



**Tech Futures:
September 7, 2001**

By [Michael Volker](#)

Corporate Governance, Insider Reporting, Technology Financings, New Stock Exchange, Worth Mentioning and Capital Pool Corps Update

Corporate Governance

When you invest in a company, you are counting on the management team to execute a business plan and give you a return on your investment.

In addition to working hard and smart, shareholders like to know that their company, at a higher level, adheres to certain **corporate governance** practices. What does this mean and why is it important, other than having a nice ring to it?

We know from experience that very few companies actually follow their business plans. Indeed, many of our successful local tech firms are doing something quite different from that which they originally started out to do. But that's OK because it's incumbent on management to identify new opportunities and capitalize on these.

However, investors deserve to know what is going on, especially with regard to financial performance, material changes, new deals and other matters. This means that companies need to adopt certain **disclosure** procedures.

The Board of Directors of a company is its soul and conscience. It's the Directors that ultimately bear any legal liabilities. Having a "limited liability" company - as all incorporated firms are - does not mean that its people, i.e. directors, can hide from prosecution. The Canada Customs and Revenue Agency, Labour Boards, and the Courts can make directors compensate for any mis-dealings.

Many companies, especially small ones, can run a sloppy operation, governance-wise. Often, they don't do this maliciously - they just don't understand the importance of a properly functioning board and its role.

Who can make what decisions? How far can management go without board approval? How independent is the board from management? Is there an audit committee? What about compensation, especially dilutive compensation matters such as stock option plans?

Shareholders like to know that their companies are in good hands and that there are systems and procedures in place to avoid flying-by-the-seat-of-the-pants.

To give shareholders such comfort, various stock exchanges require that their listed companies adhere to certain standards. **NASDAQ**, for example, has very specific guidelines as to when insiders can buy or sell shares in their companies. The **Toronto Stock Exchange** is reviewing its own guidelines with a view to improving the standards which it imposes on its listed companies. Similarly, the **CDNX** is seriously looking at its policies in this regard. One could argue that the rules which apply to a senior company might be more onerous for a small emerging company. There's a lot of debate as to what should be hard and fast as opposed to voluntary reporting.

A special committee, known as the **Joint Committee on Corporate Governance** (see www.jointcomgov.com), produced an interim report, dated March 2001, in which it makes various recommendations as to governance practices, especially pertaining to Board matters.

Company directors, senior officers, and shareholders ought to take a look at these recommendations and provide some feedback. The Listed Companies Association (www.lcacdnx.com), which represents CDNX listed companies is interested in making sure that its members are not nails being hit with a sledgehammer. What's nice from an ideological perspective may not work for practical reasons. In any event, the report makes for some interesting reading.

Although we expect companies to operate on a professional and informed basis, it's also up to investors to be educated on matters relating to public companies.

In addition to acting as a watch-dog, it's encouraging that securities regulators, notably the **B.C. Securities Commission**, are sponsoring various educational initiatives. One of these which caught my attention recently was a series of seminars aimed at seniors to help them avoid getting scammed. Information on this and other programs can be found at the Commission's web-site at www.bcsc.bc.ca.

Insider reporting goes online

Finally! Yes, soon insiders of companies will be able to file their trading reports online. Timely insider filings and public access to these are all part of good corporate governance practices as discussed earlier.

Presently insiders have to file by fax in *each* jurisdiction where the company is a reporting issuer. As a director of a company which reports in B.C., Alberta, and Ontario, I've had to fax my report (the same report) to the securities commissions in each of these areas. Then, some weeks later, the data are available (to varying degrees of accessibility) to the public. Can you believe it?

The new system - known as The System for Electronic Disclosure by Insiders (SEDI), will take effect October 29, and insiders will be required to file their trading reports electronically starting November 13.

This means that beginning in November, investors will have access, free-of-charge, to insider reports via the Internet, giving them more timely information about insider transactions.

By the way, an "insider" of a company is any senior officer or director or major (>10%) shareholder of a company.

According to the **Canadian Securities Agency (CSA)**, filing deadlines will be harmonized in all jurisdictions and all insiders will be required to report trades within 10 days of the transaction.

Investors will be able to obtain reports such as: a weekly summary for all reporting issuers; the details of individual transactions by insiders; a list of registered insiders for each SEDI issuer; and an issuer "event history", which includes a stock dividend, stock split, consolidation, amalgamation, reorganization, merger or other similar event.

The \$12.2 million SEDI system was developed for the CSA by **CDS Inc.** (a subsidiary of the **Canadian Depository for Securities, Ltd.**), which also developed and operates **SEDAR** - the main repository for corporate filings (see www.sedar.com).

Technology Financings

In my previous column I mentioned that technology companies were still managing to raise capital even under current market conditions. Companies such as **Nxtphase Corp** (\$30m), **Datawest Solutions Inc** (\$20m), **Sideware Systems** (\$6.3m) and **Kinetek Pharmaceuticals** (\$16.5m) were joined by **Xantrex Technology Inc**, which raised \$58M from more than two dozen purchasers took out. **TIR Systems Ltd** (CDNX:TIIY) closed a small \$1.5 million placement. **Xenon Genetics Inc**, found 50 investors who took down \$4.1 million and **Protiva Biotherapeutics Inc.**, a spin-off from **Inex Pharmaceuticals Corp.** (TSE:IEX), announced that it has signed a \$14.5 million equity financing agreement with leading venture capitalists private investors.

Instead of going after investors to get cash, other companies are doing just the opposite - giving investors cash in order to buy back some of their issued shares.

Often, large cash-rich firms such as IBM will use their excess cash to buy-back their own shares on the public markets in the belief that an anti-dilutive move is in the best interests of its shareholders. This makes good sense in times like this when stock prices are relatively low.

It isn't too often, though, that we see junior, CDNX-style, companies in this enviable position. Yet, a couple of local CDNX ventures are doing just that. **Triant Technologies Inc.**, (CDNX:TNT) has made an offer to buy up to 2 million of its own shares up until Aug 31, 2002. Similarly, **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. From an investor's perspective, these companies deserve a closer look. Buy-back offers generally indicate financial health, management's confidence in the business, higher EPS potential (due to fewer shares), and at least some assurance that someone (the company in this case) will be a buyer of shares in the future.

New Stock Exchange?

Want to start a new stock exchange? No problem. A little-known company, **Diversified Technologies Group, Inc.** did just that. It recently announced that its corporate name and stock symbol was changed to **The X-Change Corporation** (OTCBB:XCHC).

The X-change Corporation is developing an alternative trading system which makes it possible for more than 5600 so-called Pink-Sheets companies (these are even "worse" than the OTCBB companies) to be traded on a fully automated basis instead of by telephone!

The X-Change Corp itself is being actively promoted on the 'net. I've already received several unsolicited emails touting the merits of making an investment in this company. Although public companies are often reluctant to give forecasts of future revenues, this one is not so shy. It estimates revenues of \$14 million in 2001, and \$56 million by 2003. It is trading in the US\$0.70 range with "target" trading prices ranging from US\$3.00 in the short term to US\$6.00 in the long run. We'll see.

To its credit, though, note that the senior exchanges (TSE, NASDAQ, etc) have talked about being publicly owned and traded entities themselves but seem to take a long time getting there. Leave to a startup to beat them to the punch!

Worth Mentioning

Burnaby-headquartered **Future Shop Ltd.** (TSE:FSS), about to be taken over by US based **Best Buy**, reported that its sales this past August were up 5% over August of last year. That's pretty encouraging, if you ask me. The fact that consumers are spending under clouds of economic slowness may fend of the proverbial self-fulfilling prophecy.

Fellow T-Net columnist **Brent Holliday** recently made a pitch for boosting our manufacturing capability in B.C. in the area of photonics, believing that this could be a ground floor opportunity akin to that of silicon chip fabrication a couple of decades ago. Coincidentally, I found it interesting that Ottawa's **Terry Mathews** is aggressively moving into electronics manufacturing by spinning off one of his recently acquired **Mitel** units - to be called **BreconRidge Manufacturing Solutions** - and merging it with a couple of other production firms. The leader in this field, Canada's **Celestica Inc.** (NYSE:CLC) was mentioned in this column recently insofar as it was the top-ranked company in **Business Week's** Info-Tech 100 report.

I'd love to see hardware production facilities grow here in the lower mainland. The growth of companies like Burnaby's **Xantrex**, which recently closed a \$58 million private placement demonstrates that there's an inherent technological capability here ranging from R&D to production. And, it shows that investors still like to invest in tangible deals. It's a lot more exciting than a bunch of people sitting in front of screens all day. I just love the fresh smell of a wave soldering line early in the morning!

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.

I've previously commented that Ontario might adopt a capital pool program. Well, finally after many years of snubbing the idea of "blind pools", the **Ontario Securities Commission** (OSC) is now proposing to allow Capital Pool companies to raise money in Ontario. The OSC has proposed a new policy, which sets out its views as to whether issuers participating in the **Canadian Venture Exchange Inc.'s** capital pool company program should be permitted to conduct public offerings in Ontario.

Historically, the OSC has been reluctant to issue a receipt for a prospectus where the prospectus revealed the issuer to have neither a business nor operations and no assets, other than cash. The commission now says it is aware that the implementation of the program in Ontario may also confer benefits upon Ontario's capital markets by providing entrepreneurs and emerging businesses access to the financial and other resources necessary to fully develop. Amen. Moreover, the commission has also noted that the program provides certain investor protection provisions, which help mitigate the potential for harm to investors. It invites comments on the proposed policy by October 31. For more information on this, go to the **Listed Companies Association** website at www.lcacdnx.com.

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.

The new additions to the list since the July 31st edition, are **Alegro Health Corp.**, **Crescendo Capital Corp.**, **Dynamic Capital Corp.**, **Maximus Capital Corp.**, **Techcore Capital Inc.** and **TheraMed Capital Corp.**

Alegro is from Ontario; Dynamic is from Saskatchewan; and Maximus and Techcore are from Alberta. The rest are from B.C. (Soon - if the OSC gets on board, there'll be lots from Ontario!)

The following companies have come to trade in the past month: **Brockton Capital Corporation**, **CastleRock Capital Inc.**, **Developer Ventures Inc.**, **Peterborough Capital Corp.**, **Tamerlane Ventures Inc.** and **TheraMed Capital Corp.**

The following seven companies have been removed from the list because they have completed their Qualifying Transactions and are no longer seeking acquisition targets: **Gentech Capital Corp.**, **Hollingfield Capital Corp.**, **Longbow Energy Corp.**, **Longview Petroleum Corporation**, **Red Oak Trail Corp.**, **Technology Growth Partners** and **VTEC Capital Corp.**

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

Footnotes

Now that summer's over, it might be time to check out upcoming Fall meetings in the tech sector. A couple of upcoming events deserve being mentioned, however.

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](#).

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](#).

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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.

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