



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Financial Audit Division

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Financial Statement Audit

# Arizona State University

Schedule of Intellectual Property Royalties  
Year Ended June 30, 2003

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**Debra K. Davenport**  
Auditor General

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Arizona State University  
Report on Audit of Schedule of Intellectual Property Royalties  
Year Ended June 30, 2003

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DEBRA K. DAVENPORT, CPA  
AUDITOR GENERAL

**STATE OF ARIZONA  
OFFICE OF THE  
AUDITOR GENERAL**

WILLIAM THOMSON  
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report**

Members of the Arizona State Legislature

The Arizona Board of Regents

Dr. Michael M. Crow, President  
Arizona State University

We have audited the accompanying Schedule of Intellectual Property Royalties for the year ended June 30, 2003. This schedule is the responsibility of Arizona State University's management. Our responsibility is to express an opinion on this schedule based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Schedule of Intellectual Property Royalties referred to above presents fairly, in all material respects, the gross intellectual property royalties received by Arizona State University, the legal fees recovered, the distribution of the net intellectual property royalties available to the principal inventors, the principal inventors' laboratories, the University's Office of Technology Collaborations and Licensing, and the Cancer Research Institute technology transfer account. Also, the Schedule presents fairly the allocation to the competitive grant program, and the Office's operating expenses for the year ended June 30, 2003, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 7, the University transferred its technology transfer service function on November 1, 2003, to Arizona Science and Technology Enterprises, LLC, a wholly owned subsidiary of the Arizona State University Foundation. Simultaneously, the University's Office of Technology Collaborations and Licensing was discontinued.

This report is intended solely for the information and use of the Arizona State Legislature, the Arizona Board of Regents, and Arizona State University, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Debbie Davenport  
Auditor General

April 14, 2004

Arizona State University  
Schedule of Intellectual Property Royalties  
Year Ended June 30, 2003

	Gross Royalties Received	Less Legal Fees Recovered (Note 5)	Net Royalties Available for Distribution	Distributions to		Net Royalties Available to	
				Principal Inventors	Principal Inventors' Laboratory	Office of Technology Collaborations and Licensing (Office) (Note 4)	CRI Technology Transfer Account (Note 6)
<b>Patents</b>							
<u>Cancer Research Institute (CRI)</u>							
Abbott Laboratories	\$ 50,000	\$ 7,993	\$ 42,007	\$ 14,002	\$ 14,002		\$ 14,003
GPC Biotech, Inc.		(2,617)	2,617	872	872		873
Oxigene, Inc.	160,000	9,878	150,122	50,041	50,041		50,040
Seattle Genetics, Inc.	40,000	11,672	28,328	9,443	9,443		9,442
Teikoku Hormone Mfg. Co., LTD	400,000	(2,052)	402,052	134,018	134,017		134,017
Total Cancer Research Institute	650,000	24,874	625,126	208,376	208,375		208,375
<u>Physics</u>							
Molecular Imaging	52,285	190	52,095	17,365	17,365	\$ 17,365	
UC Berkeley	2,828		2,828	1,414	943	471	
Total Physics	55,113	190	54,923	18,779	18,308	17,836	
<u>Chemistry &amp; Biology</u>							
Advanced Concrete (Soil-Tech, Inc.)	3,481		3,481	2,827	1,160	(506)	
Goodyear Tire & Rubber Co.	10,000		10,000	5,000	3,333	1,667	
Intrinsic Bioprobes, Inc.	3,000	3,000					
Upstream Solutions	183		183	61	61	61	
Total Chemistry & Biology	16,664	3,000	13,664	7,888	4,554	1,222	
<u>Engineering</u>							
Intel Corporation	65,000	61,409	3,591	1,796	1,197	598	
Crawdadt Technologies, LLC.	500	500					
Magfusion, Inc.	150,000		150,000	50,000	50,000	50,000	
Total Engineering	215,500	61,909	153,591	51,796	51,197	50,598	
<b>Copyrights</b>							
<u>Technonlogy Based Learning</u>							
Cisco Systems, Inc.	100,000	1,243	98,757	32,919	32,919	32,919	
State of Hawaii	25,000		25,000	18,333	3,333	3,334	
T.H.E. Journal	6,000		6,000	3,667	2,000	333	
Human Kinetics	2,701		2,701	1,351	900	450	
Software House, International	4,500		4,500	2,250	1,500	750	
Total Technology Based Learning	138,201	1,243	136,958	58,520	40,652	37,786	
<b>Know How</b>							
<u>Information Technonogy</u>							
Egan Visual International	17,297		17,297		17,297		
<b>Total</b>	<b>\$ 1,092,775</b>	<b>\$ 91,216</b>	<b>\$ 1,001,559</b>	<b>\$ 345,359</b>	<b>\$ 340,383</b>	<b>\$ 107,442</b>	<b>\$ 208,375</b>

Total legal fees recovered, net royalties available to the Office and the CRI Technology Transfer Account

\$ 407,033

Less:

Allocation to the Competitive Grant Program (Note 6)

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Operating expenses:

Personal services	\$ 186,046
Employee-related expenses	43,390
Office operating expenses	157,896
Outside service expenses	461,647
Outside legal expenses	1,114,609
Travel	4,640
Administrative Service Fee	175,603
Total operating expenses	2,143,831

Net operating loss

\$ (1,736,798)

See accompanying notes to schedule.

Arizona State University  
Notes to Schedule of Intellectual Property Royalties  
Year Ended June 30, 2003

### Note 1 - Gross Royalties Received

Arizona Revised Statute §15-1647 requires the University to distribute income derived from its intellectual properties. It also requires the University to issue an audited report annually detailing its intellectual property royalties, related expenses, and distributions.

### Note 2 - Legal Fees Recovered

The Office of Technology Collaborations and Licensing (Office) typically incurs legal/patent fees associated with both (1) licensed patents currently generating royalties and (2) unlicensed patents and pending patents that are not generating any royalties. Legal fees are typically incurred on potentially patentable discoveries many years before a patent is actually licensed and royalties are received. Further, not all legal fees are recoverable (i.e., some patent cases generate insufficient or in some cases no royalty revenue to cover all of the legal costs associated with the case).

Any legal fees incurred by the University for subsequently licensed patents are recovered (i.e., deducted) from the gross royalties received for those patents, leaving a net royalty amount available for distribution. During the year ended June 30, 2003, the University received 46 royalty payments involving 19 licensees. For the same period, the University also incurred legal/patent fees for approximately 246 of its presently unlicensed cases.

### Note 3 - Net Royalty Distributions

For the year ended June 30, 2003, each of the eligible recipients (principal inventors, principal inventors' laboratories, and either the Office or the CRI Technology Transfer Account) received a share of the net royalties available for distribution. The actual royalty distributions occurred during the fiscal year, or soon after for royalties received near fiscal year end. In most cases, the distribution was an equal share (i.e., one-third), except for:

- Cases involving the first \$10,000 of royalty revenue where 50 percent of the first \$10,000 of royalty revenues, after recovery of legal fees, is distributed to the inventor, one-third of the net royalty revenue is distributed to the inventor's laboratory, and the remainder is distributed to the Office or the CRI Technology Transfer Account, or
- Cases where a separate agreement has been entered into between the University and the inventor.

Arizona State University  
Notes to Schedule of Intellectual Property Royalties  
Year Ended June 30, 2003

Note 4 - Correction of Distribution to Principle Inventors

For the license with Advanced Concrete (Soil-Tech, Inc.), the Office distributed one-third of the net royalty revenue to the inventor in prior years when it should have distributed 50 percent of the first \$10,000 of net royalty revenue. The remainder of the 50 percent due to the inventor was disbursed in the current fiscal year, resulting in negative net royalties available to the Office of \$506.

Note 5 - Negative Amounts in Legal Fees Recovered Column

For two patents licensed with GPC Biotech, Inc. and Teikoku Hormone Mfg. CO., LTD, the negative amounts, totaling \$4,669, reported in the "Less Legal Fees Recovered" column represent adjustments to legal fees that the Office recovered in errors of the prior fiscal year.

Note 6 - Bio-Medical/Bio-Technical Competitive Grant Program

The Office's net share of licensing revenue resulting from the Cancer Research Institute's (CRI) inventions is set aside to support a competitive grant program to further research in the bio-medical/bio-technical field. University faculty will be invited to submit proposals to be reviewed by a committee appointed by the Vice President for Research and Economic Affairs or his designee. The committee will solicit and review proposals once per year. The committee is not required to make an award if it determines the proposals received do not satisfy the purpose of the program. The committee will determine the amount of funding to award to any successful proposal and may divide the available funds among multiple proposals. For the year ended June 30, 2003, no funding was available for the competitive grant program, as calculated on the Schedule of Funds Available, as follows:

Arizona State University  
Notes to Schedule of Intellectual Property Royalties  
Year Ended June 30, 2003

Bio-Medical/Bio-Technical Competitive Grant Program  
Schedule of Funds Available  
Fiscal Year 2003

Cancer Research Institute (CRI) gross royalty revenue		\$ 650,000
Less:		
CRI Legal fees recovered during fiscal year 2003		<u>(24,874)</u>
Net CRI royalties available for distribution		625,126
Distribution:		
CRI principal inventors' share (royalty payments)	\$(208,376)	
CRI laboratory share	<u>(208,375)</u>	
Total distributions		<u>(416,751)</u>
Net undistributed CRI royalty revenue		208,375
Adjustments:		
Unrecovered fiscal year 2003 CRI legal fees <sup>1</sup>	(305,388)	
Prior year legal fees recovered during fiscal year 2003	4,676	
Office operating expenses allocable to CRI <sup>2</sup>	<u>(213,091)</u>	
Total adjustments		<u>(513,803)</u>
Competitive Grant Program funds available		<u><u>\$(305,428)</u></u>

<sup>1</sup> Actual fiscal year 2003 CRI legal fees incurred were \$325,586, of which \$20,198 were recovered in fiscal year 2003.

<sup>2</sup> Consists of:

- a. CRI share of the general office operating expenses totaling \$170,956, calculated by multiplying the Office fiscal year 2003 net operating expenses of \$917,641 (total Office expenses of \$2,143,831 less (i) \$1,114,609 of outside legal fees, (ii) \$42,135 of CRI specific operating expenses, and (iii) \$69,446 of administrative service charges directly related to non-CRI licenses) by CRI's percentage share of the expenses. For fiscal year 2003, CRI had 76 active cases of the 408 total cases managed by the Office, or 18.63%, and
- b. CRI specific operating expenses totaling \$42,135; CRI specific general office expenses totaling \$602,909 less (i) \$325,586 of outside legal fees and (ii) \$235,188 of royalty fees.



Arizona State University  
Notes to Schedule of Intellectual Property Royalties  
Year Ended June 30, 2003

Note 7 - Management Services and Affiliation Agreement with Arizona Science and Technology Enterprises, LLC

Effective November 1, 2003, the University entered into a management services and affiliation agreement with Arizona Science and Technology Enterprises, LLC, a wholly owned subsidiary of the Arizona State University Foundation, to provide the technology transfer services for all ASU technology previously furnished by the University's Office of Technology Collaborations and Licensing. Simultaneously, the Office of Technology Collaborations and Licensing was discontinued.