

FCR 1

Office of the President
December 13, 2011

Members, Board of Trustees:

APPROVAL OF INVESTMENT IN COLDSTREAM LABORATORIES, INC.

Recommendation: that the Board of Trustees authorize the President to approve the transfer of up to \$4,000,000 to the University of Kentucky Research Foundation (UKRF) to be used for investment in Coldstream Laboratories, Inc. (“CLI”) to fund operations and capital improvements. In addition, it is recommended that the Board of Trustees authorize the President to transfer up to \$3,000,000 to UKRF to be used as a line of credit to CLI for working capital.

Background: The University, with state assistance, constructed a new facility at Coldstream Research Campus for a substantial expansion of the College of Pharmacy’s Center for Pharmaceutical Science and Technology (“CPST”). As previously reported to the Board, CLI was formed to expand and commercialize pharmaceutical manufacturing, research, and development in Coldstream facilities.

CLI continues to pursue its role in pharmaceutical manufacturing at Coldstream and assist economic development efforts in Kentucky by transferring appropriate technology and programs to the public sector. CLI also provides educational opportunities for the College of Pharmacy as well as unique opportunities for collaborative research projects.

CLI continues to build a client base but has not yet become self-sufficient. As described to the Board of Trustees at its December 2010 meeting, additional investments were required at that time to position CLI for aggressive growth. CLI has made significant progress during the last year to improve efficiency and has continued to make strategic changes to personnel and production. Sales in 2011 have increased more than 50 percent over 2010. Approximately \$2,000,000 of the \$4,000,000 investment will be used to improve systems, build redundancy, and implement a risk reduction strategy. CLI will use \$2,000,000 to fund operations due to the planned reduction in plant capacity while these strategies are implemented. Additional funds may be needed on a temporary basis to cash flow operations. A memorandum of agreement shall be executed by the Executive Vice President of UK HealthCare and CLI for the cash advance including the terms of interest and repayment.

The total transfer authorized previously as an investment is \$25,350,000 with total contributions of \$26,818,088, including the forgiveness of \$1,468,088 in University Kentucky equipment lease agreements. The recommended investment and line of credit will be funded by UK HealthCare.

Action taken: Approved Disapproved Other _____