



Tech Futures:
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By [Michael Volker](#)

Prime Time for Corporate Scams, Bootstrapping's the way to go, BBX Debuts, Capital Pool Corps Update, and Local Events

Prime Time for Corporate Scams

I recently played an old video clip for a Simon Fraser University engineering class learning about the world of business. It was NBC's **Prime Time** exposé of the **Vancouver Stock Exchange (VSE)** in October of 1990. It, along with **Forbes** magazine, labeled Vancouver as the "Scam Capital of the World." **Prime Time** did a great job of showing how scams were perpetrated (I hope the students didn't get any "bad" ideas!).

It would appear that many CEOs in corporate America not only adopted these "bad" ideas, they took the art of accounting reporting to a new level. It's ironic that the recent, and frequent, reports of fraudulent and suspect behavior in the in corporate suites now make Vancouver's scams look like petty theft. Look no further than **Worldcom, ImClone, Enron, Tyco, Adelphia**, and even the auditor, **Arthur Andersen** for evidence of this.

Junior stocks on the VSE suffered from the bad press. Investors fled from these stocks and prices plummeted. Exactly the same thing is happening now - only at a much larger scale. Even **George Bush** is worried.

Last Fall, investors expected that by this time, executive actions (e.g. cost cutting and restructuring) would start to show improvements in corporate financial performance. This, coupled with rosy economic reports, would turn the markets around. Instead, we're seeing major indexes drop below their post-September 11th lows.

It goes to show how important it is for companies to foster investor confidence. Every morning as I open the Report on Business, I wonder who's it going to be today? When good clean living icons like **Martha Stewart** start little fires in their kitchens, one can only wait and hope that a new recipe will fix the indigestion.

Already there are reports that regulators need to tighten up the (e.g. accounting and reporting) standards. Put new rules into place. Put an end to creative accounting - speaking of which, there's a very amusing satirical piece on [satirewire.com](#) in which it's reported that the U.S. Supreme Court has exonerated the wrong-doers on the grounds that their financial reports should be considered as "art-forms" - i.e. creating something out of nothing; >) and indeed, they certainly were creative.

Do you remember what happened after the revelations of penny-stock fraud on the VSE? The **NDP** government commissioned **James Matkin** to launch a review which resulted in many recommendations. The bottom line was more regulation. But it backfired. It kept the good companies away from the junior market because they couldn't tolerate the additional costs and red tape. They were able to get their startup capital elsewhere. On the other hand, the marginal companies, those that could not attract venture capital as easily, had to put up with the extra burden. As a result, there were fewer scams (they all went to the American OTC-BB market and the "pink-sheets") but there were also fewer "quality" companies leaving the good old VSE with a bunch of mediocre companies.

Now, the Liberal Government is attempting to dramatically cut the red tape and strike a better balance between investor protection and corporate access to capital. It is trying to adopt more of a caveat-emptor, investor-beware, American style of doing business. It'll be interesting to see how far the American regulators go in providing parental guidance to their companies. The theory has always been that better disclosure will allow investors to make their own, hopefully better, decisions. Practically, though, we all know how tough it is to glean information from the legalese in corporate disclosure documents. How many people do you know that read balance sheets looking for lots of fluff and questionable goodwill on the asset side of the ledger?

Moving back to increased regulation and controls will not help. It will only increase the cost to companies of doing business - and reduce the bottom line return to shareholders. Estimates vary on what it costs to maintain a public company listing. A small capNasdaq issuer will likely spend in the neighborhood of \$50K/month (minimum) for the privilege of being a public company. This includes all the compliance costs, filing fees, legal expenses, audit and reporting costs, management time and attention, etc. A junior TSX-Venture Exchange issuer should budget at least \$15K per month just to tread water.

The reason why more rules won't help is simple. Some years ago, I read a report put out by one of the top accounting firms (e.g. **KPMG** or **Ernst & Young** - if any readers recall who it was, let me know and I'll send you a free copy of "Accounting for Dummies") which commented on the state of honesty in our society. The report stated that 20% of the population is inherently honest all of the time; 20% is inherently dishonest all of the time; and the remaining 60% of the population is neither totally honest or dishonest - swinging marginally depending on the circumstances. If you believe these numbers (or adopt them anyway), it may help you in your business dealings with others. It's an insight into human nature. Just yesterday, I read **Bruce Little's** "Dismal Science" column in the **Globe and Mail** in which he noted that in a new survey of American executives, 80% admitted that they cheat in golf - AND in business! That jives with the 20% dishonest and 60% somewhat dishonest grouping in the afore-mentioned study.

I do not believe that any amount of regulation and control will change these statistics. But knowing what they are may make you, the investor, a little but more cautious. That, rather than blind investing predicated on hot tips and chat-line gossip, may be the take-home lesson from all of this.

The fact is, that company executives - be it in large or emerging companies, want to look good. Whenever there's any latitude in how numbers are reported, they can be stretched a bit. I have not seen a single company - ever - that has been totally, conservatively, ultra-honest 100% of the time.

Bootstrapping's the way to go

Unfortunately, the negative investment climate has a substantial impact on our emerging technology sector which is suffering a set-back, especially in terms of access to capital for those companies that are seeking money and a weak market for those investors seeking good opportunities.

It's disheartening to see how low many of our very promising stars have fallen (stock price-wise, that is). You need look no further than our top tech companies. Many of these are trading at less than 5% of their highs of two years ago. If you believe that they will survive, can you make 20 times your money?

Just take a look at companies like **Burntsand Inc.** (TSX:BRT) and **Infowave Software** (TSX:IW) which are trading in the pennies now at \$.50 and \$.20 respectively when they were up in the teens before. Whereas Infowave still has to prove that it can get customers and generate revenue, Burntsand has to demonstrate that it can retain customers and make a buck. Others such as **PMC Sierra** (NASDAQ:PMCS) have to weather the communications storm (i.e. slowness in this specific sector) while companies such as **Sierra Wireless** (TSX:SW) have to show that they can get their products out the door on time. These firms could take a lesson or two from **MacDonald Dettwiler**

(TSX:MDA) - it's one of few that are producing bottom-line results and it's share price is holding up nicely at \$23. It looks like investors are still keen. I was amazed that Waterloo's **Research in Motion** (TSX:RIM) increased in price by 21% yesterday when it reported a loss - but a lesser loss than everyone expected.

When the public markets are bearish, IPOs are rare and investors are less keen to invest in private companies when they don't see a clear path to liquidity. Deals still get done but at very low valuations.

It'll be some time (if ever) before investors flock to startups with fat wallets ready to inject millions of dollars into unproven concepts and ideas. Although I've not seen much of an abatement in the start-up arena, the deals that are moving forward are those with good solid business plans, teams and most importantly - customers.

I figure that over the next two years, both private and public companies will have to focus on results - getting customers, keeping them, and producing bottom line results instead of wheeling and dealing with new acquisitions. It'll certainly show us who the real entrepreneurs are - those that know what it's like not to depend on new capital but rather to work with what they have and bootstrap their businesses to positive cash flow. Rather than "buying" cash, they'll take pay cuts, cut deals with suppliers, lease rather than buy, settle for Chevies over Porsches and most importantly, take the fastest route to generating sales income.

BBX Debuts

In mid-June, some 250 company owners, investors and advisors attended the first forum in North America (held in Vancouver, interestingly enough) by the newly-created **Bulletin Board Exchange**, the "**BBX**".

In a news release on the event, **Jack Martin**, founder of **Martin & Associates** law firm, commented that "In the mind of many of our clients, the Canadian option of the newly-formed **TSX Venture Exchange** is not attractive. Right now in Canada there is a monopoly on small cap financing - it's the TSX Venture Exchange or nothing. Our clients vote with their wallets and their feet. They are attracted to the US, and they are looking forward to the creation of the BBX, which will do away with the negative drag of the OTC-BB and the scams which happened." I wonder why Forbes or Prime Time have never done an exposé on some of the scams. More recently, they've got enough juicy news on big-cap companies to fill our plates.

The BBX Forum featured representatives of the BBX Team from Washington, D.C. that saw the value in coming to the Canadian home of 300 Over-The-Counter-Bulletin-Board (OTC-BB) companies. Canadian companies comprise approximately 10% of the OTC-BB's listings with more than half those coming from B.C., many in the tech sector.

The OTC-BB will be phased out in the first quarter of 2003 and a new market, the Bulletin Board Exchange (BBX), will be launched. The BBX is managed by the Nasdaq Stock Market, which expects that most OTC-BB companies will apply to list on the BBX market. The BBX will appeal to many of the same companies that are currently traded on the OTC-BB, but will purportedly be a higher quality market.

The BBX is expected to offer a significant improvement over the OTC-BB for qualifying small companies by increasing liquidity for their securities, augmenting the opportunity to raise equity capital, and conferring the recognition of trading on a listed market.

The BBX will be a listed marketplace, with qualitative listing standards similar to those of Nasdaq's Small Cap market but with no minimum share price, income, or asset requirements, therefore allowing entrance to a wide array of listings. The doors are open to virtually anyone!

According to the news release, brokers in Vancouver and Calgary are figuring out ways to cater to companies looking at financing to head south, and clients in B.C. who want to invest in US companies. (TSX-V take note!)

The BBX is accepting applications now. Interested companies are required to submit a listing application detailing certain information about the company and its people.

The BBX listing qualifications will include:

a) Public Interest Standards - the BBX will have the discretion to deny listing to a company in order to protect investors and the integrity of the BBX market. The procedures will include a review of all directors, officers and major shareholders for past regulatory or legal issues.

b) Public Float/Shareholder Requirement - minimum of 100 round-lot shareholders and 200,000 shares in the public float.

c) Annual Shareholder Meetings, Proxy Solicitations and Quorum - annual shareholders' meeting must be held with the first one held within 12 months of the end of the first fiscal year after the company becomes listed. It is also proposed that a quorum requirement be adopted of at least one-third of all shareholders represented for voting at shareholder meetings. That'll be interesting. I have not been to many junior company meetings which are attended by at least one third of shareholders. In fact, many are down around 10%. What'll happen is a quorum is never reached?

d) Independent Director - BBX will require appointment of at least one independent director, with companies given a grace period of 12 months after launch of the BBX to appoint the independent director. That's a good move. They must have read Canada's Saucier report on Corporate Governance (see www.jointcomgov.com) which I've previously commented on.

e) Audit Committees/Conflicts of Interest - BBX will require creation of an audit committee, with the majority of members comprised of independent directors, and adoption of an audit committee charter. Companies will have 12 months after launch of BBX to create the audit committee. I wonder how this will be accomplished if there's only one independent director as suggested in d) above?

f) Auditor Peer Review - all issuers must engage auditors that are subject to peer review consistent with the American Institute of Certified Public Accountants procedures.

g.) Shareholder Approval - BBX will adopt the current NASDAQ rules requiring shareholder approval of transactions that involve the grant of stock options to officers or directors; certain below-market issuances of stock; acquisitions; or changes of control.

h) Distribution of Annual Reports, Availability of Quarterly Reports - BBX will require distribution of annual reports to shareholders and require companies to make available quarterly reports upon request.

What'll it cost to list? The proposed fees (not unreasonable) for listing on the BBX market include:

a) Initial Listing Fee - \$5000 for the first class of securities listed. Half of the Initial Listing Fee will be waived for all applicants who apply within six months after the launch of the BBX. The sale is on!

There is also a fee for each additional class of securities listed based on greater of \$1000 or \$0.001/share, not to exceed \$5000. The maximum initial listing fee is \$10,000.

b) Annual Fee - \$4000 for the first class of securities and \$1000 for each additional class of securities.

c) Listing of Additional Shares Fees - \$0.005 per share, up to a maximum of \$8,750 per quarter and \$17,500 annually.

It looks like the TSX-V is in for some competition. I really think that it missed the boat over the past two years with all of its navel gazing, name-changing, and merging activities. It's been too busy to get out there and become *the junior exchange* for North American companies (a concept I've been espousing for the past several years).

The BBX website can be found at www.bbxchange.com.

Capital Pool Corporation (CPC) Comments and Update

In this column, I keep track of **Capital Pool Corporation** ("CPC") companies as defined by the TSX Venture Exchange (the former 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. It lets the public investor get into the game.

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 June, 2002. (previous update was April, 2002). An update of the CPC list as of May 31, 2001 was not produced.

The new additions to the list (since April) are **Affirm Capital Inc., CJHC Capital Ltd., Desco Exploration Ltd., ESS Capital Inc., K45 Capital Corporation, LeChamp Capital Corp., Matador Capital Inc., Supernova Capital Corporation** and **Tulane Capital Corp.**

Of these new additions, Affirm, CJHC, Desco, ESS, LeChamp and Matador are from Alberta. Supernova and Tulane are from B.C. and K45 is from Quebec.

Since the previous update, the following companies have come to trade: **Bio 1 Inc., Gyzer Capital Inc., Innoventures International Inc., Performance Property Capital Inc., Piper Capital Inc., Red Chip Inc., Sonus Venture Capital Corporation, Tango Energy Inc., Thrust Capital Corp.** and **Yardley Capital Inc.**

Finally, since the April update, the following companies have been removed from the list because they have completed their Qualifying Transactions and are now regular listed companies: **Access West Capital Corp., Aitchison Capital Inc., Aqua Capital Corp., Castle Bay Enterprises Ltd., CSW Ventures Corp., Driver Energy Services Inc., Environmental Management Solutions Inc., EquiTech Corporation, Newlook Capital Corp., Planex Ventures Ltd., Pure Lean Inc., Transcend Capital Corporation, Western Prospector Group Ltd., Wise Wood Energy Ltd.** and **Yes Capital Corp.** Obviously, deals are getting done!

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

Local Events

Summertime is not usually a busy time for networking and tech events. The **BC TIA** will hold its third annual **BC TIA Fall Golf Classic** to be held on September 10, 2002. This is turning into a key charity event for BC's technology community.

Organized by the **Technology Committee for Children's Hospital (TECCH)** and the BC TIA, this year's event has already secured sponsorship from **Telus, Nortel Networks, Cisco** and **Digital Pioneer**. The net proceeds will go towards much-needed equipment, research and programs at BC's Children's Hospital. More info on this can be found at www.tecch.com.

Another very worthwhile golf-fundraiser to support Alzheimer's research takes place on August 16th at Pitt Meadows Golf and Country Club. This is organized by the Aasen family (**Greg Aasen** is a founder of **PMC-Sierra**). Check www.acegolfpro.com for more information on how you can participate in this event.

(For you golfers, don't forget that 80% statistic mentioned in the first part of this column!)

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

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](#).

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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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