



**Tech Futures:
September 21, 2001**

By [Michael Volker](#)

Confidence Shaken, What's Up, Technology Financings, Capital Pool Corps Update, and Coming Events

Confidence Shaken

Confidence - not optimism - is what it's going to take to get us out of this slump. That message struck home with me this week as I was chatting with various brokers and investors. Although we should heed NYC Mayor **Rudolph Giuliani's** call for optimism in the wake of last week's terrorist attacks, it's going to take a while to regain confidence in the markets.

The lack of confidence brought about by the war cry and what it all means is putting us all in a down mood. And when you're not in a good mood, you don't feel much like buying a new car or investing in a company with an uncertain future.

George Bush's speech last night said nothing about the economy. Obviously, his first priority is to deal with basic freedoms and the fight against terrorism. Even the usually steady and re-assuring **Alan Greenspan** said that "nobody has the capacity to fathom fully how the tragedy of Sept 11 will play out."

As I watched the market's opening early today, the **DOW** immediately plunged by over 300 points only to reverse that by 350 points in the other direction just an hour later. Of course, in addition to the general doom and gloom, this Friday also happens to mark one of those quarterly Wall Street phenomena - the so-called triple witching hour during which index futures contracts and options on index futures and stock options all expire at the same time. This always creates some confusion as investors and speculators settle hedged (or unhedged in the case of speculators) open positions.

This week alone, more than a trillion dollars (US) in North American market cap was wiped out. The Nasdaq is trading where it was back in mid-'97 and locally, even my most revered barometer for the B.C. tech sector, the **T-Net20** index, fell below its inaugural value of 1000 set in January, 1998. It is now trading in the low 800 range. Why, early last year it passed the 10,000 mark! What a ride that's been!

Confidence won't materialize as long as the uncertainty prevails. How will we know when this war has ended? Will it be over when the U.S. captures bin Laden or when it kills him? Or, when it eradicates all terrorists? Or, will the war against terrorism end up like the war against drugs - a never ending fight?

So what can we do? Anything's better than nothing.

I read about a Canadian teacher who sent \$100 to a stockbroker asking him to buy American stocks as a show of confidence. (I guess the Nasdaq QQQ's would be the best home for this \$100). Although this investment struck me more as a charitable donation, it's still a positive. At least *her* heart's in the right place.

Back to the economic question. Perhaps the U.S. President will gradually turn his attention to the economy once the emotional need for revenge has been satisfied. In the meantime, though, there are some tangible things that we, in Canada and here in B.C., could do.

This might just be the right time to announce some major economic stimulation packages. We need to be a little more dramatic on the economic front. What have we got to lose?

Let's just look at one "little" idea: There's an investment incentive in place for B.C. Mining Investors. You may have heard of the term, "flow-through shares". This fairly new incentive is called "super flow-through shares". Here's what it means and why it is super. Jumping right to the bottom line: if a B.C. investor buys \$1000 worth of shares in an eligible mining company, he gets a 100% write-off on the investment PLUS an additional tax credit such that the true cost of the \$1000 investment is only \$367 (your at-risk capital). That's pretty good leverage if you ask me!

So why is this limited to the mining industry? Why not offer such an investment stimulus to ALL companies? Certainly, the high tech sector, could use this kind of encouragement. We need to pry loose those pent-up dollars and get them flowing again.

In the days after September 11th I, like many others, felt very glum and discouraged. There wasn't much get up and go. But, as the days went by, it became clear to me that tragedies - no matter how great - can't weigh us down forever. The human spirit to create and be productive, I believe, will be stronger than ever. We will not just rebuild - we will grow, expand, and prosper. History has shown that following events such as this, people turn their attention to productivity. It makes us feel good to achieve and accomplish.

I can't help but wonder how things would be different today if New York and Washington were hit by an earthquake instead of terrorists. Surely, we'd accept such a devastation as a natural disaster - not something we can strike back at. We'd start the rebuilding process while still grieving. Yet, we know that earthquakes can re-occur. That threat is always present. And, it doesn't stop us. I suppose we believe that because humans (if you can call them that) caused this, we have a greater chance of eliminating or controlling the problem. Yeah, right. I guess we need to get some closure on this before we can regain our shaken confidence and move on.

What's Up?

There are *some* stocks which have made dramatic gains this week. One of these, which has a B.C. connection, is Milpitas, CA-based **Polycom Inc** (NASDAQ:PLCM). Polycom shot up by 30% earlier this week to U\$25+ and has held that gain all week. It was one of the biggest and most active gainers on Nasdaq when it opened on Monday. Polycom is a maker of audio and video conferencing systems. Why fly when you can travel in cyberspace? You'll recognize its conference phone products by their distinctive black 3-pointed star shape which can be found on many boardroom tables. In April of this year, Polycom completed its acquisition of **Circa Communications** - a young, North Vancouver manufacturer of VoIP (Voice-over-Internet Protocol) telephony products. When the deal was announced in September 2000, it was valued at U\$90 million but due to market declines it actually closed closer to \$20 million.

Another B.C. company to benefit from the chaos is **Imagis Technologies Inc** (CDNX:NAB). Imagis traded up to \$1.75 this week, presently settling to \$1.35. That's still more than double its \$0.63 price the day before the attack on NYC.

The substantial increase in Imagis Technologies' stock price is due mostly to Imagis biometric facial recognition technology. This technology assists in airport security, customs and immigration, law enforcement and criminal justice. Imagis says that over the past week, many of these organizations have contacted them to assist in the development of identification, airport and security system installations. Imagis already has installations of its biometric facial technology at Toronto's Pearson Airport, in specific Royal Canadian Mounted Police detachments in Western Canada, and in numerous counties in California. I just love Imagis' ticker symbol, "NAB", as in "let's NAB those guys!"

You can bet that any company with a security bent to it, for example **Silent Witness Enterprises Ltd** (TSE:SWE), is worth watching. Silent Witness, which just announced unaudited year end (to July 31, 2001) results of \$40m in revenue and \$5.3m in profits (i.e. \$0.86 per share), is trading in the low teens. It traded up to \$14 earlier this week, though.

Founded in 1986 and headquartered in Surrey, B.C., Silent Witness is a global provider of high-performance closed circuit television (CCTV) cameras, digital and analog storage solutions, network-based remote video surveillance and multiplexers.

Other popular investments are bound to be companies involved with disaster recovery, backup systems, storage, communications and anything relating to defense electronics, systems and software.

Video-game companies might get a cool response from investors if they're promoting violent games. I noticed that **Electronic Arts** has already redesigned one of its game covers which showed the World Trade Centre in the background. An exception to unpopular games might be a "getbinLaden" game. Just wait, I'm sure we'll see one. Some T-shirts already show him in the sight of a rifle's cross-hairs.

Technology Financings

Many CFOs will tell you that financing their businesses continues to be a struggle. Yet, deals are getting done.

Millions of dollars have recently been raised by the likes of companies such as **Nxtphase Corp** (\$30m), **Datawest Solutions Inc** (\$20m), **Sideware Systems** (\$6.3m), **Kinetek Pharmaceuticals** (\$16.5m), **Xantrex Technology Inc** (\$58m), **TIR Systems Ltd** (\$1.5m), **Xenon Genetics Inc**, ,f,(\$4.1m), **Protiva Biotherapeutics Inc.**(\$14.5m), and **Marine Bioproducts International Corp** (\$1.2m).

In gleaning this information from the B.C. Securities Commission's exempt financing notices, a word of caution is in order. If you look in the current issue of **Business in Vancouver**, which produces a nice weekly summary of financings, you'll see that **Meteor Technologies Inc** (CDNX:MMI) completed a \$9.7 million financing. In fact, what this notice - and many others - really tells us is that share issuances of said amounts took place which is *not* necessarily synonymous with a capital infusion. For example, in Meteor's case, various investors in Meteor's Thoughtshare Communications subsidiary converted their equity in Thoughtshare into shares of Meteor at a deemed valuation equal to the recorded transaction valuation. No new cash flowed into Meteor's treasury.

In spite of the apparent lack of capital, there are also new investment funds getting established. A very recent example of this is **Chrysalix Energy**, a Limited Partnership formed in July 2001 by three founding partners: [Ballard Power Systems Inc.](#), [Shell Hydrogen](#) and [Westcoast Energy Inc.](#) This private capital joint venture unites key industry players to create and support valuable new fuel cell technology companies. At its head is **Wal van Lierop** who is moving over from Westcoast Energy. Wal is also active with NewVenturesBC (see below). Check www.chrysalix.com.

In the last column, I commented that a couple of junior, CDNX-style, companies were in this enviable position of making some stock buy-back offers. For example, **Triant Technologies Inc**, (CDNX:TNT) has made an offer to buy up to 2 million of its own shares up until Aug 31, 2002. **Ignition Point Tech** (CDNX:IPN), a developer of broadband communications technologies, plans to re-purchase up to 730K of its own shares up until Aug 16, 2002.

ACD Systems International (TSE: ASA) is another B.C. tech company that just announced a share buy-back bid. ACD intends to acquire up until September 23, 2002 for cash up to 640,000 common shares. This represents less than 3 percent of its 22,019,465 shares, close to the maximum number permitted under securities rules.

I really like this company. Although I haven't bought any stock yet (too broke), I've been using their software for a number of years. It's one of the best programs I've seen for viewing and organizing image files (e.g. photos, etc). Headquartered in British Columbia since 1993, ACD is one of the world's leading developers and marketers of digital imaging software. The Company has a history of 100% annual revenue growth and consistent profitability. ACD has an estimated user base of 24 million including over 33,000 corporate customers and many Fortune 500 companies.

This week there was news that a number of big cap firms announced plans to buy back some of their shares in the open market. Although this includes the likes of **PepsiCo**, **United Parcel Service**, and **Starbucks** the ones that I found noteworthy are those in the tech sector. For example, **Cisco** said it would buy back up to US\$3 billion and **Compaq** said it would continue re-purchasing another US\$550 million remaining under a US\$1 billion buy-back. **Intel**, too, continued with its repurchase plans as its board added an additional 300 million shares to the plan.

Other tech companies which are buying back their own shares include **Siebel Sysystems Inc.**, and **Solectron Corp.** **Microsoft** is expected to follow suit. A spokeswoman for Microsoft stated that this was a reasonable expectation to "participate in buyback efforts to support the economy and the financial markets". Hah! I don't quite follow that logic. If they really wanted to support the economy they ought to use that capital to invest rather than giving some of their stakeholders an easy exit.

(Interestingly, and I'm surprised that no one has commented on it, is the fact that the US\$40 billion appropriated by the U.S. Congress is in the order of magnitude of Bill Gate's wealth. I thought that Bill could patriotically chip in a few "bill", but wouldn't it be better if there were some compelling programs in place to get angels and other investors back in the game?)

So what's good about these buybacks? Well, other than the anti-dilutive benefits to remaining stockholders, these purchases are clear evidence that these firms have plenty of cash on hand to weather a storm. Whether or not they can weather a war, is unclear. Retaining a strong cash horde might prove to be a better boardroom strategy at this juncture.

In any event, when we see the likes of Cisco and Intel using their cash to buy back their own shares, the situation cannot be *that* bad. The war effort may well fuel their sales. Technology companies often fare well during periods of heavy military spending.

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. They provide companies with an alternative to traditional venture capital financing. CPCs are the continuation of the former VCP and JCP programs on the Vancouver (VSE) and Alberta Stock Exchanges.

Since the program was launched in B.C., more than 250 CPCs have been formed and more than 30 have completed their so-called Qualifying Transactions (QT). It takes at least a year - usually longer - for a CPC to find a suitable takeover candidate and another six months to a year for a deal to be finalized. One way to expedite the process is to eliminate the need for a special shareholders meeting to approve the deals - leave it up to the CPC boards.

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 monthly basis. The Chart is now current to August 31, 2001.

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

Coming Up

Keep your eyes peeled next week for the announcement of the winners in the [NewventuresBC](#) business competition. After five months of intense competition among more than 170 entries from across British Columbia, six teams have been selected as finalists in the competition for the Bank of Montreal \$50,000 grand prize package and three \$15,000 second prize packages. All of the entries incorporate new or innovative use of technology in their ideas, with the finalists evenly split between wireless-based products and manufacturing innovations for recreational and medical uses. Each of the six teams receives a \$5,000 semi-finalist prize. The winning team will be announced at a Gala Reception on September 27th in Vancouver.

At its Fall kick-off session, the **Vancouver Enterprise Forum** will feature early stage venture financing. The speakers - three entrepreneurs, two of which have become angel investors, will present their views on the local startup investment climate. This event will take place in the evening of Tuesday, September 27th. See www.vef.org for more details.

On October 4th, **Ernst & Young's** Entrepreneur of the Year awards gala will be taking place at the Vancouver Trade and Convention Centre. Thirty-two Pacific entrepreneurs are finalists in eight different categories. This

black-tie event is expected to draw 800 guests. For more info, call 604-891-8270 or visit www.eoy.ca.

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

P.S. - 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 "Business Centre" (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? 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 Harbour Centre campus at 515 West Hastings St. More information can be found at www.sfu.ca/time. PS - there are some great facilities for holding your company meetings.

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, past Chairman of the [Vancouver Enterprise Forum](#), and a technology entrepreneur. He owns shares in many of the companies he writes about. Copyright, 2001.

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: risktaker@volker.org

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