Why Stanford Is Celebrating The Google IPO

By Ann Grimes

STANFORD UNIVERSITY won three ways by betting on **Google** Inc.

Not only did the California school have the smarts to admit the company's co-founders, Larry Page and Sergey Brin, into its computer-science doctoral program, turning the pair into a magnet to draw the best and the brightest, but the university put its money behind their venture.

After last week's initial public offering, Stanford is left with 7,574 shares of Class A Google stock and 1,650,289 shares of Class B stock, according to Securities and Exchange Commission filings. Those holdings are valued at $179.5 million. The university's trustees sold 184,207 shares, earning a quick $15.6 million.

The university owns key technology used by Google that was developed at Stanford. Google paid the university in stock and cash for an exclusive licensing partnership, plus annual royalties. That agreement expires in 2011.

Stanford also is poised to reap a windfall from its investments in the company placed through two of Silicon Valley's top venture-capital firms. Together, those holdings could bring the university a second windfall of more than $200 million, depending on how the stock performs, people familiar with the situation say.

Overall, the university earned royalties of $43.2 million from licensed technology in 2003, according to its Office of Technology Licensing annual report for fiscal year 2002-2003; only a fraction of it came from Google. According to the report, the licensing office takes 15% of royalty revenue to cover its expenses, then the remaining revenue is divided among the inventors, their university departments and their university schools. Of the Google equity stake, one-third goes to the inventors and the remaining two-thirds to a university research and fellowship fund, according to Katharine Ku, director of the Office of Technology Licensing and the Industrial Contracts Office.

Idea Labs
A few recent university innovations:

Taxol cancer drug, Univ. of Florida, 1998

Lycos search engine, Carnegie Mellon, 1999

Polywood synthetic lumber, Rutgers, 2000

PawPaw Lice Remover shampoo, Purdue, 2001

SpeechEasy anti-stuttering device, East Carolina Univ., 2002

Source: Association of University Technology Managers

Messrs. Brin and Page are hardly the only Stanford luminaries who will enjoy a Google profit. In March, Stanford President John Hennessy assumed a seat on Google's board that brought with it 65,000 shares. The shares are valued at $7.04 million based on Friday's closing price.

Other faculty also own stock or options, either through a personal investment in the company or because of their work as technical advisers. Last week, computer-science professor David R. Cheriton sold 340,436 of his 3,404,360 shares, earning $28,937,060.

To date, Stanford holds an equity stake in 80 companies, out of about 1,200 that got their start on campus, or by a Stanford alum, faculty or staff, according to the university. They include big names such as **Sun Microsystems** Inc., **Cisco Systems** Inc. and **Yahoo** Inc. Among U.S. universities, it stands fifth, after Columbia University, the University of California System, New York University and Florida State University, in technology-licensing and equity revenue, according to the Association for University Technology Managers.

It is that kind of success that is prompting more colleges and universities to launch technology-transfer offices hoping that their best minds will produce a hit like Google. Some already have made waves with unconventional products: A University of Florida spokesman says the school has earned $94.1 million over 30 years from licensing the formula and trademark for Gatorade, a drink invented by a kidney-disease specialist at its College of Medicine in 1965.

Before 1980, when a federal law was passed to permit universities to own and patent inventions developed under federal research programs, fewer

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Google IPO Is Stanford's Bonanza

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than 250 patents were issued to U.S. universities, according to the Association for University Technology Managers, which has seen its membership expand to 3,159 in 2003 from 470 in 1985. The pace for new patents grew 77% between 1991 and 1999.

Like many schools, the California Institute of Technology had a very academic view of itself. Then, in 1995, it started to encourage faculty to patent more technology for commercial gains. Since then, the school has launched 70 companies in which it has an equity stake, according to Scott R. Carter, assistant director of Caltech's Office of Technology Transfer. Last year, he says, Caltech claimed credit for 139 patents issued by the U.S. Patent Office, more than any other single campus.

Former Harvard University President Derek Bok cautioned against moving toward commercialization too fast in a book he published last year titled, "Universities in the Marketplace: The Commercialization of Higher Education." At Tufts University, Sheldon Krimsky also examined the growing trend in his book "Science in the Public Interest," also published last year. "Because of a few significant gains by a few universities...others feel inclined to jump on the tech-transfer bandwagon," Mr. Krimsky says, adding: "There are very few universities that can get a windfall profit from a patent or equity investment in a company."

Mr. Krimsky also points to conflicts of interest that can arise when professors co-found companies and are too busy to teach or mentor students, or keep discoveries secret rather than publishing them quickly. "When you allow the faculty to earn substantial amounts outside the university, it distorts the mission of the university. It becomes a place to leverage money rather than as a place to educate young people and produce basic knowledge," he says.

Indeed, outside of Silicon Valley, some are raising eyebrows at Mr. Hennessy's Google holdings. Charles M. Elson, a corporate-governance expert at the University of Delaware, wonders: "Can he remain independent? Is there any expectation that the [Google] founders will be contributors to Stanford? If substantial sums of money are expected from them or solicited from them, that raises independence questions."

Stanford spokesman Gordon W. Earle says in an e-mail, "John Hennessy serves on the Google board of directors in a personal capacity. He does not participate in any decisions concerning Stanford University and Google, and Google does not disclose to the university any information about Google."

Stanford itself sells its equity stakes as soon as it can in order to skirt conflicts. The university must wait for "lockup periods," traditionally 180 days. In Google's case lockup windows will open in 15, 90, 120, 150 and 180 days. Mr. Earle declines to say when Stanford will sell the shares, citing university policy.

Still, some worry about the increase in corporate-backed research on campus, especially given that Stanford is such an integral part of the Silicon Valley ecosystem. Stanford's Office of Technology Licensing says in its most recent annual report that the university's Industrial Contracts Office has worked with more than 150 companies, "a growing number of them overseas."

In Silicon Valley, many industry players view the Google IPO as a boost for entrepreneurship. "I think it will inspire more Stanford students to go start companies rather than go to McKinsey," the consulting firm, says David Ladd, a general partner at Mayfield, a venture-capital firm located near the university campus.

Tracking the Economy

August 23, 2004

INDICATOR	PERIOD COVERED	SCHEDULED RELEASE	PREVIOUS ACTUAL	CONSENSUS FORECAST
Existing Home Sales	July	Tuesday	6.95 million	**6.80 million**
Durable Orders	July	Wednesday	+0.9%	**+1.0%**
New Home Sales	July	Wednesday	1,335,000	**1,282,000**
Initial Jobless Claims	Week ended 8/21	Thursday	331,000	**332,000**
Gross Domestic Product	2Q 2004	Friday	+3.0%	**+2.8%**
Chain-Weighted Price Index	2Q 2004	Friday	+3.2%	**+3.2%**
Michigan Sentiment	August	Friday	96.7*	**94.4**

*End-July Level

Source: Dow Jones Newswires