



**Tech Futures:
October 6, 2002**

By [Michael Volker](#)

Enthusiasm and Optimism prevail, More on Options and Compensation, Capital Pool Corps Update, Local Events and Footnotes

Enthusiasm and Optimism prevail

If two words could sum up the state of our technology sector in B.C., it would be enthusiasm and optimism notwithstanding current stock market sentiments. The numerous technology events, forums, meetings, etc. that take place - it's tough to keep up with everything - show what a rich and fertile environment we have for growing technology ventures.

There's been a lot of discussion about the future of the Advanced Technology sector and the strategies and policies that are needed to support it. Various groups have held conferences on this subject over the past few years. The [BC Business Summit](#), a collaborative initiative among local industry groups and industry leaders looked at this in its 1998 and 2000 summits. In May of this year, the [BC Innovation Summit](#) addressed this subject as did the Industry Canada [Innovation Strategy](#) forum in September. The B.C. [Premier's Technology Council](#) is also looking at this and has produced a few reports. As recently as today, the Vancouver TechAction Town Hall is taking place downtown. This is an initiative undertaken by **CATA** (Canadian Advanced Technology Alliance).

The idea behind these meetings is to find out what it's going to take to make our technology sector thrive. It usually boils down to more money and good people but it's the strategies that lead to this outcome that are important. It's been almost 30 years since I started my first company, a University of Waterloo spin-off, back in 1973. The message from the then nascent technology community was the same as it is today!

What I find interesting about these conferences and groups is that they all talk about issues relating to money matters (i.e. financing the growth of new enterprises) and people (i.e. developing our intellectual talent), yet there's a great deal of inconsistency with respect to actual targets and goals.

One of the favorite measures is the GERD/GDP ratio, i.e. Gross Expenditures on R&D to Gross Domestic Product. In Canada, the figure is 1.5% and in B.C. the ratio is only 1%. Canadians complain that they're falling behind the rest of the world and British Columbians complain that they are behind the rest of Canada. This measure, in my view, is not a very useful one. For one thing, it's an input measure only (spending more money on R&D doesn't necessarily lead to more output), it doesn't take into account economic diversification (countries with vast natural resources have a large non-technology contribution to GDP), but most importantly the measure itself is flawed. For example, **Statistics Canada** gets its data from **Canada Customs and Revenue Agency** which reports only the R&D expenditures of companies that claim R&D tax credits. Experts have told me that the \$1.8 billion claimed under the **SR&ED** program is far less than the actual R&D performed in Canada - no one's tracking it.

What we need is better metrics for determining how well we're performing. For example, some output measures such as productivity improvements or our ability to commercialize the investment in R&D would be more appropriate.

In any event, if we are going to set some goals and targets - a good business practice - it's important that there's a general buy-in from the technology community as to what these should be. If we all have different ideas of what we want to accomplish, it'll be difficult to come up with useful strategies. In this regard, I'm a big advocate of collaboration initiatives and we have to do more than just pay lip service to it.

While on the subject of R&D, it should be noted that **Nortel** did 25% of private sector's R&D in Canada (at its peak). **Allan Rock, Industry Canada** Minister has commented that "The whole purpose of the innovation strategy is to challenge the private sector generally to do more in R&D, to remember the importance of R&D to the whole national strategy." Unfortunately, **StatsCan** reported that Canadian companies plan to reduce their R&D by 6.1% to \$11.2Bn this year. If you omit Nortel, actual spending by companies rose 23% last year!!! Nortel spent \$1.17B in the first half of 2002 (vs \$1.85bn) and **JDS Uniphase**, ranked #2, slashed its R&D by 41%.

Strategies aside, let's take a look at some of the growth that's taking place by focusing on some specific corporate examples.

T-Net produced its top 100 B.C. tech companies based on 2001 fiscal revenues. The top 9 all had sales over \$100 million. A decade ago, none could make that claim. The list doesn't include the B.C. operations of major companies such as **Crystal Decisions**, **Broadcom** and **Electronic Arts**. Here are the top 10 from the list:

Rank	Company Name	Revenues (CDN)	Company Description
1.	Creo Inc.	1,018,225,000	technology for the graphic arts industry.
2.	Macdonald Dettwiler & Associates Ltd.	481,300,000	a leading I.T. firm, one of B.C.'s first tech companies
3.	PMC-Sierra Ltd.	346,200,000	high-speed broadband communications semiconductors.
4.	Xantrex Technology Inc.	170,000,000	advanced power electronic and control products
5.	Seanix Technology Inc.	152,000,000	PC manufacturer
6.	QLT Inc.	129,470,000	Bio- pharmaceutical therapies to treat cancer, eye diseases and immune disorders
7.	Pivotal Corp.	128,800,000	CRM software for mid-sized enterprises.
8.	Sierra Systems Group Inc.	128,760,000	I.T. and integration services
9.	AimGlobal Technologies	123,000,000	Electronic manufacturing solutions
10.	Creation Technology Inc.	94,199,000	Contract Electronic Manufacturer

The Pacific Northwest's top venture backed companies were honored at Seattle's Seahawks stadium last week as [Venture All-Stars](#). The event was presented by the **Investment Forum**, a non-profit organization that promotes promising new companies to the business and investment community. The event recognized the Venture All Star Company CEO's from the greater Seattle area, Vancouver, and Portland, as voted by a selection committee comprised of 35 investors including venture capitals and private angel investors. This year's top 10 companies from B.C. are:

- **Active Pass Pharmaceuticals**, Vancouver, BC
- **ActiveState**, Vancouver, BC
- **jaalaM Technologies, Inc.**, Vancouver, BC
- **Kinexus Bioinformatics Corp.**, Vancouver, BC
- **Microsage Wireless Inc.**, Richmond, BC
- **Novation Pharmaceuticals Inc.**, Coquitlam, BC
- **Epic Biosonics**, Victoria, BC
- **PureEdge Solutions**, Victoria, BC
- **Redlen Technologies**, Sidney, BC
- **Vigil Health Management**, Victoria, BC

At last year's event, which was the first year that this event was held, there were five promising Vancouver area companies picked. These were: **Airgames Wireless**, **fSONA Communications**, **NeuroMed Technologies**, **WestBay Semiconductor, Inc.** and **Xantrex Technology, Inc.**

The **Ernst & Young Entrepreneur of the Year** banquet was held earlier this week. **Gregory Peet**, president and chief executive officer, **A.L.I. Technologies Inc.** (ALI), has been chosen as Ernst & Young's 2002 Pacific Entrepreneur Of The Year. Mr. Peet has spearheaded the Richmond-based ALI's remarkable growth, leading the company to its position as a market leader in digital, medical imaging network systems. Under his guidance, ALI has grown from a 14-employee company with annual revenue of \$40,000 in 1993, to a firm with more than 250 employees and \$40 million in annual revenue.

One of the early angel backers behind ALI was **Milton Wong**, who was honored at the banquet with a "Lifetime Achievement Award". I particularly enjoyed Milton's speech in which he made a call for greed to give way to goodness noting the social impact of charitable works. Coincidentally, the BC tech community's **Social Venture Partners** had a breakfast session on the same day to promote this vision.

In the Technology and Communication category, **Brad Forth** of **Power Measurement Ltd.** (a provider of enterprise energy management) Saanichton, B.C. was chosen as Entrepreneur of the Year.

Finally, as another encouraging sign that technology entrepreneurship is alive and well I note that our **Vancouver Technology Angel Network**, which meets each month, almost cancelled its meeting last week because there was only one company signed up to make a pitch. When word of this got out, we were suddenly flooded with requests and eight fresh companies came with their business plans in hand. And, the angel turnout was encouraging as well with a record attendance in spite of all the other demands on one's time!

In spite of complaints about a shortage of capital, I note that there's still money out there and good deals are getting done - albeit with a lot more realism.

Speaking of angels, the **Vancouver Enterprise Forum** event on early stage financing featured a couple of investors and a case study. One of the investors, **Martin Tobias**, former CEO and founder of Loudeye, now a Venture Partner at **Ignition Partners**, Seattle noted that he used to be an angel investor. He made 22 angel investments of which 21 tanked! And now he's investing other people's money? Go figure.

Haig Farris, President of **Fractal Capital Corp**, a private venture capital company financing high technology start-ups made some tongue-in-cheek observations about angel follies and foibles. Both he and Martin Tobias implied that venture backed firms would be better served than those who rely on egotistical angels. While there's some truth in that, I personally believe that angel investing will involve - both in volume and in sophistication (successful tech entrepreneurs don't necessarily make good investors) so there's some room here for further development. But, let's not discourage it. They can, and do, provide mentorship. In this regard, I continue to press for some up-front investment incentives (like allowing angels to write-off their investments up-front and then recapturing the write-off if an investment pays off). We all know that early stage deals

are risky and that the majority will fail. So, why not allow the early risk takers to take an immediate write-off rather than making them wait?

More on Options and Compensation

In last month's [column](#) I blasted company stock options and I suggested we do away with them.

Writing in the **Globe and Mail**, **Eric Reguly** echoed some of my comments that, in years gone by, company founders and creators got huge payoffs for the risks they took whereas their hired guns settled for a lot less. More recently, though, the lure of options payoffs turned many CEOs into value destroyers, fixated on their options payoffs. He says, "the less candy, the less temptations. There's a fine line between value creation and destruction." Well put.

A couple of weeks ago, the **Financial Post** noted that many tech companies were now abandoning options in favor of retention bonuses. According to research by **AON Consulting Inc.**, 42% of 170 Canadian tech companies were offering non-stock option incentives.

In its Sep 2 edition, **Fortune** magazine noted that billions and billions of dollars were taken out of the market by CEOs who were granted humungous stock options. While naive investors were buying shares, these guys were selling. And, they did this all quite legally, of course!

To address the not-so-legal abuses we've been reading about, the **Sarbanes-Oxley Act** of 2002 was passed, almost unanimously, by the U.S. Congress in July to deal with the matter of corporate integrity. Canadian regulators, notably the **B.C. Securities Commission** are not so keen to embrace all these new rules and regulations. They are in the process of trying to eliminate many of the rules that have evolved over the years to trap scam artists and have learned that all the rules in the world can't stop dishonest people from operating.

One idea that's being floated is to have companies voluntarily comply with certain prescribed governance practices. For example, just like manufacturing firms like to boast that they are ISO9000 compliant (i.e. a quality standard), wouldn't it be nice for companies to be able to say that they are S-O (Sarbanes Oxley) compliant with regard to boardroom and management practices? Or, perhaps a series (just like the ISO) could be devised. Small companies might be GGP-1000 compliant whereas larger ones might adopt a higher standard, e.g. CGP-2000 and so on (CGP=Canadian Governance Practices or something like that) - just an idea! As an investor, this would go a long way to telling you whether you've got a quality investment or not.

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.

At least that's the theory behind CPCs. I'm beginning to wonder, though, about their effectiveness. The main problem, I believe, is that they are limited as to how much capital they can initially raise to \$700K. That doesn't go very far. It was believed that additional investors could be attracted when a CPC identifies an a suitable deal. That has turned out to be a chicken-and-egg situation, especially in these tough money times.

The real truth behind CPCs is that they were created as a back-door type of route to going public. Over the years, the IPO process has become so tedious and costly for junior companies that going public early was not an attractive financing option for most companies. So, instead of fixing the real problem (i.e. simplifying the IPO process), CPCs were created. If the original problem does get fixed, and I optimistically believe that it just might, then CPCs would offer no advantage. For now, we'll continue to track them.

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 September, 2002. (previous update was August, 2002).

New additions to the list are: **B52 Investments Inc.**, **Endur Systems Inc.** and **Giantstar Ventures Inc.** B52 is from Quebec, Endur is from Alberta and Giantstar is from BC.

Since the previous update, the following companies have come to trade: **ACP Ace Venture Corporation**, **Alegro Health Corp.**, **Supernova Capital Corporation** and **Tulane Capital Corp**

Since the previous update, the following companies have been removed from the list because they have completed their Qualifying Transactions: **Abington Ventures Inc.**, **Avic Technologies Inc.**, **Beanstalk Capital Corporation**, **Dunsmuir Ventures Ltd.** and **SNC Equity Inc.**

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

Local Events

The **Vancouver Enterprise Forum** kicks off its Fall event with an early-stage venture financing event on September 24th. The next event will take place on October 22nd and is titled "The Great Disappearing Act: The Hollowing Out of the BC Tech Sector". This event will address the impact of local tech company takeovers. Being acquired is a great objective, but what really happens after the honeymoon? What happens to these companies and their founders? Check the new website at www.vef.org for more details!

The **Science Council of B.C.** will be holding its annual awards dinner later this month (Oct 28th). For a list of this year's honorees, please go to www.scbc.org.

A complete calendar of technology events can be found on [T-Net's Events page](#). Without getting too tacky, there's a new group in town called **TACI** (Technology Associations Collaborative Initiative) which also has a tech calendar - check www.techvenue.com/calendars/taci.

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.

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