



**REPORT HIGHLIGHTS**  
FINANCIAL STATEMENT AUDIT

**Royalty Revenues Diminish**

**Subject**

Arizona State University acquires intellectual properties from its research activities. Intellectual property is a broad term that encompasses the various intangible products of inventors. These include patents, copyrights, know-how, trade secrets, and other proprietary concepts. Certain intellectual properties generate royalties and other income for the University. Annually, the University issues a Schedule of Intellectual Property Royalties, which describes such income and how the University distributes net income, after legal cost recoveries as required by A.R.S. §15-1647. The University is responsible for preparing the schedule and we, as the auditors, are required to determine whether the schedule presents fairly.

**Our Conclusion**

The information in the University's schedule is fairly stated in all material respects and the schedule can be relied on.



**2003**

Year Ended June 30, 2003

The Office of Technology Collaborations and Licensing works with inventors (university faculty, staff, and graduate students) and the private sector in marketing inventions, negotiating licenses, and prosecuting patents. The University has many research licensing agreements that currently generate royalty revenue.

Although a few departments had increases in royalty revenue during the fiscal year, overall, the University received approximately \$677,500 less than in the prior fiscal year. This was primarily due to a decrease in royalties received from cancer research inventions. These related licenses are from older inventions that have not had significant marketability recently for the licensee. To increase productivity and therefore, increase revenues, a new technology venturing enterprise was developed, as described on the following page, to replace the Office of Technology Collaborations and Licensing.

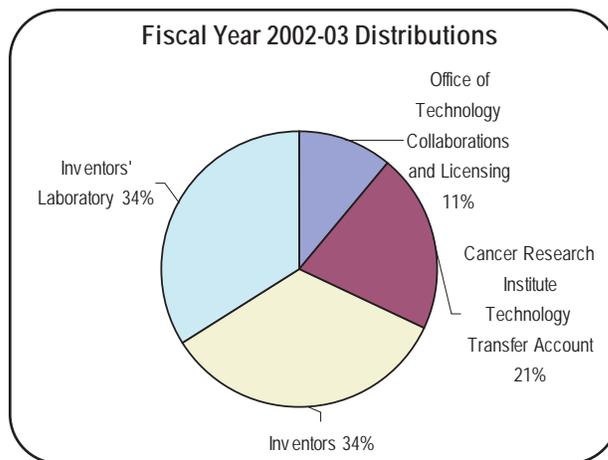
**Licenses and Royalty Revenues, by Department**  
Fiscal years 2003 and 2002

Department	Fiscal Year 2003		Fiscal Year 2002	
	Licenses	Royalties	Licenses	Royalties
Cancer Research Institute	4	\$ 650,000	5	\$1,556,094
Physics	2	55,113	3	49,425
Chemistry and Biology	4	16,664	5	22,954
Engineering	3	215,500	1	65,000
Technology Based Learning	5	138,201	4	55,945
Other	1	17,297	2	20,924
Totals	<u>19</u>	<u>\$1,092,775</u>	<u>20</u>	<u>\$1,770,342</u>

## University Distributes Net Royalty Revenue

Arizona Revised Statute §15-1647 requires the University to distribute royalty income. The University distributes net royalty revenue derived from the licensing of patents and copyrights, as outlined by Arizona Board of Regents (ABOR) policy and University policy. As illustrated in the chart below, inventors, the inventors' laboratory (a university department), and the Cancer Research Institute Technology Transfer Account receive the majority of distributions.

The Office of Technology Collaborations and Licensing receives a smaller portion of net royalties for administration costs. The University has established the Technology Transfer Account to record the distribution of net royalties received from Cancer Research inventions which helps support a competitive grant program, if there are available funds after allocable distributions and expenses.



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## New Venture Created

In April 2003, the Arizona State University (ASU) Foundation established Arizona Science and Technology Enterprises (AzTE) to be able to have more flexibility for stimulating and bringing about new technology for the University. AzTE's role is to take the University's technology from the research lab to the marketplace faster. On May 29, 2003, AzTE was officially organized as an Arizona limited liability company, with the ASU Foundation as its sole member.

AzTE plans to concentrate on building more partnerships with industry rather than strictly licensing patents. On November 1, 2003, ABOR, on behalf of the University, entered into a Technology Transfer management services and affiliation agreement with AzTE to provide technology transfer and intellectual property management services for the University. Simultaneously, the University's Office of Technology Collaborations and Licensing was discontinued.

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