



Tech Futures:
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By [Michael Volker](#)

Capital Raising Made Easier, Small Cap Opportunities, Capital Pool Corps Update, and Local Events

Capital Raising Made Easier

The **BC Securities Commission** (BCSC) has delivered. Substantial regulatory changes have now been adopted to make it easier for businesses to raise money in B.C. without compromising investor protection.

According to BCSC Chair Doug Hyndman, this will be especially helpful to start-ups and junior public companies. For investors, it means that they are no longer forced into making minimum investment commitments such as the \$25K minimum (under certain conditions) and the \$97K minimum (under other conditions).

Angel investors, for example, can now more readily pool their investments by bringing several investors into a deal without these minimum constraints. It may be easier to get ten people to collectively put together a deal than to find one or four to take the risk.

The new capital raising rule was developed in a joint project of the BCSC and the Alberta Securities Commission. They launched the project in late 2000, in response to industry needs. Following a series of focus group discussions, the two commissions formally proposed the new rules in September 2001.

Just to recap - according to the law (i.e. the Company Act), companies (i.e. any company - public or private, large or small) can only raise money from arms-length investors by providing them with a very thorough - not to mention legalistic and lengthy - disclosure document, i.e. a so-called prospectus. We've all seen these (but hardly ever read them!) when companies go public by making a broad distribution of their stock to the public at large. By the way, if you've every looked at a prospectus to glean some information, you've probably been frustrated with how difficult it is to find out even the most basic information about a company and the people behind it.

The only way to avoid the expense and hassle of producing such a document is by relying on an "exemption" from this requirement. For example, in the past a company could use the \$97K exemption, meaning that it could receive \$97K from an investor without a prospectus. The theory was that anyone who could risk \$97K on a deal knows what they're doing and doesn't need a lot of protection (yeah, right!).

The rules provide new and expanded exemptions from the prospectus disclosure requirements that typically apply to issuers (the word used by regulators for companies that "issue" shares) raising money from the public.

The four exemptions are, verbatim:

1. Offering Memorandum Exemption - allows issuers to raise any amount of money from anyone provided that the investor acknowledges the risks of investing and receives an offering

memorandum - a short, simple disclosure document (there are sample "forms" available for this). Investor protection provisions have been added giving purchasers almost identical rights to those they get under a prospectus. The rights include a two-day right to cancel the purchase and broader rights to cancel or sue for damages if there is a misrepresentation in the offering memorandum.

2. Accredited Investor Exemption - allows issuers to raise any amount of money from financial institutions, pensions, investment dealers, established companies and wealthy individuals (that leaves me out!) without a disclosure document.

3. Family, Friends and Business Associates Exemption - allows issuers to raise any amount of money from family members, close friends and close business associates without a disclosure document.

4. Private Issuer Exemption - increases the ability of private companies to raise money while remaining private.

The BCSC consulted with investment dealers, companies, venture capitalists, securities lawyers, accountants, self-regulatory bodies and government on these changes.

The new capital raising rule and accompanying documents are available on the BCSC website (www.bcsc.bc.ca).

By the way, stay tuned for more news down the road aimed at simplifying the formal prospectus-type disclosure process as well as a new means for public companies to have continual access to the financial markets. That'll allow them to take quick advantage whenever market sentiments turn in their favor.

These first changes are welcome news for the companies that'll be making their pitches at the upcoming 11th Angel Forum on April 29th in Vancouver (details are available at <http://www.angelforum.org/>). Investors will be able to select from over thirty technology & industrial firms needing \$100,000 to \$1 million.

Small Cap Opportunities

I received an email from **Ahead of the Street** noting that **Lipper**, a mutual fund company, is a good resource for tracking small cap stats and rankings. According to this source, Small Cap value mutual funds led all of the fund sectors last year with a robust average gain of 16.4% while typical diversified U.S. stock funds lost 10.9%.

These, the smallest of publicly traded, mainly American companies, carry a market cap between \$1 million and \$300 million and are often immune to the activities of their larger equity counterparts.

Of the 9,376 publicly traded companies in the U.S. markets, independent researcher **J.M. Dutton & Associates** (<http://www.jmdutton.com/>) identified 4,446 with a market capitalization of \$50 million or less - almost half! Of these, only 514 are covered by analysts. Dutton claims American companies with market caps between \$50 and \$75 million are rapidly losing analyst coverage, mostly because they are too small to generate investment-banking business for Wall Street firms.

To some degree, newsletters and journals in various forms have filled this information gap for small and micro cap prospectors. Many, like T-Net, have distributed their content on the internet.

The **Micro Cap 1000 Index** jumped 25% to 1,600 since January. This is attracting more investment professionals who normally avoid the micro companies. Some mutual funds including

the **Wasatch Funds** (WMICX), **Pimco** (PMGAX) and **Royce Funds** (OTCM) are getting into the act and are showing strong gains in 2002. Some institutions are placing a larger portion of their clients' money in the small cap markets via hedge funds.

In fact, many investors are counting on the small caps to behave as they have in the past by outperforming large caps on the way out of the recession. **Prudential Securities** reported that before a recession is called a recession, small caps typically decline on average 12.3%, while large caps usually fall just 6.4%. Coming out of a recession, small caps historically outperform, jumping 21.3%, (vs a 15.8% average gain for large caps).

With regard to publicly traded B.C. technology companies, which collectively have lost almost 90% of their aggregate value over the past two years, this observation on microcap performance is a good reason to start taking a second look at some of our home-grown opportunities. You can find a list of all B.C. technology companies right here on the T-Net web site. Most of them are micro-caps! Of the 100+ B.C. pubcos, fewer than twenty have a market cap in excess of \$100 million (the top twenty comprise the T-Net20 index).

So, which ones are promising? Well, I'd start by taking a look at their balance sheets (the recent quarter's is easily found at www.sedar.com). Check the cash balance and divide it by the net quarterly burn (net cash outflow). If this is less than a year, the company is on shaky ground. If the time to flame-out is much longer (or undetermined in the case of a positive cashflow), the company merits a closer look. Have fun!

My fun comes from being able to afford a nice position, e.g. 10,000 or even 100,000 shares in a penny stock with a future. It beats owning 100 shares of **Nortel** at \$122 (2 years ago) or 2000 at \$6 (today) when you can buy 50,000 shares of **Marine Bioproducts** (CDNX:MBP) or 20,000 shares of **Infowave Software** (TSE:IW) for a similar amount! Some of the CPC (see below) companies, especially those with noteworthy Boards, might also turn you on.

If you've been listening to economists - starting with the Fed's **Alan Greenspan**, you've probably noticed how quickly they change their projections - within a week - from numbers like .5% in GDP to 2.1% in GDP (note the accuracy!). Just a couple of months ago they couldn't see any light at the end of the tunnel and now they've changed their tune. It's the positive sentiment, in my view, that'll drive investors back into the market.

Investors in microcaps tend to wait on the sidelines until they see some action. This is typical. Even if you can buy a stock you like for \$.25, we put out the money if the stock price is drifting. Most prefer to wait until volumes start to build (that's a key point - watch for growing daily trading volumes) before jumping in. So, even if they end up paying \$.35, the extra dime is immaterial because they're looking for a 300% to 500% return - not the 30% - 50% they might get with a "quality" stock like Nortel!

Capital Pool Corporation (CPC) Comments and Update

In this column, I keep track of **Capital Pool Corporation** ("CPC") companies as defined by the CDNX because they may provide funding and management to, and in the process acquire, technology companies. They provide companies with an alternative to traditional venture capital financing. CPCs are the continuation of the former VCP (Venture Capital Pool) and JCP (Junior Capital Pool) programs on the Vancouver (VSE) and Alberta Stock Exchanges.

Although I have mixed feelings about how this program is working, I still like the concept and will, for the time being, continue to track these companies. We should see some, hopefully major, changes to this program over the next year or so. CPC formation has slowed somewhat over the past year.

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

a regular, e.g. monthly basis. It is now current to the end of March, 2002. (previous update was at February 28, 2002). The list is shrinking a bit with only about 220 activeCPCs.

Since the February update, new additions to the list are **NutraMed Capital Corp.** and **Tango Energy Inc.** NutraMed is from the United States (Interesting!) while Tango is from Alberta.

The following companies have recently started trading: **Benem Ventures Inc., Dream Wizards Investments Ltd., Dynamic Capital Canada Corp., Landmark Capital Corp.** and **Typhoon Venture Capital Corporation** (this latter one may blow you away!). I love some of these names!

And finally, the following companies have been removed from the list because they have completed their Qualifying Transactions: **Killam Properties Inc., Medical Ventures Corp., Patriot Capital Corp.** and **Revolve Capital Corp**

Soon (I promise), we'll take a look at how these companies (the ones that have graduated from the CPC board) are faring.

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

Local Events

This month's **Vancouver Enterprise Forum** event on April 23rd should be a hot one. This is the one titled, "CEO War Stories". Local tech CEOs will be opening their kimonos to share with us some of their "learning experiences". These are usually very candid (surprisingly so sometimes!) revelations and in addition to the educational content, also tend to provide some enlightening entertainment.

Details of the talks (and info on upcomingVEF events) are (or will soon be) available at: www.vef.org.

A complete calendar of technology events can be found on [T-Net's Events page](#).

For a complete listing of all tech-oriented web sites in B.C., check www.hitechbc.com.

Footnotes

If you're an entrepreneur looking for a place to get your company started; there's some great space available at Harbour Centre downtown. The **New Media Innovation Centre** (NewMIC) and **SFU's TIME Centre** have teamed up to provide not only office space but also access to various resources, e.g. tech advisors, access to capital, mentors, etc. Worried about the high cost of being downtown? Well, not to worry - they'll even reduce the fees and take some payment in the form of equity. Check www.sfu.ca/time for contact info.

A reminder: SFU's TIME Centre is open for business - business folks, that is. TIME is an acronym for **Technology, Innovation, Management, and Entrepreneurship** TIME supports the growth and development of the tech industry in B.C. TIME features a "BusinessCentre" (looks like an airport business lounge) which is open to technology entrepreneurs and business people to use as a drop-in downtown office facility. Need to plug-in? Make some calls? Do some work? Hold a meeting? There are some great facilities for holding your company's AGM. Why hang out at MacDonald's when you can work productively at the TIME Centre? Drop by and check it out! It is located at SFU's downtown campus at 515 West Hastings St.

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

Michael Volker, a technology entrepreneur, is Director of the University/Industry [Liaison Office](#) at Simon Fraser University, Chair of the B.C. Advances Systems Institute and past Chairman of the [Vancouver Enterprise Forum](#). He owns shares in many of the companies he writes about.
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Tech Futures is a bi-weekly column that focuses attention on new and emerging BC publicly listed technology companies.

Contact: risktaker@volker.org

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