



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Financial Audit Division

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Financial Audit

## Arizona State University

Schedule of Intellectual Property Royalties  
Year Ended June 30, 2002

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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, 2002

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

**DEBRA K. DAVENPORT, CPA**  
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, 2002. 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, 2002, in conformity with U.S. generally accepted accounting principles.

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

January 17, 2003

**Arizona State University**  
**Schedule of Intellectual Property Royalties**  
**Year Ended June 30, 2002**

	Gross Royalties Received	Less Legal Fees Recovered	Net Royalties Available for Distribution	Distributions to		Net Royalties Available to	
				Principal Inventors	Principal Inventors' Laboratory	Office of Technology Collaborations and Licensing (OTCL)	CRI Technology Transfer Account (Note 4)
<b>Patents</b>							
<u>Cancer Research Institute (CRI)</u>							
Abbott Labs	\$ 50,000	\$ 23,330	\$ 26,670	\$ 8,890	\$ 8,890		\$ 8,890
GPC Biotech	600,000	195,705	404,295	134,765	134,765		134,765
Oxigene	420,000	222,652	197,348	65,831	65,783		65,734
Seattle Genetics	86,094	35,708	50,386	16,795	16,795		16,796
Teikoku	400,000	18,093	381,907	127,302	127,302		127,303
Total Cancer Research Institute	<u>1,556,094</u>	<u>495,488</u>	<u>1,060,606</u>	<u>353,583</u>	<u>353,535</u>		<u>353,488</u>
<b>Physics</b>							
Molecular Imaging	46,647	2,420	44,227	14,742	14,742	\$ 14,743	
UC Berkeley	2,778		2,778	1,852	463	463	
Total Physics	<u>49,425</u>	<u>2,420</u>	<u>47,005</u>	<u>16,594</u>	<u>15,205</u>	<u>15,206</u>	
<b>Chemistry &amp; Biology</b>							
Advanced Concrete	3,379	1,358	2,021	674	674	673	
Goodyear	10,000	824	9,176	3,059	3,059	3,058	
Intrinsic Bioprobes	4,000	4,000					
RCT	58	58					
Upstream Solutions	5,517		5,517	3,756	881	880	
Total Chemistry & Biology	<u>22,954</u>	<u>6,240</u>	<u>16,714</u>	<u>7,489</u>	<u>4,614</u>	<u>4,611</u>	
<b>Engineering</b>							
Intel	65,000	59,516	5,484	2,742	1,828	914	
<b>Copyrights</b>							
<u>Technology Based Learning</u>							
ASCD	2,838		2,838	946	946	946	
State of Hawaii	25,000		25,000	18,333	3,333	3,334	
University of Hawaii	25,000		25,000	18,333	3,333	3,334	
T.H.E. Journal	3,107		3,107	1,036	1,036	1,035	
Total Technology Based Learning	<u>55,945</u>		<u>55,945</u>	<u>38,648</u>	<u>8,648</u>	<u>8,649</u>	
<b>Physics</b>							
Custom Vacuum	1,250		1,250	417	417	416	
<b>Psychology</b>							
Dream Street Films	1,000		1,000	333	333	334	
<b>Know How</b>							
<u>Information Technology</u>							
Egan Visual	18,674		18,674		18,674		
<b>Total</b>	<b>\$ 1,770,342</b>	<b>\$ 563,664</b>	<b>\$ 1,206,678</b>	<b>\$ 419,806</b>	<b>\$ 403,254</b>	<b>\$ 30,130</b>	<b>\$ 353,488</b>

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

**\$ 947,282**

Less:

Allocation to the Competitive Grant Program (Note 4)

18,881

Operating expenses:

Personal services

\$ 294,019

Employee-related expenses

66,296

Outside legal expenses

1,125,983

Office operating expenses

176,985

Travel

5,370

Total operating expenses

1,668,653

Net operating loss

\$ (740,252)

See accompanying notes to schedule.

Arizona State University  
Notes to Schedule of Intellectual Property Royalties  
Year Ended June 30, 2002

### 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 no royalty revenue to cover all 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, 2002, the University received 42 royalty payments involving 20 licensees. For the same period, the University also incurred legal/patent fees for approximately 133 of its presently unlicensed cases.

### Note 3 - Net Royalty Distributions

For the year ended June 30, 2002, 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, 2002

Note 4 - 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, 2002, \$18,881 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, 2002

Bio-Medical/Bio-Technical Competitive Grant Program  
Schedule of Funds Available  
Fiscal Year 2002

Cancer Research Institute (CRI) gross royalty revenue		\$1,556,094
Less:		
CRI Legal fees recovered during fiscal year 2002		<u>(495,488)</u>
Net CRI royalties available for distribution		1,060,606
Distributions:		
CRI principal inventors' share (royalty payments)	\$(353,583)	
CRI laboratory share	<u>(353,535)</u>	
Total distributions		<u>(707,118)</u>
Net undistributed CRI royalty revenue		353,488
Adjustments:		
Fiscal year 2001 Competitive Grant Program deficit	(31,549)	
Unrecovered fiscal year 2002 CRI legal fees <sup>1</sup>	(235,974)	
Prior year legal fees recovered during fiscal year 2002	84,409	
Office operating expenses allocable to CRI <sup>2</sup>	<u>(151,494)</u>	
Total adjustments		<u>(334,607)</u>
Competitive Grant Program funds available		<u>\$ 18,881</u>

<sup>1</sup> Actual fiscal year 2002 CRI legal fees incurred were \$521,260, of which \$285,286 were recovered in fiscal year 2002.

<sup>2</sup> Consists of:

- a. CRI share of the general office operating expenses totaling \$97,705, calculated by multiplying the Office fiscal year 2002 net operating expenses of \$446,142 (total Office expenses of \$1,668,653 less (i) \$1,125,983 of outside legal fees, (ii) \$53,789 of CRI specific operating expenses, and (iii) \$42,739 of administrative service charges directly related to non-CRI licenses) by CRI's percentage share of the expenses. For fiscal year 2002, CRI had 69 active cases of the 315 cases managed by the Office, or 21.90%, and
- (b) CRI specific operating expenses totaling \$53,789; CRI specific general office expenses totaling \$905,781 less (i) \$521,259 of outside legal fees and (ii) \$330,733 of royalty fees.