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## PROPERTY VALUE

Small businesses are driving the IP market, and their discoveries are proving to be a lucrative market among larger players

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SPECIAL TO THE JOURNAL


In February, Gal Arav of Bedford placed all his chips on InstantBull.com, a company he founded just a month before, embarking on a strategic plan that he hopes will lead to an acquisition of his patent rights and a windfall of cash for him.

His first move, however, was to hire an intellectual property lawyer to help him safeguard his software product, making it the company's key asset and his ticket to financial success.

"Conceptually, what we're hoping is that larger companies will be interested in acquiring the patent rights because of the broad technological value they have for the general Web audience," Arav said of his online software product, which aggregates stock message boards, blogs and stock news. "It was a big selling point to the angel investors."

The 35-year-old operations researcher represents a growing number of entrepreneurs who are finding themselves doing the legwork and innovation for corporations on the lookout for IP acquisitions.

Small business is driving the patent market. And the actions of these smaller and relatively nimbler players is proving to be a tempting target for larger companies, according to the Association for Competitive Technology, an international trade association based in Washington, D.C., that



Gal Arav sought patent protection for the software technology behind InstantBull.com to make the company an attractive acquisition candidate.

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protects small-business innovation.

"There's an emerging market now for intellectual property," said Joseph G. Hadzima Jr., president of Cambridge-based IPVision Inc., which helps companies extract value from their intellectual property.

"We are seeing more private equity firms starting funds that will assemble and acquire IP. If you go back 500 years, wealth was defined by land. Then it was the plan. Think of Google — the value is not in the computers. We've switched from the concept of wealth to intellectual capital."

Arav's software product collects free content with an emphasis on stock message boards, stock market blogs, and categorized financial portal information. Its uniqueness, he said, is its ability to gather information and enable discussions on any topic.

The patent will eventually make it

possible for him to license the message board technology to companies from any industry, he said.

According to Arav's attorney, Robert Plotkin, a Concord-based practitioner who specializes in computer technology, intellectual property refers to patents, copyrights, trademarks, and trade secret law.

"My role is in helping clients figure out what it is about their technology that's new and useful," said Plotkin, "and what is most commercially valuable to their company."

The trick for everyone involved, from entrepreneurs to lawyers to trolls who buy license rights and prowl for copyright infringements, is to figure out what big companies need and what type of patents they would buy.

"Big companies very often look to emerging companies to do their product design or bubble up the most promising

# SMALL BUSINESS: Cashing in on IP as a strong selling point

technologies,” said Ron Cahill, a partner in the intellectual property group of Boston-based law firm Nutter, McClennen & Fish LLP.

In the late 1990s and early 2000s, small companies raised cash through venture capital and initial price offerings.

When the dot-com bubble burst a few years later and investors scurried away, the patent portfolio market blossomed in its place. Cahill said venture capitalists now tend to fund later financing rounds for newer companies, while angels — individual investors willing to back startups with large sums of money — are beginning to pool their funds around one promising company.

“We seem to be in a period of activity for startups,” he said, adding that larger medical device companies are helping to fuel this activity to avoid investing big bucks in research and development.

In July, for example, the Andover-based endoscopy operations of Smith & Nephew Inc., a unit of the British company Smith & Nephew PLC, announced the \$72 million acquisition of San Antonio-based Osteo-Biologics Inc., which makes a product that helps to repair cartilage in the knee after surgery.

Joe Metzger, Smith & Nephew’s director of corporate communications, said the matter of time-to-market plays a key factor in the medical device company’s decision to seek out and purchase smaller companies with the “patent, the technology, and the people,” that make up its assets.

“We’re looking at those companies because their one product may significantly complement our overall product portfolio,” he said.

Steven Gold, 41, a physician and biopharmaceutical entrepreneur, represents the other end of the patent phenomenon.

The co-founder and chief executive officer of Lexington-based Novocyte Inc. will begin negotiations next week with a company interested in buying his startup’s sole product, a naturally occurring protein called Galectin-3, which plays a role in healing corneas and could potentially be used for wound healing, too.

This is Gold’s sixth startup in a decade. He says he works with the owner of the intellectual property or with university representatives to form a new company, and then brings in investors to develop the concept into a viable product that is marketable.

“My role is to bridge the gap between

fantasy and reality,” he said. “The patent is the asset. That’s the chip that gets traded around.”

According to a 2003 study by the Office of Advocacy of the Small Business Administration, the Hub produced 5.2 percent of all U.S. patents issued in 2001, second only to Silicon Valley. Cahill characterized the region as a “grocery store for companies to shop in.”

Suggesting that small businesses are the country’s innovators and agents of change, and often focus on leading-edge technical niches, the SBA study said that small businesses produce 13 to 14 times more patents per employee than large ones.

Driving it is the philosophy voiced by Metzger.

“A company’s patent portfolio is an extremely important component of a company’s acquisition,” he said. “If they don’t have strong intellectual property, it potentially could be a deal breaker.”

That’s precisely what keeps Arav awake at night as he carries ten contractors on his payroll.

“I gambled,” he said. “I had a very secure job, and I decided to put that aside and go ahead with this because this is a golden opportunity.”

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