



ARIZONA STATE UNIVERSITY

October 3, 2007

Fred Boice, President  
Arizona Board of Regents  
2020 N. Central Ave, Suite 230  
Phoenix, AZ 85004-4593

Dear Fred:

Enclosed is the Arizona State University annual Intellectual Property Royalties audited report for the year ended June 30, 2007.

The enclosed report is on the combined financial activity for intellectual property royalties as incurred by Arizona State University, a State of Arizona public university, and Arizona Science and Technology Enterprises, LLC (AzTE), a limited liability company whose sole member is the Arizona State University Foundation, a non-profit corporation. The annual audit was performed by the accounting firm for the ASU Foundation, Mayer, Hoffman, McCann.

The purpose of AzTE is to bring together ASU inventors and industry to transform scientific discoveries into marketable products and services for the benefit of the university, its faculty, and society as a whole. Technology transfer facilitates ASU's efforts to attract and retain superior faculty and recruit the best graduate students, while returning income to the inventor and the university, to support ongoing research.

The audit report shows \$4.0 million of gross royalties received for the year that ended June 30, 2007. With the opening of new research facilities over the next several years, significant increases in royalties are anticipated over the long run, along with corresponding increases in funds available to invest in ongoing research.

I have attached to Joel Sideman's copy of this letter additional audit reports for distribution to the entire Board of Regents. If anyone has any questions on this audit report, please let me know.

As required by State Statute 15-1647, we are also distributing under separate transmittal, a copy of this report to the Governor, the President of the Senate, the Speaker of the House of Representatives, the Secretary of State, and the Department of Library, Archives and Public Records.

Sincerely,

R. F. "Rick" Shangraw, Jr., Ph.D.  
Vice President for Research and Economic Affairs  
Arizona State University

- c: Joel Sideman, Executive Director, ABOR  
Michael Crow, President, ASU  
Carol Campbell, Executive Vice President & CFO  
Sandra Woodley, CFO, ABOR  
Paul Ward, Vice President for University Administration and General Counsel  
Stephen Goodnick, Associate Vice President for Research  
Gerald Snyder, Associate Vice President for Finance and Treasurer  
David DeStefano, Director, Internal Audit and Management Services

OFFICE OF THE VICE PRESIDENT FOR RESEARCH AND ECONOMIC AFFAIRS  
Office of Economic Affairs

Enclosure

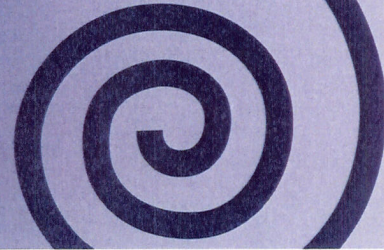
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**ARIZONA STATE UNIVERSITY  
AND  
ARIZONA SCIENCE AND TECHNOLOGY ENTERPRISES, LLC**

**REPORT ON AUDIT OF COMBINED SCHEDULE OF  
INTELLECTUAL PROPERTY ROYALTIES**

Year Ended June 30, 2007

Report is on the combined activity as incurred by  
Arizona State University, a State of Arizona public university  
and  
Arizona Science and Technology Enterprises, LLC, a limited  
liability company whose sole member is the Arizona State  
University Foundation, a non-profit Arizona corporation



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An Independent CPA Firm

**ARIZONA STATE UNIVERSITY  
AND  
ARIZONA SCIENCE AND TECHNOLOGY ENTERPRISES, LLC**

**REPORT ON AUDIT OF COMBINED SCHEDULE OF  
INTELLECTUAL PROPERTY ROYALTIES**

Year Ended June 30, 2007

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## INDEPENDENT AUDITORS' REPORT

To

**DR. MICHAEL M. CROW, PRESIDENT, ARIZONA STATE UNIVERSITY**

and the Board of Directors of

**ARIZONA STATE UNIVERSITY FOUNDATION**

and

**ARIZONA SCIENCE AND TECHNOLOGY ENTERPRISES, LLC**

and Members of

**THE ARIZONA STATE LEGISLATURE**

**THE ARIZONA BOARD OF REGENTS**

We have audited the accompanying combined schedule of intellectual property royalties of *Arizona State University* and *Arizona Science and Technology Enterprises, LLC*, whose sole member is the *Arizona State University Foundation* for the year ended June 30, 2007. This combined schedule is the responsibility of the management of *Arizona Science and Technology Enterprises, LLC*. 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 of intellectual property royalties 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 combined schedule of intellectual property royalties referred to above presents fairly, in all material respects, the gross royalties received by *Arizona Science and Technology Enterprises, LLC*, the legal fees recovered by *Arizona State University* and *Arizona Science and Technology Enterprises, LLC*, management fees collected by *Arizona Science and Technology Enterprises, LLC*, net royalties available for distribution, distributions from *Arizona State University* to principal inventors and principal inventors' laboratories, and net royalties available to *Arizona State University's* Office of Research and Economic Affairs, the Center for Cancer Research Technology Transfer Account, and other third parties for the year ended June 30, 2007 in conformity with various executed royalty contracts (a comprehensive basis of accounting other than 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*, *Arizona State University*, and the management of *Arizona Science and Technology Enterprises, LLC*, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in dark ink, reading "Mayer Hoffman McCann P.C.", is written in a cursive style across the bottom right of the page.

Phoenix, Arizona  
August 30, 2007

**ARIZONA STATE UNIVERSITY  
and ARIZONA SCIENCE AND TECHNOLOGY ENTERPRISES, LLC  
COMBINED SCHEDULE OF INTELLECTUAL PROPERTY ROYALTIES**  
Year Ended June 30, 2007

	Gross Royalties Received	Less: ASU Legal Fees Recovered	Less: Arizona Science and Technology Enterprises, LLC 15% Mgmt Fee	Plus: Mgmt Fee Reimbursed by ASU	Net Royalties Available for Distribution by ASU	Principal Inventors	Principal Inventors' Laboratories	Net Royalties Allocated to				
								Arizona State University Office of Research and Economic Affairs	Center for Cancer Research Technology Transfer Account	Other Third Parties		
<b>Patents</b>												
Center for Cancer Research												
Abbott Laboratories	\$ 50,000	\$ 1,699	\$ 7,500	\$ 7,500	\$ 48,301	\$ 16,101	\$ 16,100	\$ -	\$ -	\$ 16,100	\$ -	\$ -
Oxigene, Europe AB	200,000	6,796	30,000	30,000	193,204	57,734	57,735	-	-	57,735	-	20,000
Seattle Genetics, Inc.	70,000	14,836	10,500	10,500	55,164	18,388	18,388	-	-	18,388	-	-
Total Center for Cancer Research	320,000	23,331	48,000	48,000	296,669	92,223	92,223	-	-	92,223	-	20,000
<b>Physics</b>												
Agilent Technologies	88,686	-	13,303	-	75,383	25,128	25,128	25,127	25,127	-	-	-
Merck Research Laboratories	4,000	-	600	-	3,400	1,598	1,595	543	543	-	-	204
Boehringer Ingelheim Pharma	6,021	-	903	-	5,118	2,405	1,588	818	818	-	-	307
UC Berkeley	769	-	115	-	654	327	216	111	111	-	-	-
Total Physics	99,476	-	14,921	-	84,555	29,458	27,987	26,599	26,599	-	-	511
<b>Chemistry &amp; Biology</b>												
Soil-Tech, Inc.	25,066	-	3,760	-	21,306	7,102	7,102	7,102	7,102	-	-	-
Goodyear Tire & Rubber Co.	10,000	-	1,500	-	8,500	2,833	2,834	2,833	2,833	-	-	-
Intrinsic Bioprobes, Inc.	10,000	8,500	1,500	-	-	-	-	-	-	-	-	-
Mark Germain	50,000	26,547	7,500	-	15,953	6,867	3,862	2,250	2,250	-	-	2,954
XL Tech Group	500,000	29,871	75,000	-	395,129	131,710	131,709	131,709	131,709	-	-	-
PetroAlgae, LLC	983,333	186,456	147,500	-	649,377	235,348	235,348	178,681	178,681	-	-	-
Helicos Biosciences Corporation	116,667	-	17,500	-	99,167	34,130	16,630	16,631	16,631	-	-	31,776
Pacific Brands	29,998	14,431	4,500	-	11,067	4,117	3,680	3,270	3,270	-	-	-
Total Chemistry and Biology	1,725,064	265,805	258,760	-	1,207,504	422,107	401,196	342,476	342,476	-	-	34,730
<b>Engineering</b>												
Axon Technologies Corporation	97,500	34,465	14,625	-	48,410	16,137	16,137	16,136	16,136	-	-	-
Crowd Technologies, LLC	15,758	13,394	2,364	-	-	-	-	-	-	-	-	-
Ganotec, Inc.	50,000	-	7,500	-	42,500	14,167	14,167	14,166	14,166	-	-	-
Schneider Electric Industries	875,000	36,460	131,250	-	707,290	194,096	194,097	194,097	194,097	-	-	125,000
Telepath Networks	25,000	-	3,750	-	21,250	7,084	7,083	7,083	7,083	-	-	-
Vision Quest	20,000	7,238	3,000	-	9,762	4,881	3,221	1,660	1,660	-	-	-
W.L. Gore Associates	466,246	3,671	69,937	-	392,638	132,546	130,879	129,213	129,213	-	-	-
consuNet International, Inc	1,250	-	188	-	1,062	708	708	354	354	-	-	-
Intellectual Ventures	120,000	87,030	18,000	-	14,910	6,719	4,935	3,256	3,256	-	-	-
Total Engineering	1,670,754	182,318	250,614	-	1,237,822	375,630	371,227	365,965	365,965	-	-	125,000
<b>Copyrights</b>												
Technology Based Learning												
ETR Associates	13,353	-	2,003	-	11,350	5,675	3,770	1,905	1,905	-	-	-
Energy Services	25,000	-	3,750	-	21,250	15,583	2,833	2,834	2,834	-	-	-
Heijmans, NV	25,000	-	3,750	-	21,250	15,583	2,833	2,833	2,833	-	-	-
Schering Plough	25,000	-	3,750	-	21,250	15,584	2,833	2,833	2,833	-	-	-
Human Kinetics	1,268	-	190	-	1,078	539	356	163	163	-	-	-
Aries Technology	25,000	892	3,750	-	20,358	6,786	6,786	6,786	6,786	-	-	-
Total Technology Based Learning	114,621	892	17,193	-	96,536	59,750	19,412	17,374	17,374	-	-	-
<b>Innovation Space</b>												
Herman Miller, Inc	30,000	-	4,500	-	25,500	-	25,500	-	-	-	-	-
Arizona Business Accelerator, Inc.	30,000	-	4,500	-	25,500	-	25,500	-	-	-	-	-
Total Innovation Space	60,000	-	9,000	-	51,000	-	51,000	-	-	-	-	-
<b>Computer Science &amp; Engineering</b>												
Stratosphere Solutions, Inc	10,000	100	1,500	-	8,400	4,200	2,800	1,400	1,400	-	-	-
<b>Information Technology</b>												
Egan Visual International	12,126	-	1,819	-	10,307	-	10,307	-	-	-	-	-
<b>Total</b>	\$ 4,012,041	\$ 472,446	\$ 601,807	\$ 48,000	\$ 2,985,788	\$ 983,368	\$ 976,142	\$ 753,814	\$ 753,814	\$ 92,223	\$ -	\$ 180,241

See Notes to Combined Schedule of Intellectual Property Royalties

**ARIZONA STATE UNIVERSITY**  
**and**  
**ARIZONA SCIENCE AND TECHNOLOGY ENTERPRISES, LLC**  
**NOTES TO COMBINED SCHEDULE OF INTELLECTUAL PROPERTY ROYALTIES**

Year Ended June 30, 2007

**(1) Organization**

*Arizona State University* (the "University") was founded in 1885 as a territorial normal school, 27 years before Arizona became a state. It became Arizona State College in 1945 and then Arizona State University in 1958 as a result of public vote. The University is a state university under the jurisdiction of the Arizona Board of Regents, which is a constitutionally created political subdivision of the state of Arizona. The University is a tax-exempt organization under Section 115 of the Internal Revenue Code (State Governmental Entities).

*Arizona State University Foundation* (the "Foundation") was incorporated in 1955 by community volunteers, and is an Arizona non-profit corporation and a 501(c)(3) tax exempt organization. The Foundation is committed to supporting and assisting the University in achieving its educational goals through raising, investing and managing private gifts, initiating entrepreneurial activities, and serving as advisor to the University President. The Foundation's handling of its funds is generally subject to donor-imposed temporary and permanent restrictions.

On May 29, 2003, the Foundation formed *Arizona Science and Technology Enterprises, LLC* (AzTE), a limited liability company with the Foundation as the sole member. AzTE was formed to provide technology transfer, intellectual property management and other services.

The combined schedule of intellectual property royalties consists of the activities of AzTE. The substantial portion of intellectual property management functions was transferred to AzTE in November 2003 from the University. The combined schedule of intellectual property royalties is not reported in accordance with U.S. generally accepted accounting principles which is an accrual basis of accounting, but is reported on a modified cash basis of accounting in accordance with the various executed royalty contracts. The purpose of the combined schedule of intellectual property royalties is to provide a full year of reporting on the intellectual property royalties.

**(2) Gross royalties received**

Arizona Revised Statute §15-1647 (the "Statute") 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 received, related expenses, and distributions. Since November 2003, the University has contracted the management of its intellectual properties to AzTE. Under the contract, AzTE shares the responsibilities with the University in complying with the Statute.

**(3) Legal fees recovered**

AzTE and the University typically incur legal/patent fees associated with both (1) licensed patents currently generating royalties and (2) unlicensed patents and pending patents that are not generating 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 as many patent cases generate insufficient or, in some situations, no royalty revenue to cover the legal costs associated with the case. Legal fees for cases where licensees are not contractually obligated to reimburse fees are deducted from gross royalties prior to distribution.

During the year ended June 30, 2007, AzTE and the University received 65 royalty payments involving 34 licensees. For the same period, AzTE and the University also incurred legal/patent fees for approximately 433 of its presently unlicensed cases.

**ARIZONA STATE UNIVERSITY  
and  
ARIZONA SCIENCE AND TECHNOLOGY ENTERPRISES, LLC**

**NOTES TO COMBINED SCHEDULE OF INTELLECTUAL PROPERTY ROYALTIES**

Year Ended June 30, 2007

**(4) Management fee**

Effective November 1, 2003, the University entered into a management services and affiliation agreement with AzTE to provide technology transfer services for the University. Pursuant to the management agreement between AzTE and the University, AzTE collects a 15% management fee on royalties received by AzTE or the University starting November 1, 2003. This amount is collected from the royalty payment prior to the distribution of the funds to the University. The University is then responsible for the proper disbursement of the royalties received net of the legal fees recovered and the management fee. For Center for Cancer Research (CCR) related royalties, the University reimburses the AzTE management fee from its own funds to CCR, and disburses the royalties net of only the legal fees recovered. For fiscal year ended June 30, 2007, the management fee reimbursed to CCR was \$48,000.

**(5) Net royalties available for distribution**

Each of the eligible recipients (principal inventors, principal inventors' laboratories, and either the Office of Research and Economic Affairs of the University, the CCR Technology Transfer Account or other third parties) receive a share of the net royalties available for distribution. Royalty funds are typically distributed in equal shares. Distributions in other than equal share amounts may occur in the following situations:

- Situations involving the first \$10,000 of net royalty revenue where 50 percent of the first \$10,000 of net royalty revenue, 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 net royalty revenue is distributed to the University or the CCR Technology Transfer Account. (For example see Intellectual Ventures agreement, page 2) or
- Situations where a separate agreement has been entered into between AzTE, the University and the inventor. (For example, see Helicos Bioscience Corporation agreement, page 2) or
- Situations where an Inter-Institutional or separate agreement exists between AzTE and a third party. (For example, see Mark Germain, page 2).

**(6) Undistributed net royalty payments**

At June 30, 2007, there was \$64,227 of undistributed royalties available to the inventors, the inventors' labs, and the University. The majority of these undistributed royalties are a result of the receipt of royalty payments near year-end for which AzTE and the University had not processed the distributions. Of the \$64,227 of undistributed royalties, \$21,727 has been distributed by the date of this report. The remaining amounts of undistributed royalties were not distributed due to administrative and contractual delays. It is management's intent to distribute the remaining \$42,500 of undistributed royalty funds to the proper parties during the fiscal year ending June 30, 2008. Of the \$80,295 of undistributed royalties at June 30, 2006, all were paid off during fiscal year ended June 30, 2007.

**ARIZONA STATE UNIVERSITY**  
**and**  
**ARIZONA SCIENCE AND TECHNOLOGY ENTERPRISES, LLC**  
**NOTES TO COMBINED SCHEDULE OF INTELLECTUAL PROPERTY ROYALTIES**

Year Ended June 30, 2007

**(7) Bio-Medical/Bio-Technical competitive grant program**

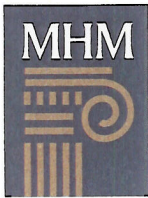
The University's net share of licensing revenue resulting from the CCR inventions is set aside to support a competitive grant program to further research in the bio-medical/bio-technical field. University faculty will be invited to submit proposals to be reviewed by a committee appointed by the Vice President of the Office of 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 funds are not available or 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, 2007, no funding was available for the competitive grant program, as calculated on the Schedule of Funds Available, as follows:

Bio-Medical/Bio-Technical Competitive Grant Program Schedule of Funds Available  
Year Ended June 30, 2007

CCR gross royalty revenue		\$ 320,000
Less: CCR current fiscal year legal fees recovered during the year ended June 30, 2007		<u>(23,331)</u>
Net CCR royalties available for distribution:		296,669
Distributions:		
CCR principal inventors' share (royalty payments)	(92,223)	
CCR laboratory share	<u>(92,223)</u>	
Distributed CCR royalty revenue:		(184,446)
Adjustments:		
Fiscal year 2006 Competitive Grant Program deficit	(993,963)	
Unrecovered fiscal year 2007 CCR legal fees	(178,018)	
Prior year legal fees recovered during the year ended June 30, 2007	613	
Office operating expenses allocated to CCR	<u>(200,544)</u>	
Total adjustments		<u>(1,371,912)</u>
Net Competitive Grant Program funds available or (carryforward deficit):		<u>\$ (1,259,689)</u>
		(No awards made if above net is zero or less)

Actual fiscal year 2007 CCR legal fees incurred were \$200,735, of which \$22,718 were recovered in fiscal year 2007. Office operating expenses allocated to CCR consist of specific costs directly attributable to CCR and CCR's share of general operating expenses (based on CCR's active contracts compared to the total contracts managed by AzTE).





**Mayer Hoffman McCann P.C.**

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## INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

Our report on our audit of the combined schedule of intellectual property royalties of *Arizona State University* and *Arizona Science and Technology Enterprises, LLC* appears on page 1. The audit was made for the purpose of forming an opinion on the combined schedule of intellectual property royalties taken as a whole. The *Arizona State University* schedule of net operating profit (loss) from technology transfer activity that follows on page 7 is presented for purposes of additional analysis only and is not a required part of the combined schedule of intellectual property royalties. Such information has not been subjected to the auditing procedures applied in the audit of the combined schedule of intellectual property royalties and, accordingly, we express no opinion on this schedule.

*Mayer Hoffman McCann P.C.*

Phoenix, Arizona  
August 30, 2007

# ARIZONA STATE UNIVERSITY

## ADDITIONAL INFORMATION

Year Ended June 30, 2007

### SCHEDULE OF NET OPERATING PROFIT (LOSS) FROM TECHNOLOGY TRANSFER ACTIVITY

Total legal fees recovered in fiscal year 2007		\$ 472,446
Net royalties available to CCR Technology Transfer Account		92,223
Net royalties available to Research and Economic Affairs		<u>753,814</u>
Total net royalties and legal fees available		1,318,483
Less:		
Allocation to the Competitive Grant Program		-
Operating expenses:		
Outside service expenses	1,896,388	
Outside legal expenses	1,552,087	
AzTE management fee reimbursement for CCR technology transfer	<u>48,000</u>	
Total operating expenses		<u>3,496,475</u>
Net operating loss from Technology Transfer Activity		<u>\$ (2,177,992)</u>
Additional benefit to Arizona State University from Technology Transfer Activity		
Net royalties available to principal inventor laboratories		<u>\$ 976,142</u>

This schedule represents the overall revenue and expense related to the ASU central technology transfer account for the year ended June 30, 2007.