mention its name for obvious reasons). He's been doing business with Canadian firms for more than 20 years and is currently in the process of negotiating the acquisition of a Canadian software company.

In his own words, "You Canadians have got some real bargains up there. I can acquire R&D talent at half the price." Not only is the talent inexpensive (salary-wise), but the acquisition price of the whole company is a fantastic deal when compared to going rates in the U.S.

I had lunch with another American friend from the Boston area (an angel investor and junior market afficionado) who also believed that B.C. offered more than scenic attractions (he moved to Vancouver this summer). He noted that the effective tax on capital gains is 28% in the U.S. versus 33% in Canada - not a staggering difference. We all know that equity positions and stock options are far more important to employees of technology firms than salary. Salary incentives for Canadians to head south are offset when taking this into account.

In recent columns, I talked about some of the acquisitions of B.C. companies by Californian companies. We've seen a number of these recently.

Redback Networks (NASDAQ:RBAK) announced plans to acquire Burnaby start-up **Abatis Systems** for U\$636 million (i.e. 5.2 million shares of Redback) in order to build Internet-based services. **Workfire Development Corp** of Kelowna was acquired last month for US\$80 million by **Packeteer Inc.** (NASDAQ:PKTR). Richmond-based **Top Producer Systems Inc** was sold to **Homestore.com** (NASDAQ:HOMS) for \$35.96 million in an all-stock deal.

And, of course last summer, **HotHaus Technologies Inc** was acquired by **Broadcom Corp** (NASDAQ:BRCM) for C\$414 million - at that time the biggest private tech company takeover in B.C.

Regarding the Workfire deal, Michel Comte reported in Business in Vancouver (Aug 15-21 issue) that Workfire used to be a subsidiary of an OTCBB-traded company called Workfire.com Inc based in Arizona. Apparently, the Sub was spun-off as a private company without a great deal of investor awareness. Spinning off public company assets is not a matter to be taken lightly. Some shareholders grumbled to the U.S. Securities and Exchange Commission about the lack of disclosure. When company founder, Tom Taylor, was questioned, he deferred to the corporate lawyer and according to Comte commented, "I'm not really up on this. I'm literally a scientist with inch-thick glasses and six pens in my pocket." What a stupid thing for a scientist to say! Most

scientists I know are quite savvy and to hide behind a white smock to escape investor criticism makes one wonder!

This again reinforces my frequently proclaimed negative bias about the OTCBB market. At the risk of being repetitive, this is *not* a junior NASDAQ market as many would like us to believe. In fact, I was amused this week when I heard the business reporter on CKWX News 1130 refer to **Fuzzy Logic Software** (OTCBB:FZZY.OB) as a NASDAQ company. I new that the reporter was wrong as soon as she mentioned that the stock was trading at \$.25. Caveat emptor.

Of course, I'm not implying that all OTC companies are flaky. Many choose the OTC because they don't qualify for the NASDAQ smallcap and the OTC is the only American solution available to them (although the Americans are taking a liking to the CDNX). An example of a local OTC company which was written up in the National Post recently is **Destiny Media Technologies Inc.** (OTCBB:DSNY). Destiny's MPE technology is a media distribution system with built-in digital rights management, e-commerce and visual display. The company targets musicians, record labels and distributors wanting their fair share of the digital music market. MPE is a solution for safe digital content distribution. Content encoded in the MPE format - whether it is music (MP3), video or text - can be posted anywhere and partially previewed in full quality, but can only be viewed in its entirety after a purchase transaction has taken place.

To illustrate my point about trying to be associated with NASDAQ, Destiny blatantly states that it trades "on the OTC: Nasdaq under the symbol, DSNY". Naughty!

What's Up?

What's up in the junior markets? Or, should I say what's down? I'm always trying to spot new shooting stars on the CDNX that are candidates for growth and progression to the TSE or NASDAQ. A couple of years ago, we created the T-Net20 - a basket of the top B.C. companies by market capitalization. The value of these companies, indexed at 1000 on Jan 1, 1998 is now in the 8000+ range. The total market value was just under \$6 billion at the time. It is now in excess of \$80 billion!

If you're wondering about the math, i.e. why the index gained 8-fold, but the market cap gained 13-fold, it's because of the inclusion of many new heavyweights which didn't exist just two years ago. This would include companies like **360 Networks** (in the news a lot lately with lucrative multi-million dollar deals cooking), **Creo Products Inc.**, **Pivotal Corp.**, **Sierra Wireless Inc.**, and **Anormed Inc** - all of which completed IPOs in the past 2 years.

I thought that it would be interesting to take a look at the next 10 companies, i.e. those ranked 21-30 by market cap. I expected to find some undiscovered prospects. This list includes companies like **Multiactive Software Inc** (TSE:E), **Forbes Medi-Tech Inc** (TSE:FMI), **Inex Pharmaceuticals Corp**, (TSE:IEX), **ID Biomedical Corp** (TSE:IDB), **Starfire Technologies International Inc** (TSE:SFI), **Sierra Systems Group Inc** (TSE:SSG), **Spectrum Signal Processing Inc** (TSE:SSY), **ALI Technologies Inc** (TSE:ALT), **Silent Witness Enterprises Ltd** (TSE:SWE) and **Intrinsyc Software Inc** (CDNX:ICS).

Other than Starfire Technologies (a recently completed CPC transaction), none are "undiscovered". They just got displaced by the likes of 360 Networks and others. Many of these, like ALI Technologies Inc., may represent good value. ALI was recently identified by Business in Vancouver as the fifth fastest growing company in B.C. Trading at \$4.70 in a 52-week range of \$3.20 to \$9.25 it may warrant a closer look.

Speaking of the T-Net20 index, more are being created. The City of Burnaby recently produced its Top 10 pubco list and BMO-Nesbitt Burns has created an index of the top 100 Canadian tech ventures.

IPO Watch

There's not a lot happening on this front. C'mon, you privco CEO's - let's see some action! Although IPO's are fairly easy to spot on the horizon, companies going public via merger or acquisition are tougher to spot. If you hear of any, let me know!

CST Coldswitch Technologies Inc (CDNX:LX) completed its IPO and started trading on the CDNX on August 17th. The Company offered, through its agent, **Canaccord Capital Corp**, a total of 4 million common shares at \$1.00 per share. This represents just over 22% of the company on a fully diluted basis. The stock has traded in the \$1.00 to \$1.30 range and is presently around \$1.10. With just over 14.4 million shares outstanding, the market cap is \$16 million. This is a good example of a properly junior IPO, i.e. one that is priced fairly without the company being short-changed while at the same time trading at a small premium to the IPO price.

It's not often that you'll see junior firms do a full-fledged IPO. The regulations, the expense, and the risk of not completing an IPO are simply too much for many juniors to bear. That's why RTOs and Capital Pools are so popular in the micro-cap arena. It's refreshing, though, to see the odd one done!

You can get a full prospectus on any IPO offering (or any Canadian public issuer for that matter) on the Sedar website at <http://www.sedar.com>.

Suppose you are lucky enough to get in on a hot IPO. Is it bad form to "flip" your purchase and make a fast buck? Many underwriters would like investors to stick with a new stock for a while. On the other hand, firms like Standard & Poor's are recommending it. Without flipping there would be no aftermarket for IPOs. Insiders, the other owners of stock, are formally locked out of the market for six months or more. When shares in a hot deal are scarce, their price goes up, and with it the incentive to flip. So, don't feel guilty if you're in this lucky situation. New CPC offerings are a good example of this. Often, new CPC issues trade at healthy premiums for the first few days or weeks and then both volume and price dwindle. A good strategy for IPO participants would be to sell early and then later buy back their positions with already-realized profits, effectively getting a "free" position.

Capital Pool Corporation (CPC) Update

In this column, I keep track of Capital Pool Corporation ("CPC") companies (see chart below) as defined by the CDNX because they may provide funding and management to, and in the process acquire, technology companies. CPC's are the continuation of the former VCP and JCP programs on the Vancouver and Alberta Stock Exchanges.

I like CPCs from an investment perspective. Although one may regard them as speculative (indeed, they are), they are also an inexpensive way of getting in early and inexpensively. You can pick up 10,000 shares of a typical CPC for pennies.

In the past 4-6 weeks, there have been a number of new additions to the list of CPC companies.

Those originating in Alberta include **Almont Capital Corp.**, **CPC Capital Inc.**, **Digital Nervous**

Systems Inc., Driver Energy Services Inc., Planet Organic Health Corp., Pure Lean Incorporated, Spelna Capital Corporation, Longbow Energy Corp, and Sasha Corp.

The new entries from B.C. are: **FiberQuest Networks Corp., Willow Creek Capital Corp, Beanstalk Capital Corporation, Brightwave Ventures Inc., Brockton Capital Corp., CCPC Biotech Inc., Kiwi Charter Corp., Nortec Ventures Corp., Searchlight Venture Corp., and Zena Capital Corp.**

Eastern entries include **CCPC Biotech**, which is from Ontario. and **Spelna Capital**, which is from Quebec.

The following CPC companies have started to trade: **Copacabana Capital Limited, New Media Capital Inc., Transcend Capital Corporation, Trinity Ventures Ltd., and Menstone One Capital Corp., EKZ Investments Ltd., and French Riviera Capital Inc.**

Check our [Capital Pool Corporation chart](#) for a complete updated list of the CDNX's CPC and VCP companies, thanks to **David Ing** of **Pacific International Securities**

An introductory article explaining CPCs may be found at <http://www.bctechnology.com/statics/mvolker-jun0200.html>.

Footnotes

I breathed a sigh of relief when I read yesterday's paper that the Government's threat to eliminate capital gains treatment on American Exchange Traded funds was withdrawn. The intent was to *not* permit gains made on index funds like the "**CUBES**" (NASDAQ:QQQ) - the NASDAQ 100, which includes companies such as Burnaby's **PMC Sierra** (NASDAQ:PMCS) to be eligible for capital gains treatment. The evil CCRA (Canada Customs and Revenue Agency as it is now called) plot was to consider all such gains as ordinary income - fully taxable at marginal rates. The justification was that this would somehow recapture tax revenues lost due to offshore funds. Figure that out!

In the "recommendations" department, I'd suggest another looksee at the **Business Development Bank's Internet Notes** (TSE:BDBn). They are trading at US\$9.00 but they are guaranteed for redemption by Her Majesty at US\$10.00 - so it's a no-lose proposition AND if the Basket of US internet stocks (which include the likes of Microsoft) does well, you can make many times your investment! I suspect that the price is where it is because of a lack of promotion on an illiquid stock. The current "theoretical value" of these notes i.e. the Basket's theoretical performance index was US\$11.84 at July 31st. They've traded between US\$8.75 and US\$16.00 since they were introduced by the BDB last year.

In the "I-told-you-so" department, I was amused by a report last week that many companies listed on the Montreal Stock Exchange want to move over to the CDNX. Some months ago I commented that Quebec's political maneuvers would likely lose out to market forces - i.e. that companies could not be forced to trade on a limited, provincial market and that it would be detrimental to a company's development. Although it shouldn't matter where a company's stock trades, especially in today's on-line world, the interplay between a stock exchange and the regulatory environment - in this case the Quebec Securities Commission - creates the confusion. Alas, we need a national commission!

Don't forget - the Vancouver Enterprise Forum is starting up again this Fall with its 2000-2001 season. The first event will be held on September 26th and the topic is early stage financing for new ventures. This was a popular event last year and was sold out. So, book now. Details are at

<http://www.vef.org> as is information on various local tech events may be found on-line at <http://www.vef.org>.

For a convenient printable version of this column, [click here](#).

PS: My last column was the Aug. 11th edition. I took a little summer break since there wasn't a lot of market action anyway.

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