Tech Futures:
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By Michael Volker

Market Commentary, CDNX vs VC Financings, How to Trade Junior Equities,IPO Watch, Capital Pool Corps Update

Market Commentary

Jeepers. You'd think the world revolves around Nortel! I guess it does to a certain extent. But, it isn't just Nortel. Last week, the tech fallout ended an awful week for the Nasdaq, which declined 422 points, or 12.2%, in the five sessions - its third-worst weekly performance ever. The Nasdaq is down 25.6% in 2000 and 40% below its peak of 5048 in March of this year. The Nasdaq stands just above key support at 3000. Earlier this week, stocks broke their string of losses with a healthy rally which drove the Nasdaq back above the psychologically important 3000 point level to its 10th sharpest percentage gain ever adding 171.55 points to close at 3138.27, ending a six-day string of losses that had knocked 14% off its value.

The market benefited from positive analyst comments, good earnings news, and even optimism about the U.S. election and about this week's Federal Reserve policy meeting.

Here are some interesting observations from an email I recently received:

year to date the TSE index is up 9%

the CDNX is up 38%

the DOW is down 8%

the Nasdaq is down 38%

the Nikkei is down 20%

the Hang Sang is down 9%

And I quote from said email, "So why do these Gurus who work for banks and mutual fund peddlers still tell people to invest outside Canada? Are they getting higher commissions there?"

Isn't it interesting that the senior high tech market, the Nasdaq, is down by exactly the same amount by which the junior high tech market, the CDNX, is up, i.e. 38%? Yes, yes, I know I'm pushing it a bit when I call the CDNX a junior high tech market. However, the CDNX Tech index closed yesterday at 3250 in comparison to the broader CDNX index which closed at 3140. Both are up over 50% from their start at 2000 when the CDNX was created almost a year ago on November

29th, 1999.

Moral of the story: junior companies can provide some healthy returns to those willing to take the risk. And Canada is a good place to invest.

One "junior" in the news lately is **Meteor Technologies** (CDNX:MMI). The CNBC voted MMI's website as the "day's cool site". MMI released its PlanBee software through the prominent ZDNet.com website. The product of MMI's 50%-owned **Thoughtshare Communications**, is an innovative internet research mapping program for information management. Dr. Jim Miller, a co-founder of QLT, was recently appointed as CEO. Check out the technololgy at www.thoughtshare.com .

A "junior" experiencing its share of troubles is **WSi Interactive Corporation** (CDNX:WIZ). WSi is a business development and marketing firm whose objective is to capitalize on content and infrastructure opportunities on the Internet. WSi builds, manages and markets online businesses in the financial, e-tail and e-commerce, entertainment, and e-advertising sectors focusing on early-stage companies. It looked hot earlier this year when the stock was trading over $8.00 per share. But it hasn't been so hot lately. The stock hit a low of $.17 and is now trading at that level.

The company is undergoing a corporate restructuring which includes a reduction in its management team. John York has resigned as the Chief Financial Officer and Bryan Kanarens has resigned as Vice President and General Manager. Theo Sanidas will remain as President and Director until a new management team is identified and will assist the Company during the transition period. Lance Morginn, vice-president of technology services, is no longer with the company. Also, James Harris has resigned as the Corporate Secretary in conjunction with his resignation as an officer of seven other public companies. Mike Donald, a director of the company has also resigned.

You can always tell who the real entrepreneurs behind a venture are when the going gets tough. They're the ones that stay. The others all head for the hills.

Canada Stockwatch's street wire reports that WSi Interactive may not get approval from the CDNX to proceed with a $500,000 floorless convertible, or "death-spiral", financing. Now there's a new form of financing - a death spiral deal. Fancy that!WSi has entered into an interest-bearing loan agreement (subject to CDNX approval), under which "the lender has the right at any time prior to repayment of the loan, to convert all or part of the outstanding principal amount of the loar into common shares of WSi."

The price per share for conversion would be the lesser of 33 cents or the market price at the time of conversion. Interest accrued on the loan would be converted into common shares of WSi at the market price at the time of conversion. The loan would be due and payable on April 29, 2001. You can see why its a spiral - the lender can exercise its right and sell shares into the market, forcing the price down allowing it to acquire even more shares at lower prices. Theoretically, the lender can acquire control and other shareholders can get diluted ad nauseam.

On the bright side, though, the company's recent financials, for the year ending June 30, hold some promise. They show that the company had $2,561,529 in working capital. It lost $1,810,783 during the year, which means it was losing about $150,000 a month. Perhaps the exodus of its high-pricec talent will alleviate some of the pressure.

In the "good buys" (not good-bye as noted above) category, I can't help but once again recommend both **Creo Products** (CDNX:CRE) at $32.75 and **Pivotal Corp** (NASDAQ:PVTL) at U$49.50.

Creo's stock price tumbled $7 (16%) last Friday to close at $38 after the company said its fiscal fourth quarter loss was $3.6-million or 19 cents a share. However, Creo said it had $17.1-million in acquisition-related costs. Excluding these costs, stock compensation and $2.7-million related to "business integration," Creo's profit rose to $16-million or 32 cents a share. Sales in the period ended Sept. 30, more than tripled to $173.3-million from $55.9-million a year earlier, reflecting the April purchase of Scitex Corp.'s prepress division for $508-million.

Pivotal deserves mention because it has just been reported as being in the 9th spot on the **Fast 500** - Deloitte's survey of ALL North American tech company's ranked according to year-over-year growth. Get this: Pivotal's revenue grew by 34,548% between 1995 and 1999! Wow!

CDNX vs VC Financings

Let's take a look at some pubco financings in the market as compared to private company venture financings.

The CDNX recently announced that it has completed equity financings worth $1.96 billion in 2000, according to third quarter results.

It attributes the strong results to the high demand for venture capital among CDNX-listed technology companies, and a growing national recognition for the CDNX as a sophisticated, well-regulated market for venture class securities. (I won't comment on some of the red-tape and processing delays which many companies are complaining about.)

Technology companies accounted for 57 per cent ($1.1 billion) of total CDNX financings for the first nine months of 2000, with mineral exploration companies accounting for 15 per cent ($293 million) and oil and gas companies accounting for eight per cent ($153 million).

The largest financings completed in Q3 were **Turbo Genset Inc**. ($70,112,02); **Global Light Telecommunications Inc**. (US$67,050,000); **Cell-Loc Inc**. ($50,150,000); and **BRM Capital Corp**. ($40,000,000).

Bill Hess, CDNX President and CEO commented: "These past nine months have demonstrated that the CDNX is clearly a significant source of venture capital for promising start-up companies, as well as a stepping stone for companies to graduate to senior exchanges."

Indeed, a total of 13 CDNX listed companies graduated to the Toronto Stock Exchange (TSE) in the third quarter of 2000, bringing the total number of graduates this year to 37. These graduates represent 46 per cent of the TSE's new listings in 2000. Companies graduating from the CDNX in the third quarter of 2000 include **ACD Systems International Inc**., **Isotechnika Inc**., **NAME Inc**. (formerly EcomPark Inc.), **Medcom Soft Inc**. and **Gabriel Resources Ltd**. On average, the share price for companies graduating from the CDNX has increased 213 per cent in the year prior to their graduation, from $2.59 to $8.11.

Fifty-one new companies began trading on the CDNX during the third quarter of 2000, bringing the total number of new listings for the year to 130. Eighty-two of these new listings are capital pools (see section below on CPCs), 29 are resource-based companies and 19 are industrial -based companies. In addition, 20 reverse takeovers have occurred in 2000.

The top 10 CDNX financings, mostly tech deals, raised $251.1m in the first half of this year. These are:

Exenet	$50M
Unique Broadband Systems	$41m
Micrologix Biotech	$40m
eDispatch.com Wireless Data	$31.5m
ACD Systems	$22.5m
Gabriel Resources	$16m
Isotechnika	$14.5m
stox.com	$14m
Sideware Systems	$11m
First Star Energy	$11m

In a Vancouver Sun article by David Baines, he was quick to point out the negative side of these financings, i.e. that only two of the deals are in the money. He stated that the aggregate paper loss equates to $109.7 million. **eDispatch.com Wireless Data** (CDNX:EWD), for example, sold $31.5m in shares at $10.50 ea in February, and is now below $2.00 per share. I generally like Baines' articles - he does do some great investigative reporting, especially in revealing scam deals. However, under current market conditions, such price drops should not be viewed as investors getting deliberately fleeced.

On the private company side, Canadian venture capital investments for the second quarter amounted to $1.21B as compared to $1.1B in the first quarter for a total of $2.3B in 683 deals in the first half. This is approaching the $2.7B raised in all of 1999 total.

So, although the VC financings are ahead slightly, it would appear that the junior public companies are doing quite well via under the CDNX umbrella.

While on the subject of VC deals, I'm sure you've heard it said that investment firms tend to follow one another. As soon as one venture cap firm invests, others will want in, too.

The reason often given for this is that investors like to share the risk. Not so. In a recent Management Science Dept study at the University of Waterloo, Prof. Paul Guild found that the real reason for the herding phenomenon is not to share risk but rather, not to lose out on that one shooting star! No one wants to not be included in those few deals which go through the roof.

It was also noted that, on average, pooled investments do better & larger pools do better.

What about the VC market in the USA? U.S. venture capital firms continued funding portfolio companies at near record levels in the third quarter, but the flow of money into new ventures - particularly Internet companies -- slowed noticeably, said a recent industry report.

This report, compiled by the National Venture Capital Association (NVCA) and Venture Economics, said venture firms invested $25.9 billion in 1,774 companies overall in the third quarter - a slight drop from the $27.8 billion invested in 1,830 companies in the second quarter. However, the funding downturn is more pronounced when looking at start-ups (Oh-Oh!). According to the report, VCs invested $5.2 billion in 623 start-ups during the third quarter, compared with $7.1 billion invested in 695 start-ups in the second quarter. The average start-up was $8.3M. I'm impressed.

How to Trade Junior Equities

A commonly cited problem in buying and selling shares of junior technology companies on the CDNX is illiquidity - i.e. lack of abundant buy and sell orders.

Many junior companies trade only a few thousand shares on a daily basis. Sometimes, in fact many times, companies' shares don't trade at all. Any company which trades fewer than an average of 20,000 shares on a regular daily basis, needs to beef up its Investor Relations (call it promotion if you wish) activity so as to provide a "fair" market for its stakeholders.

There is often a sizable gap (i.e. 20% or more) between the price at which shares are being offered for sale and the bid price, i.e. the price which buyers are willing to pay. So called market-orders, i.e. orders to buy or sell at the market bid and ask prices, will inevitably be filled at or even below current bid/ask prices. I have seen relatively small orders of 10,000 shares or so knock the price of a stock down (or drive it up) by a substantial amount.

If you are a seller, a good strategy would be to offer stock at a penny or two below the market and wait. If you have a lot of stock to sell, offer it in modest chunks. If you're in a big hurry to sell or if you think the stock is going to tank, then you'd be more aggressive, of course. If you are a buyer, enter a bid for a penny or two above the highest bid price and wait. Avoid "market" orders!

Following the above strategy has always worked well for me. There's no point in paying $1.00 for a stock you can get at $0.80. Sometimes it may take a few days to get a fill, but there's no rush, especially now when the markets are cool.

If you like a particular stock and are a buyer, you might buy only half or three-quarters of the amount that you'd like, always keeping some bids in at below market prices. That way, if someone is desperate to sell, you can pick up some stock cheaply. Or, if the stock is trending downward, you'll have some cash in reserve to buy at the lower prices, effectively averaging-down. If you should be so lucky as to have the stock take off, well then you've still done OK, albeit not as well as if you had jumped in with your total allocation.

IPO Watch

Kinetek Pharamaceuticals Inc, a UBC spin-off, is moving closer towards its IPO offering on the TSE to raise $25 million for drug research. It's prospectus was receipted on October 19th. Kinetek was formed in 1992 by Professor Steven Pelech to develop new drugs to treat cancer, inflammation and metabolic diseases and anti-diabetic compounds. Goepel McDermid in Vancouver is the lead underwriter for the offering which is expected to be completed in December. The shares will be offered in the $6.50 range. QLT's cofounder Julia Levy sits on the board. Investors WOF, Royal Bank Ventures Inc., and Ventures West hold a combined 35% interest in the company. Another company founded by Prof. Pelech, **Kinexus Bioinformatics Corp** is raising $800K privately following $1 million raised in June fromBIRC, Milestone Medica and others).

Sourcesmith Industries Inc. is a North Vancouver software technology company that is proposing to raise $1,000,000 through an IPO on the CDNX. This offering is limited to BC and Alberta. The company, based in North Vancouver, is six years old and has some revenues - about $500K (annual). The company recently (Nov 2) updated its prospectus to show the final offering terms, i.e. 2,000,000 shares at $.50 per share. Haywood Securities Inc is acting as the agent for Sourcesmith.

WaveCom Electronics Inc. is a Victoria, BC company which designs broadband transmission equipment for data over cable and fixed broadband wireless networks. It seeks to raise approximately $75 million at $13-$15 per common share. Pricing should be, if not already done, finalized any time now with with a closing expected in the last week of November. The most recently updated prospectus is dated October 20th. The company has a 12-year history of sales and profits. In its most recent fiscal period (June 2000), sales were almost $22 million with a $4.5 million net income - after tax! If you're keen on this one, contact one of their underwriting agents - Goepel McDermid, Yorkton Securities, TD Securities, or CIBC World Markets.

Beanstream Internet Commerce Inc's filed a preliminary prospectus on September 11th to raise $1.575 million by selling $1.75 million shares at $0.90 per share to BC investors only. Haywood Securities is acting as the agent.

I just can't resist mentioning that south of the border, **Playboy.com** has pulled its pending IPO due to weak market conditions. I hope this dot-com doesn't go tits-up! Maybe it would be a good acquisition for one of my favorite capital pool companies, Silicon Slopes. We could change the name to Silicone Slopes.

Despite this year's ups and downs - not just for Playboy, but in general - Erick Maronak, director of research for NewBridge Partners, a private New York-based money manager that specializes in technology stocks sums it up this way: "I don't think the outlook has changed in any significant way. The negative sentiment right now actually reflects a lot of known information."

Interest rates were hiked six times, driving a stake through the heart of "irrational exuberance," as Alan Greenspan called the tech bubble three years before it burst. Oil has gone from $10 a barrel to $30. The Mideast is in turmoil, "and we have our own political drama here in the United States," Maronak notes. "Plus you have no shortage of high-profile companies -- not just the dot-coms that can no longer go to the capital markets, but some leading companies missing their numbers, like Lucent, Hewlett-Packard and IBM." Meanwhile a few tech names have managed to pop in the aftermarket.

Transmeta (NASDAQ:TMTA), a maker of systems for mobile Internet computers, went up nearly 70% in its first week of public trading; **Ixia Inc**. (NASDAQ: XXIA), which designs systems to analyze network performance, surged more than 80% in its first month.

The Internet, which adherents believe is the most significant of computer-based technologies, is still in its infancy, after all.

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

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 this column, I usually identify new CPC companies as well as those who have started to trade and those which are working on acquisitions. I regret not providing such an update in herein, but please check the list from time to time as it regularly gets updated. In the next column, I promise a more thorough update.

Check our Capital Pool Corporation chart (in .pdf format) 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

Today, I attended the Vancouver Board of Trade's luncheon with our P.M., Jean Chretien. I must say that I was impressed by his talk. The "I" word figured prominently in his speech. No - not the Internet, rather *Innovation*. His commitment to a balanced approach involving investment in fundamental research and development, industry sector stimulation and a competitive approach to taxation and investment incentives bode well for the continued development of our growing knowledge based industries.

The Vancouver Enterprise Forum 's November 28th event is titled "Mobile Commerce: Emerging Wireless Technologies and Companies". The moderator will be Norman Toms of **Sierra Wireless** (TSE:SW). Norman will make a general presentation on the state of wireless technology and pervasive computing, where the technology is going and which companies are taking us there. Panelists for this session include Barry Jinks, President & CEO, **SynchroPoint Wireless, Inc**., Juliana Cafik, President & CEO, **Soft Tracks Enterprises**, Karim Khoja, Chairman & CEO, **EXI Wireless Inc** (CDNX:EXI). It will be MC'd by Pyarali Jamal, VP Corporate Finance, **Ernst & Young**.

For a convenient printable, pdf version of this column, click here.

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Tech Futures is a bi-weekly column that focuses attention on new and emerging BC publicly listed technology companies.

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