



**Tech Futures:  
June 30, 2000**

By [Michael Volker](#)

**Shady Dealings, Weekend Reading, IPO Watch, Capital Pool Corps,  
Footnotes**

### **Shady Dealings**

My head hurts. I was just reading the morning paper and couldn't help but notice all the "scam" style dealings being reported on. These ranged from the RT Capital controversy over high closing practices to slaps on many brokers' wrists in unrelated dealings at many of our local brokerage firms.

Coincidentally, I also received several email stories this morning about various individuals' ethical practices. It makes me think about a survey conducted by one of major accounting firms (it might have been KPMG) which found that 20% of our population is inherently and consistently honest. Another 20% is consistently dishonest. That leaves 60% - this group is sometimes honest and sometimes dishonest - depending on the circumstances. That's scary! But, it behooves us to remember this when we're thinking about dabbling in the markets.

I'm always amazed at the tenacity of some of our local investigative reporters. Fellows like David Baines of the Vancouver Sun (who was even threatened by unscrupulous touts) and Brent Mudry who writes for Stockwatch provide a great service for people like you and me, the "small investor", who just don't have the time to check everything. Where would we even begin?

On my own email system, I've been keeping a file which I've labelled "scams" where I put the various emails which I get from Stockwatch and other information and news services. Then, when someone's name comes up, I can do a local "find text" search to see if there's any scuttlebutt on said person. In spite of the proliferation of information on the web these days, I have yet to find a "scam site" where I can easily search and check up on various individuals (email me if you know of any!). As I've mentioned in earlier columns, I'd still like to see the regulators (either the Securities Commission or the stock exchanges) require public filing of directors' and officers' personal information forms. Not only do I want to know about the scam guys, but I also want more info on the good guys - in fact - all key people (including promoters, advisors, PR firms, etc) involved with any given corporation.

Stockwatch's "participant" search is a good start. You can at least find out who is participating in financings such as private placements (even if they are not directors). This information augments normally available "insider trading" filings.

As for the high closing practices (i.e. trading shares back and forth between

collaborating parties near the closing bell) to bolster portfolio values, it serves to demonstrate that these dealings don't just occur on the junior exchanges (remember Vancouver's image as scam capital?). Let's not forget that when we see flaky deals on the CDNX (and there will be some). It can happen anywhere.

## Weekend Reading

Well, aren't you glad a long weekend is coming up? Finally, there'll be some time to catch up on business - readings, that is. Today's (i.e. July edition) Globe & Mail Report on Business Magazine covers the TOP 1000 (by profits, no less) ranking of Canadian Corporations. You'll find some interesting tidbits and revealing numbers. For example, total revenue for the TOP1000 is \$858 Bn while profit is only \$38 Bn, i.e. 4.4% on average (gosh, it's tough to make a buck these days. How can there be so many nouveau millionaires?) I find it interesting that the entire total profit of \$38 Bn almost equals the market value of our local #1 company - **PMC Sierra Inc** (NASDAQ:PMCS) which isn't even on the list.

In case you're wondering why it isn't on the list, it is because it is not a "reporting issuer" in Canada. In fact, you won't find the company listed on Sedar ([www.sedar.com](http://www.sedar.com)). This goes back to its origin as a Silicon Valley company which was eventually consumed by its Burnaby subsidiary. This, unfortunately, makes it ineligible as a Canadian RRSP investment.

Speaking of PMC-Sierra, yesterday the Company announced the acquisition of privately held wireless semiconductor company **Datum Telegraphic** (of Burnaby, BC). PMC-Sierra will exchange approximately 681,000 shares of PMC-Sierra common stock for the remaining 92% of Datum Telegraphic that the company does not already own. Got your calculator handy? That's a cool C\$180 million (based on today's trading around U\$181.00). Not bad for a company of just over 30 employees ( PMC-Sierra's team now numbers over 1000 worldwide of which 600 are located in Burnaby, BC. According to PMC-Sierra's Bob Bailey, CEO, "Moving into the wireless infrastructure is the next logical step for PMC-Sierra. The addition of the Datum Telegraphic team will significantly accelerate our 3G data wireless strategy with highly optimized chip set architectures for next-generation wireless equipment. Broadband wireless is the next technological discontinuity to change the Internet infrastructure."

By the way, PMC-Sierra is included in the Nasdaq-100 Index which contains the largest non-financial companies on the Nasdaq Stock Market. The Nasdaq-100 Index is the benchmark for the **Nasdaq-100 Index Tracking Stock** (NASDAQ:QQQ). I mention this because the "QQQ's" are, in my view, a great way for investors to participate in a mutual fund sort of way in the growth of the major tech stocks on Nasdaq. The Nasdaq website ([www.nasdaq.com](http://www.nasdaq.com)) will tell you which companies are in this index. You can trade the QQQ's just as you'd trade a stock - no fees other than normal stock commissions. And, it's easy to get in and out. Besides, you likely won't have to worry about the high closing practices referred to earlier!

Another item in the TOP 1000 report which caught my eye was that the top-ranked winner in revenue growth (6135%) was **Trian Equities Ltd**. Could this be the same Trian Equities Ltd of Vancouver which trades on the CDNX under the symbol "TEQ"? Indeed, it is. Trian reported (FY99) a profit of \$10.4 million on revenue of only \$4.7 million. That's because it's an investment

company headed by some interesting personalities - like Jim Miller, who was instrumental in the early development of **QLT PhotoTherapeutics** (TSE:QLT).

A quick look at Trian's statements reveals that the company holds stock mainly in high tech companies - public and private - large and small. Perhaps this is another way for investors to invest in high tech companies. Trading at \$1.85 with only 11+ million shares issued, who knows??

### **IPO Watch -CST Coldswitch Technologies Inc.**

This past week, **CST Coldswitch Technologies Inc** (CST) got the green light to proceed with an IPO. CST's primary product, The Coldswitch™, is a practical and inexpensive fibre optic switch that uses light instead of electricity to provide an elegant solution to many electrical switching problems.

The principal behind CST is **John Kidder** who has tenaciously pursued this technology for more than a decade and has worked hard towards applying it in medical applications.

With respect to people, John has assembled a strong board to guide the company: **James Avis** (former Executive Vice-President of Newbridge Networks), **Lauren Blair** ( Professor of Environmental Planning at the University of Alberta), **Robert Blair** ( past Chair of Nova Corporation, Husky Petroleum and Foothills Pipeline), **Robert Breault** ( Chairman of Breault Research Organization and a director of Edmund Scientific Corporation), **John Swift** ( a specialist in technology law, and a director of several technology companies), **Donald Rix** ( founder and Chair of MDS Metro Inc., and director of a number of medical company boards) and **Hugh Wynne-Edwards** ( Chairman of B.C. Research Inc., and a director of Atomic Energy Canada).

CST is offering, through it's 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. A number of founders and investors hold the balance as a result of prior financings.

You can get the full prospectus on CST from the Sedar website at [www.sedar.com](http://www.sedar.com).

I hear that **MacDonald Dettwiler's** IPO may take place in July. I mentioned this in my June 2nd column. If you'd like to get in on the IPO, call one of the underwriters: RBC Dominion, Scotia Capital, TD Securities, CIBC World markets, or Goepel McDermid.

### **Capital Pool Corporation (CPC) Update**

In the previous column, I mentioned **Westport Innovations Inc.** (TSE:WPT) as a good example of a CPC-style transaction. Westport Innovations was incorporated as a capital pool on the Alberta Stock Exchange in early 1995 and one year later, it acquired Westport Research Inc, a UBC spin-off company for 8 million shares at \$0.30 each. Today, Westport is trading around \$14 per share.

What I neglected to mention was that this transaction was a non-arms length Junior Capital Pool (JCP) with a target company, i.e. Westport Research Inc, identified at the time of the JCP's IPO. Westport did a 15 cent IPO and then did a 20 cent private placement to raise \$233,500 coincident with the Major Transaction in March'96. Then, in May, Westport did a 45 cent special warrant

deal to raise \$1 million. And look where it is now. See - it works!

When Vancouver started its version of the capital pool program, having a target company in mind was strictly taboo. The BC Securities Commission was of the view that, if a target was already identified, it should go public via a normal IPO offering - not via a capital pool company. As a result of the merger of the BC and Alberta programs, target deals can now be contemplated but must, of course, be disclosed in the prospectus offering.

In this column, I keep track of Capital Pool Corporation ("CPC") companies (see chart below) as defined by the former CDNX because they may provide funding 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 less than \$1.00. And when it does what is expected, you can reap a nice reward. On average, CPC share prices have appreciated over 200% from their IPO pricing. The real money, though, will be made once they complete their acquisitions of real operating companies.

New additions to the list are **Avalon Works Corp.**, **Balsam Ventures Inc.**, **Celest Medichem Inc.**, **New Media Capital Inc.**, and **Red Oak Trail Corp.**

Avalon Works originates from Quebec, New Media Capital originates from Alberta, and Red Oak Trail originates from Ontario. But - even though they are based in Quebec or Ontario they cannot sell their IPO shares in those provinces (srewy, isn't it?). The shares can only be offered in Alberta and B.C. Hah!

Since the previous update, the following companies have come to trade: **Emercap Ventures Inc.**, **Microtec Corp.**, and **Porpoise Capital Network Inc.** **West Park Resources Inc.** has been deleted, since it has completed its QT.

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

The **Vancouver Enterprise Forum's** annual dinner event on June 27th feature **Jim Yeates**, CEO of **Burntsand Inc** (TSE:BRT) as the keynote speaker. Burntsand recently received recognition as the B.C. Tech industry's "New Venture of the Year". Jim's speech was excellent and served to give everyone there an "actionable" item towards success. It's because of leadership such as this, that can make Burntsand a good investment.

It was a fun event, although I must confess I may have gotten carried away a little. I find that the best way to move high tech forward is to talk it up and

take the "glass is half full" approach as opposed to being overly negative about what's missing.

Information on these events may be found on-line at <http://www.vef.org>. Thanks to the summer break, the next VEF event isn't until September 26th.

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

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### **[What Do You Think? Talk Back To Mike Volker](#)**

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