



October 6, 2000

By [Michael Volker](#)

Futures and Taxes, CCRA disqualifies OTCBB stocks, Stock Commentary, IPO Watch, Capital Pool Corps Update

Futures and Taxes

Last week, at a Victoria conference, I heard a couple of encouraging speeches. One was delivered by **Gordon Campbell**, leader of the Opposition in BC, and the other was by futurist and author **Alvin Toffler**.

Toffler, who has a pretty good track record in looking at future trends, believes that beyond the internet and the convergence of related information technologies, the next profound technological impact will be in biotech and bio-informatics.

He had a very interesting way of ranking the change agents within our society. In comparing ten different "groups", he likened them to traffic on a freeway. Leading the pack at 100 kph, is business, i.e. the corporation. Just look at how even the largest companies are re-inventing themselves through mergers, acquisitions and adoption of technology. The products and technologies which we enjoy today are a result of entrepreneurial, for-profit activity.

Following behind the corporation is the "civil society". This group includes all those various non-profit organizations that people create to advance their causes, e.g. professional and industry organizations, lobby groups, etc.

In third position is the family unit. When he first studied change a few decades ago, everyone told him that the "family" was one of the most stable units of our society, i.e. that the nuclear family of husband, wife, and 2.1 kids (or whatever the number is) would remain constant. The husband would always be the worker, the wife would be the homemaker and the kids would happily go off to school and learn how to perpetuate the cycle. Chuckle. Chuckle.

Unions and government bureaucracies followed next, but moving along at only 25kph are the schools. Are they responding adequately to keep up to those at the front of the traffic or are they going to fall further behind? Are kids being equipped to deal with the new challenges which they are going to face? (Is this why we have such a skills shortage in high tech?)

Even slower than the schools are various global agencies and bureaucracies. But, guess who is limping along at a snail's base on the autobahn? Lawyers. Yes, the legal system has been the slowest to respond and adapt to change. For example: look at how the law is dealing with intellectual property rights issues precipitated by the internet.

Technologies like MP3 and companies like Napster are stressing the legal system. And we're just seeing the tip of the iceberg - how are we going to deal with the complex legal questions arising from genetic engineering, for example?

Those leading the pack, i.e. the corporations, are being held back by those at the tail end. The U.S. Securities Act of 1933 still governs corporate America. Here, in Canada, I've bitched on numerous occasions about our provincially dominated system of securities regulation and the red-tape that companies must endure to comply with out-dated rules. Having to file a prospectus in each province sucks. Fact is, that most companies are in violation of some securities regulation or another. The tail is wagging the dog.

I liked Gordon Campbell's speech because he clearly articulated his commitment to reduce taxes. He talked about the importance of competitive personal taxation as well as relief on the taxation of stock options - both hot topics among executives in BC's high tech sector. His promise: "there will be dramatic cuts in the first 90 days in office...and....BC will have the lowest base rate of taxation in Canada within the first term of office".

Since our total tax bill is a combination of federal and provincial taxes, with provincial taxes indexed to the federal rate, I wondered how a reduction in the so-called "base" rate would translate into a net bottom-line rate. To get an answer to this question, I sent him an email to which he promptly replied that although he could not say what the actual bill will be, "it will be the lowest base rate of personal income tax within our first term, to ensure that we can attract and retain skilled workers and investors."

He understood the fact that lowering taxes does not decrease tax revenue. The increase in economic activity resulting from a more favorable tax environment, results in higher government revenues.

So there it is - for the record! Finally, we have a politician who is echoing what leaders in our industry have been saying for years. And, if you want to double check, ask him yourself. His email is gordon.campbell.mla@leg.bc.ca. There's hope.

CCRA comes down on OTCBB Stocks

While on the subject of taxation, Revenue Canada - now called **Canada Customs and Revenue Agency** ("CCRA"), clearly a much classier and simpler name than just "Revenue Canada", is pooh-poohing the Over-the-Counter ("OTC") bulletin board stock market in the U.S. In fact, good 'ole CCRA is disallowing OTCBB stocks in RRSPs and RRIFs.

Readers of this column will know that I have frequently commented (ad nauseam) that OTC stocks are: a) not "listed" stocks and b) not to be confused with NASDAQ "junior" stocks.

I was quite amused when I read the CCRA notice which stated that, "the OTC Bulletin Board of the Nasdaq Stock Market Inc. (NASDAQ) is not a prescribed exchange under the *Income Tax Regulations*. Accordingly, shares quoted on the NASDAQ OTC Bulletin Board are generally not qualified investments for an RRSP."

CCRA goes on to say, "However, some taxpayers have advised CCRA that they hold

securities quoted on the NASDAQ OTC Bulletin Board believing that it is a prescribed stock exchange".

Good Grief! It's bad enough hearing promoters and misinformed executives associate OTC-BB companies with NASDAQ. Now even CCRA is doing it. Note to the above: OTC-BB stocks are not - repeat not- NASDAQ in any way. Promoters will take comfort knowing that even the omnipotent CCRA gets it wrong.

Well, at least CCRA got the "unlisted" part right. Indeed, the OTC-BB market is not a "listed" stock exchange and imposes no particular standards on companies whose shares trade in that market.

Even though it is quite acceptable to have some "foreign content" in one's RRSP, CCRA is now saying that OTC-BB stocks have got to go. Shareholders have until December 31, 2001 to get rid of them. You can sell them for cash or transfer them to a non-RRSP account in exchange for cash. And if you don't you will be *taxed* on your holdings of such stock.

Although many of these OTC traded companies are Canadian firms, they are still considered ineligible under the *Income Tax Regulations*. So there!

Given that this may have a significant effect on Canadian investors, the CCRA has set up a page on their website at (its short enough to easily remember): http://www.ccra-adrc.gc.ca/tax/registered/rrsp_eligibility-e.html.

Stock Commentary

In my previous column, I mentioned the matter of Insider Trading. Insider trading is, of course, quite legal provided that trading is not being done when an insider possesses privileged information. All insiders are required to file reports to various securities commissions but it takes a many weeks before the general public can access this information. Soon, it will be possible to get almost instantaneous information on such stock trades by insiders thanks to a new national internet-based reporting system which is expected to be up and running early next year. It is called SEDI - the System for Electronic Data on Insiders. Starting around March, 2001, insiders will submit trading data over a secure Internet connection to SEDI which will then post the data to a public website.

Although various securities regulators in Canada, such as the Ontario Securities Commission collect this information now, they don't make it available on a website. The B.C. Securities Commission does, however, make its information readily available to investors, albeit with some time delay. (another good reason for a national securities commission!)

SEDI will be managed by the same group that manages SEDAR, the Canadian Depository for Securities (CDS). The site will allow searches by company, name, date or class of security.

SEDI will make it easier for the 100,000+ individual insiders in Canada to file promptly and more accurately. It's about time!

I invited readers to email me some of their junior stock picks. Some of the popular ones, which also were highlighted in **Canaccord Capital Corp's** "morning coffee" newsletter, will be mentioned herein. These are your picks, not mine (but I do like a number of them).

Viacorp Technologies (CDNX:VCP), a recent listing, has a technology for secure messaging to protect sensitive information. The company recently announced a deal whereby it would issue debit cards and receive an on-going transaction fee. The stock was last trading at \$4.34 but has been halted since September 25th pending an announcement. The price is up from only \$1.00 in August with only 4.1 million shares issued. Wonder what's up?

Meteor Technologies (CDNX:MMI) has a 50% interest in a Simon Fraser University spin-off, **Thoughtshare Communications Inc**, headed up, and partly financed, by Jim Miller - co-founder of **QLT Phototherapeutics** (TSE:QLT). MMI is trading at just under \$2.00 but has been as high as \$3.20. Thoughtshare's product is cool (I'm biased). It may change how users surf the web. It allows users to keep track of where they've been - making an annotated map in the process. It allows users to easily share and archive their web surfing and learning experiences. Check it out at www.thoughtshare.com.

Dexton Technologies (CDNX:DXT), hovering around \$.90, has \$8M in annual sales of computer equipment. It has an interest in ableauction.com and Rapidfusion, a web hosting and web design tool for small business. The company is looking for new acquisitions, acting as an incubator and merchant bank for emerging tech ventures. This might be one way to get in early on some new ventures.

CST Coldswitch Technologies (CDNX:LS) completed an IPO this summer at \$1.00 per share. The stock is now trading at \$1.25 and Canaccord says it is "starting to up trend". CST Coldswitch produces fibre optic switching technology for controlling various electrical devices such as hospital operating room surgical equipment.

WSI Interactive (CDNX:WIZ) is an internet marketing company that has traded as high as \$8.25 although it is now down to half a buck. Although doteoms have fallen out of favor, it is comforting news that some are on track with their plans. WSI announced that it has achieved its first year revenue target. Revenue for the year ended June 30, 2000 totaled \$6,007,375. In the 4th quarter revenue totaled \$1,906,969. The year's net loss was \$1,810,783, of which \$702,125 was amortization of capital assets. Assets grew to \$9,160,200 by June 30, 2000. WSI is focusing on achieving profitability by the end of fiscal 2001.

IntraCoastal System Engineering Corporation(CDNX:ISY) is involved in the development and implementation of power line communication technology using advanced spread spectrum technology. The two initial applications of this technology are for automated meter reading and home automation and networking. The stock is trading under \$1 but one analyst, Scheft Ticks, has a \$3-\$4 target in sight.

So, those are a few juniors for your consideration and possible inclusion in the speculative section of your portfolio. Let me know about *your* favorite stock, and I'll give it a mention next time around.

As for more senior companies, I'm sure many of you followed my advice to load up on

Pivotal Corp (NASDAQ:PVTL) and **Creo Products Inc** (NASDAQ:CREO) when both were hovering in the 20's just a couple of months ago. Pivotal is in the mid-40's and Creo in the 30's. Yesterday, Pivotal announced the signing of a definitive agreement to acquire **Project One Business Technologies Inc.**, a privately held provider of Internet solutions specifically designed for the healthcare industry.

It never rains but it pours (especially in Vancouver). Here are some more M&A deals which follow on the heels of other recently reported deals: Burnaby's **PMC Sierra Inc** (NASDAQ:PMCS) is on its 7th acquisition. The latest one involves taking over **SwitchOn**, a Milpitas, California firm for a cool US\$450 million. SwitchOn is a recent startup itself, being only two years old with no revenue as of yet. SwitchOn works in the area of packet classification - systems to assess and manage data.

In June, PMC acquired privately held **Datum Telegraphic**, also of Burnaby, for \$181 million. PMC-Sierra will exchange approximately 681,000 shares of PMC-Sierra common stock. PMC had, by virtue of an early-stage seed investment, an 8% interest in Datum. As companies such as PMC mature, they play a vital role in the local economy by funding other startups like Datum.

ImmGenix Pharmaceuticals Inc., a University of British Columbia spin-off is being acquired by **Abgenix, Inc.** (NASDAQ: ABGX) for approximately US\$77 million (CAN\$110 million) in Abgenix stock. ImmGenix, founded in 1993, has developed a proprietary technology which can increase both the effectiveness and speed of antibody product discovery efforts. ImmGenix' technology increases the number of antibodies that can be screened for any given antigen target. This technology is expected to allow Abgenix to rapidly select optimal product candidates from larger pools of antibodies. Abgenix is a biopharmaceutical company focused on the development and commercialization of antibody therapies for a variety of diseases. The company developed **XenoMouse™** technology (nothing to do with personal computers!) to enable the rapid generation of high affinity, fully human antibody product candidates to essentially any disease target appropriate for antibody therapy. Nice deal!

Hot off the press - this morning **Burntsand Inc.** (TSE:BRT) announced that it has signed an agreement to acquire all outstanding shares and goodwill of **Altro Solutions Inc.** for approximately CDN\$37.1 million in cash, shares, options and notes. The acquisition, which is subject to regulatory approval, is expected to close in late October, 2000.

Altro has over 80 employees located in offices in San Jose and New York. Altro's revenue growth rate has averaged 75% over the past 2 years with annualized revenues based upon the quarter's results ended June 30, 2000, of approximately CDN\$25 million. Burntsand anticipates that the acquisition will have a positive accretive impact on Burntsand's fiscal year 2000 fourth quarter performance and 2001 expected results. This morning, Burntsand stock was trading in the \$5.50 range well below its 52-week high of \$15.75.

NetNation Communications Inc (NASDAQ:NNC1) has announced that it has entered into a non-binding letter of intent to acquire privately held American Digital Network Corporation (ADN) for 2.25 million common shares of NetNation. ADN had revenue of \$5.7 million in 1999 and has about 50 employees.

Based in San Diego, California, ADN, provides UNIX and NT web hosting services and ASP e-commerce solutions through its leading storefront product - eStoreManager . ADN

also offers Web application services such as custom web site design and database interface applications. ADN's dedicated and co-located services are provided through their own Network Operations Center (NOC).

But before you rush in to buy, you should be aware of some management upheavals at the company. Apparently there was an exodus of numerous management personnel last week.

IPO Watch

The local IPO market is starting to wake up this fall. Here are some upcoming BC offerings.

Sourcesmith Industries Inc. is a software technology company that is proposing to raise \$1,000,000 through an IPO on the CDNX. The company designs "business process management software". It also provides custom development and consulting services - a good way to get cash flow going while being attuned to market needs and opportunities. Barry Swanson, 46, is President and CEO of the company. He was formerly a consultant with Microsoft and has 20 years experience in the computer industry. Haywood Securities is acting as the agent for the offering. It looks like this offering is limited to BC and Alberta. The company, based in North Vancouver, is 6 years old and has some revenues - about \$500K (annual).

WaveCom Electronics Inc. is a Victoria, BC company which designs broadband transmission equipment for data over cable and fixed broadband wireless networks. Its products address some of the "last mile" needs allowing cable operators to connect their systems to end users. Two powerful endorsements of the company's products come from Cisco and Harris Corp. Cisco has agreed to buy US\$24 million of WaveCom's upconverter equipment - *annually*- and Harris has placed an initial order to purchase up to US\$34.5 million of WaveCom's 3.5 GHz broadband wireless equipment commencing in early 2001. 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! Gross margins are 44% - good for a hardware manufacturer. Furthermore, the Company's order backlog at the end of August was \$45.6 million. In reading the preliminary prospectus, I note that the credentials of the management team look pretty good. The founder is Dr Surinder Kumar, President and CEO with a track record in R&D in the telecommunications field. I haven't seen any pricing information yet, but if you're keen, contact one of their underwriting agents - Goepel McDermid, Yorkton Securities, TD Securities, or CIBC World Markets.

Whoa! Another Victoria company is doing an IPO. **Beanstream Internet Commerce Inc's** preliminary prospectus of September 11th, indicates that the Company seeks to raise \$1.575 million by selling 1.75 million shares at \$0.90 per share to BC investors only. Haywood Securities is the agent for the company (those fellows are really keen on high tech!). This is a very young company, being less than one year old. Its business is to provide secure on-line credit card transaction processing for internet commerce transactions. It provides a proprietary Application Service Provider (ASP) solution for merchants requiring financial transaction processing in a secure environment. Craig Thomson, 36, is CEO and President. Check the prospectus for more details.

I also heard that **WebCT**, a UBC spinoff and internet e-learning company, may be doing an IPO in the next year. WebCT lets educators use the web to effectively deliver their

courses to students. We'll keep an "i" out for it.

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>.

Thanks to **David Ing** of Pacific International Securities for bringing some of these IPOs to our attention.

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.

Recent additions to the list are **Acacia Capital Corporation, Arsenal Capital Inc., Collingwood Solutions Inc., Escape.com Inc., Lattice Capital Corporation, Colt Capital Corp., Digital Atheneum Technology Corporation, H.A.L. Concepts Ltd., Jessian Capital Corp., PCG Ventures Inc.,** and **Silicon Acquisition Inc**

All the new CPCs above originate from B.C., except for **Arsenal Capital, Escape.com, Colt Capital Corp.** and **Silicon Acquisition Inc** which are from Alberta. **Digital Atheneum Technology Corporation** and **Jessian Capital Corp.** are from Ontario. It's great to see non-Western companies getting into the act! Welcome to the Wild West!

The following companies have come to trade: **FiberQuest Networks Corp., Goose River Capital Inc., Access West Capital, Baden Technologies, Cordova Industries, E-Quisitions, Kirkless Capital,** and **Pure Lean.**

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

The Vancouver Enterprise Forum started up again this Fall with its 2000-2001 season. The first event was held on September 26th and the topic was early stage financing for new ventures. This was a popular event and was sold out. There were a number of presentations dealing with seed investors, incubators and high tech business angels. Some of the presentations are available on-line. Details are at <http://www.vef.org> as is information on various upcoming local tech events. The October 24th event will feature a company presentation by **NxtPhase.**

In this morning's Globe, I was reading about **priceline.com's** retreat from traditional old

economy sales on the internet. It quit selling gas on groceries on-line. I hope the company continues, though. Only yesterday, I consummated my first airline purchase using priceline.com. I want to go to San Jose next weekend to visit some friends. I always hear about these cheap fares whenever I'm not looking. An exhaustive on-line search produced round-trip fares starting over \$500. On priceline, I put in a bid of \$110 (US, incl. taxes) to see what would happen. Lo and behold - moments later I got my tickets along with a special deal on a weekend car rental! The only problem with it is its unavailability in Vancouver. I have to use Seattle. But still, not a bad deal!

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

Michael Volker is the Director of the University/Industry [Liaison Office](#) at Simon Fraser University, Chairman of the [Vancouver Enterprise Forum](#), and a technology entrepreneur. He owns shares in many of the companies he writes about. Copyright, 2000.

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

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

Contact: mike@risktaker.com

[Tech Futures Archive](#)

[T-Net 20 High Tech Stock Index](#)

[▲ to top](#)