Cryoport, Inc.
Form 10-Q
August 06, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2015

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number: 001-34632

CRYOPORT, INC.

(Exact Name of Registrant as Specified in its Charter)

Nevada	**88-0313393**

(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)

20382 Barents Sea Circle

Lake Forest, CA 92630

(Address of principal executive offices)

(949) 470-2300

(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	x

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of July 31, 2015 there were 7,156,549 shares of the registrant’s common stock outstanding.

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		Indicative Calculated Per-Share Value	**Daily VWAP**	**Indicative Calculated Per-Share Value**
1	June 11, 2014	62.0896	N/A*	31.45
2	June 12, 2014	61.0769	N/A*	31.90
3	June 13, 2014	60.4820	$61.2162	32.21

4	June 16, 2014	60.4832	$60.6807	32.69
5	June 17, 2014	60.2268	$60.3973	33.63
6	June 18, 2014	60.9251	$60.5450	33.89
7	June 19, 2014	60.3966	$60.5162	33.93
8	June 20, 2014	59.0637	$60.1285	34.14
9	June 23, 2014	58.9797	$59.4800	33.85
10	June 24, 2014	58.9988	$59.0141	34.13
11	June 25, 2014	62.1245	$60.0343	34.50
12	June 26, 2014	62.0433	$61.0555	35.08
13	June 27, 2014	61.3553	$61.8410	33.59
14	June 30, 2014	62.0032	$61.8006	32.84
15	July 1, 2014	62.9401	$62.0995	31.76
16	July 2, 2014	64.1968	$63.0467	31.86
17	July 3, 2014	64.3312	$63.8227	32.19
18	July 7, 2014	64.0211	$64.0211	31.63
19	July 8, 2014	63.2969	$63.6590	30.97
20	July 9, 2014	63.7630	$63.6937	31.63

* No indicative calculated per-share values or indicative exchange ratios are provided for the first two days of the exchange offer period as such values require daily VWAP data for three trading days.

Source: Bloomberg L.P.

Other Related Information

Prospectus	**Letter of Transmittal**	**Notice of Guaranteed Delivery**
Notice of Withdrawal	**Conditional Notice of Conversion**	**Press Release**

Information for Savings Plans Participants

Letter To CBS 401K Participants	**CBS 401K Q&A**	**CBS 401K Blackout Notice**
Letter To Outdoor 401K Participants	**Outdoor 401K Q&A**	**Outdoor 401K Blackout Notice**

Questions and requests for assistance or for additional copies of the Prospectus, the letter of transmittal and other exchange offer materials may be directed to the information agent for the exchange offer at the telephone numbers and address listed below. You may also contact your broker, dealer, commercial bank, trust company, custodian or other similar institution, as applicable, for assistance concerning the exchange offer.

The information agent for the exchange offer is:

480 Washington Boulevard, 26th Floor

Jersey City, NJ 07310

1-888-624-7035 (toll-free in the United States)

+1-781-575-3340 (all others outside the U.S.)

Glossary of Terms

daily VWAP: VWAP for the period beginning at 9:30 a.m., New York City time (or such other time as is the official open of trading on the NYSE), and ending at 4:00 p.m., New York city time (or such other time as is the official close of trading on the NYSE), except that such data will only take into account adjustments made to reported trades included by 4:10 p.m., New York City time.

exchange ratio: The number of shares of Outdoor Americas common stock that will be exchanged for each share of CBS Class B common stock accepted in the exchange offer. The final exchange ratio will be available on this website and separately published by press release by 4:30 p.m., New York City time, on the expiration date of the exchange offer. In addition, the final exchange ratio may be obtained from the information agent, Georgeson Inc., at 1 888 624 7035 (toll free for all stockholders in the United States) +1 781 575 3340 (all others outside the United States).

final calculated per-share value: The final per share value of CBS common stock and the final per share value of Outdoor Americas common stock to be used for purposes of calculating the final exchange ratio, equal to the simple arithmetic average of the daily VWAP for CBS Class B common stock and Outdoor Americas common stock, as applicable, on the NYSE during the Averaging Period.

indicative calculated per-share value: During the exchange offer, this website will display indicative calculated per-share values for CBS Class B common stock and Outdoor Americas common stock. These indicative values are displayed to assist tendering stockholders in understanding how the number of shares of Outdoor Americas common stock they would receive in the exchange offer will be calculated but are not indicative of the final exchange ratio.

From the third trading day until the first day of the Averaging Period, the indicative calculated per share value of (1) CBS Class B common stock published on this website will equal the average of the daily VWAP of CBS Class B common stock on that day and each of two prior trading days, and (2) Outdoor Americas common stock published on this website will equal the average of the daily VWAP of Outdoor Americas common stock on that day and each of the two prior trading days. The data used to calculate such indicative calculated per share values will not, however, be included in the calculation of the final calculated per-share value for either CBS Class B common stock or Outdoor Americas common stock. During the Averaging Period, the indicative calculated per-share values published on this website will equal (1) on the first day of the Averaging Period, the actual intra-day VWAP during the elapsed portion of the first day of the Averaging Period and (2) on the second day of the Averaging Period, the daily VWAP for the first day of the Averaging Period averaged with the actual intra day VWAP during the elapsed portion of the second day of the Averaging Period; and (3) on the third day of the Averaging Period, the daily VWAP for the first and second days of the Averaging Period averaged with the actual intra day VWAP for the elapsed portion of the third day of the Averaging Period. The data used to calculate such indicative calculated per share values will be used in determining the final calculated per share values.

intra day VWAP: Intra day VWAP means VWAP for the period beginning at the official open of trading on the NYSE and ending at a specified time in such day. Please note that the data used to derive the intra day VWAP published on this website during the Averaging Period is subject to a 30 minute reporting and upload delay.

proration: If the exchange offer is oversubscribed and CBS cannot fulfill all tenders of CBS Class B common stock at the exchange ratio, then all shares of CBS Class B common stock that are validly tendered will generally be accepted for exchange on a pro rata basis in proportion to the number of shares tendered. We refer to this as proration. Stockholders (other than participants in certain CBS savings plans) who beneficially own odd-lots (that is, less than 100 shares of CBS Class B common stock in the aggregate) and who validly tender all their shares will not be subject to proration. Proration for each tendering stockholder will be based on the number of shares of CBS Class B common stock tendered by that stockholder in the exchange offer, and not on that stockholder s aggregate ownership of CBS common stock.

VWAP: The volume-weighted average price per share of the applicable stock on the NYSE during the period specified, as obtained from Bloomberg L.P.

Forward-Looking Statements

Certain statements in this communication are forward looking statements. Forward looking statements are not based on historical facts, but rather reflect CBS s current expectations concerning future results and events. These forward looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those indicated in the forward looking statements. Important factors that could cause actual results to differ materially from CBS s expectations include, without limitation: the ability to satisfy the conditions of the exchange offer; changes in legislation, tax rules or market conditions; other domestic and global economic, business, competitive and/or other regulatory factors affecting CBS s businesses generally, including Outdoor Americas; and other factors described in CBS s news releases and filings with the Securities and Exchange Commission (the SEC) including, but not limited to, its most recent Forms 10 K, 10 Q and 8 K. Other risks and uncertainties are described in the Registration Statement on Form S 4 of Outdoor Americas filed with the SEC. There can be no assurance that CBS will be able to complete the exchange offer on the anticipated terms, or at all. You should not place undue reliance on these forward looking statements. Forward looking statements speak only as of the date on which they are made. CBS does not undertake any obligation to update any forward looking statements contained in this communication as a result of new information or future events or developments, except to the extent required by applicable securities laws.

Additional Information

The terms and conditions of the exchange offer are more fully described in the Registration Statement on Form S 4 filed by Outdoor Americas with the SEC and a Schedule TO filed by CBS with the SEC. The Prospectus, which is included in the Registration Statement, contains important information about CBS, Outdoor Americas, the exchange offer and related matters. **Investors and security holders are urged to read carefully and in its entirety the Prospectus and any other relevant documents filed with the SEC by CBS and Outdoor Americas when they become available and before making any investment decision.**

None of CBS, Outdoor Americas or their respective directors or officers or any dealer manager appointed with respect to the exchange offer makes any recommendation as to whether any CBS shareholder should participate in the exchange offer. This website is for informational purposes only and is neither an offer to sell nor an offer to buy any securities, nor is it a recommendation as to whether a shareholder should participate in the exchange offer. The offer is made solely by means of the Prospectus.

In addition to the links above, CBS shareholders may obtain a free copy of the Prospectus and other related documents filed with the SEC by CBS and Outdoor Americas at the SEC s web site at www.sec.gov, and those documents may also be obtained for free, as applicable, from CBS at www.cbscorporation.com or Outdoor Americas at www.cbsoutdoor.com.

left; border-bottom: Black 2.5pt double">$(1.31) $(0.61)Weighted average shares outstanding – basic and diluted 5,055,649 4,999,110

See accompanying notes to condensed consolidated financial statements.

Cryoport, Inc. and Subsidiary

Condensed Consolidated Statements of Cash Flows

(unaudited)

	For the Three Months Ended June 30,	
	2015	2014
Cash Flows From Operating Activities:		
Net loss	$ (1,924,264)	$ (2,297,264)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	45,673	55,140
Amortization of debt discounts and deferred financing costs	286,133	1,110,013
Stock-based compensation expense	480,377	167,094
Loss on disposal of cryogenic shippers	-	1,685
Provision for (recovery of) bad debt	3,340	(5,349)
Changes in operating assets and liabilities:		
Accounts receivable, net	(171,077)	28,309
Inventories	(35,124)	(8,898)
Other assets	(25,192)	(13,388)
Accounts payable and other accrued expenses	(247,509)	(20,228)
Accrued compensation and related expenses	(285,460)	47,727
Accrued interest	(1,186)	18,110
Net cash used in operating activities	(1,874,289)	(917,049)
Cash Flows From Investing Activities:		
Purchases of property and equipment	(109,615)	—
Net cash used in investing activities	(109,615)	—
Cash Flows From Financing Activities:		
Proceeds from the issuance of preferred stock, net of offering costs	3,896,678	780,342
Proceeds from exercise of stock options and warrants	10,881	11,631
Repayment of notes payable	(741,377)	—
Payment for deferred offering costs	(89,545)	—
Repayment of convertible debentures	—	(50,000)
Repayment of related party notes payable	(112,000)	(24,000)
Net cash provided by financing activities	2,964,637	717,973
Net change in cash and cash equivalents	980,733	(199,076)
Cash and cash equivalents — beginning of period	1,405,186	369,581
Cash and cash equivalents — end of period	$ 2,385,919	$ 170,505
Supplemental Disclosure of Non-Cash Financing Activities:		
Offering costs in connection with convertible preferred stock included in accounts payable	$ —	$ 9,658

Deferred offering costs in connection with secondary public offering included in accounts payable	$ 51,153	$ —
Accretion of convertible preferred stock beneficial conversion feature and relative fair value of warrants issued in connection with the convertible preferred stock units to accumulated deficit	$ 4,474,348	$ 741,786
Conversion of convertible debentures payable and accrued interest into convertible preferred stock units	$ —	$ 1,766,997

See accompanying notes to condensed consolidated financial statements.

Cryoport, Inc. and Subsidiary

Notes to Condensed Consolidated Financial Statements

For the Three Months Ended June 30, 2015 and 2014

(Unaudited)

Note 1. Management's Representation and Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared by Cryoport, Inc. (the "Company", "our" or "we") in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information, and pursuant to the instructions to Form 10-Q and Article 8 of Regulation S-X promulgated by the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statement presentation. However, the Company believes that the disclosures are adequate to make the information presented not misleading. In the opinion of management, all adjustments (consisting primarily of normal recurring accruals) considered necessary for a fair presentation have been included.

On May 12, 2015, our board of directors (the "Board of Directors") approved an amendment to our certificate of incorporation to effect a reverse stock split by a ratio of 1-for-12, with no reduction in the number of shares of common stock that were previously authorized in our certificate of incorporation. The reverse stock split was effective on May 19, 2015. Unless otherwise noted, all share and per share data in this Form 10-Q have been adjusted to give effect to the 1-for-12 reverse stock split of our common stock.

Operating results for the three months ended June 30, 2015 are not necessarily indicative of the results that may be expected for the year ending March 31, 2016. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2015.

The Company has evaluated subsequent events through the date of this filing, and determined that no subsequent events have occurred that would require recognition in the unaudited condensed consolidated financial statements or disclosure in the notes thereto other than as disclosed in the accompanying notes.

Note 2. Nature of the Business

The Company is a Nevada corporation originally incorporated under the name G.T.5-Limited (“GT5”) on May 25, 1990. In connection with a Share Exchange Agreement, on March 15, 2005 we changed our name to Cryoport, Inc. and acquired all of the issued and outstanding shares of common stock of Cryoport Systems, Inc., a California corporation, in exchange for 200,901 shares of our common stock (which represented approximately 81% of the total issued and outstanding shares of common stock following the close of the transaction). Cryoport Systems, Inc., which was originally formed in 1999 as a California limited liability company, and subsequently reorganized into a California corporation on December 11, 2000, remains an operating company under Cryoport, Inc. We became “publicly held” by the reverse merger with GT5 described above. Over time the Company transitioned from being a development company to a fully operational public company in early 2011, providing global cryogenic logistics solutions to the biotechnology and life sciences industries.

Since fiscal year 2011, the Company has taken significant steps towards commercialization of the Cryoport Express® logistics solutions in validating, perfecting and expanding its features. The Company has now managed shipments of its Cryoport Express® Shippers through its Cryoportal™ into and out of more than 80 countries, handling a vast array of different biological products and specimens.

We provide cryogenic logistics solutions to the life sciences industry through a combination of purpose-built proprietary packaging, information technology and specialized cold chain logistics knowhow. We view our solutions as disruptive to the “older technologies” of dry ice and liquid nitrogen, in that our solutions are comprehensive and combine our competencies in configurations that are customized to our client’s requirements. We provide comprehensive, reliable, economic alternatives to all existing logistics solutions and services utilized for frozen shipping in the life sciences industry (e.g., personalized medicine, stem cells, cell lines, vaccines, diagnostic materials, semen, eggs, embryos, cord blood, bio-pharmaceuticals, infectious substances, and other commodities that require continuous exposure to cryogenic or frozen temperatures). We provide the ability to monitor, record and archive crucial information for each shipment that can be used for scientific and regulatory purposes.

Our Cryoport Express® Solutions include a sophisticated cloud-based logistics operating platform, which is branded as the Cryoportal™. The Cryoportal™ supports the management of the entire shipment and logistics process through a single interface, including initial order input, document preparation, customs clearance, courier management, shipment tracking, issue resolution, and delivery. In addition, it provides unique and incisive information dashboards and validation documentation for every shipment. The Cryoportal™ records and retains a fully documented “chain-of-custody” and, at the client’s option, “chain-of-condition” for every shipment, helping ensure that quality, safety, efficacy, and stability of shipped commodities are maintained throughout the process. This recorded and archived information allows our clients to meet exacting requirements necessary for scientific work and for proof of regulatory compliance during the logistics phase.

The branded packaging for our Cryoport Express® Solutions includes our liquid nitrogen dry vapor shippers, the Cryoport Express® Shippers. The Cryoport Express® Shippers are cost-effective and reusable cryogenic transport shippers (our standard shipper is a patented vacuum flask) utilizing an innovative application of "dry vapor" liquid nitrogen ("LN2") technology. Cryoport Express® Shippers are International Air Transport Association ("IATA") certified and validated to maintain stable temperatures of minus 150° C and below for a 10-day dynamic shipment period. The Company currently features three Cryoport Express® Shippers: the Standard Dry Shipper (holding up to 75 2.0 ml vials), the High Volume Dry Shipper (holding up to 500 2.0 ml vials) and the recently introduced Cryoport Express® CXVC1 Shipper (holding up to 1,500 2.0 ml vials). In addition, we assist clients with internal secondary packaging as well (e.g., vials, canes, straws, plates, etc.)

Our most used solution is the "turnkey" solution, which can be accessed directly through our cloud-based Cryoportal™ or by contacting Cryoport Client Care for order entry. Once an order is placed and cleared, we ship a fully charged Cryoport Express® Shipper to the client who conveniently loads its frozen commodity into the inner chamber of the Cryoport Express® Shipper. The customer then closes the shipper package and reseals the shipping box displaying the next recipient's address ("Flap A") for pre-arranged carrier pick up. Cryoport arranges for the pick-up of the parcel by a shipping service provider, which is designated by the client or chosen by Cryoport, for delivery to the client's intended recipient. The recipient simply opens the shipper package and removes the frozen commodity that has been shipped. The recipient then reseals the package, displaying the nearest Cryoport Operations Center address ("Flap B"), making it ready for pre-arranged carrier pick-up. The When the Cryoport Operations Center receives the Cryoport Express® Shipper, it is cleaned, put through quality assurance testing, and returned to inventory for reuse.

In late 2012, we shifted our focus to become a comprehensive cryogenic logistics solutions provider. Recognizing that clients in the life sciences industry have varying requirements, we unbundled our technologies, establishing customer facing solutions and taking a consultative approach to the market. Today, in addition to our standard "Turn-key Solution," described above, we also provide the following customer facing, value-added solutions to address our various clients' needs:

- "***Customer Staged Solution***," designed for clients making 50 or more shipments per month. Under this solution, we supply an inventory of our Cryoport Express® Shippers to our customer, in an uncharged state, enabling our customer (after training/certification) to charge them with liquid nitrogen and use our Cryoportal™ to enter orders with shipping and delivery service providers for the transportation of the package. Once the order is released, our customer services professionals monitor the shipment and the return of the shipper to us for cleaning, quality assurance testing and reuse.

- "***Customer Managed Solution***," a limited customer implemented solution whereby we supply our Cryoport Express® Shippers to clients in a fully charged state, but leaving it to the client to manage the shipping, including the selection of the shipping and delivery service provider and the return of the shipper to us. .

- "***powered by Cryoport***SM," available to providers of shipping and delivery services who seek to offer a "branded" cryogenic logistics solution as part of their service offerings, with "*powered by Cryoport*SM" appearing prominently on the offering software interface and packaging. This solution can also be private labeled upon meeting certain requirements, such as minimum required shipping volumes.

- "***Integrated Solution,***" which is our outsource solution. It is our most comprehensive solution and involves our management of the entire cryogenic logistics process for our client, including Cryoport employees at the client's site to manage the client's cryogenic logistics function in total.

- "***Regenerative Medicine Point-of-Care Repository Solution,***" designed for allogeneic therapies. In this model we supply our Cryoport Express® Shipper to ship and store cryogenically preserved life science products for up to 6 days (or longer periods with supplementary shippers) at a point-of-care site, with the Cryoport Express® Shipper serving as a temporary freezer/repository enabling the efficient and effective distribution of temperature sensitive allogeneic cell-based therapies without the expense, inconvenience, and potential costly failure of an on-sight, cryopreservation device. Our customer service professionals monitor each shipment throughout the predetermined process including the return of the shipper to us. When the Cryoport Operations Center receives the Cryoport Express® Shipper package it is cleaned, put through quality assurance testing, and returned to inventory for reuse.

- "***Personalized Medicine and Cell-based Immunotherapy Solution,***" designed for autologous therapies. In this model our Cryoport Express® Shipper serves as an enabling technology for the safe transportation of manufactured autologous cellular-based immunotherapy market by providing a comprehensive logistics solution for the verified chain of custody and condition transport from, (a) the collection of the patient's cells in a hospital setting, to (b) a central processing facility where they are manufactured into a personalized medicine, to (c) the safe, cryogenically preserved return of these irreplaceable cells to a point-of-care treatment facility. If required, the Cryoport Express® Shipper can then serve as a temporary freezer/repository to allow the efficient distribution of this personalized medicine to the patient when and where the medical provider needs it most without the expense, inconvenience, and potential costly failure of an on-sight, cryopreservation device. Our customer services professionals monitor each shipment throughout the predetermined process, including the return of the shipper to us. When the Cryoport Operations Center receives the Cryoport Express® Shipper package it is cleaned, put through quality assurance testing, and returned to inventory for reuse.

Strategic Logistics Alliances

We have sought to establish strategic alliances as a method of marketing our solutions providing minus 150° C shipping conditions to the life sciences industry. We have focused our efforts on leading companies in the logistics services industry as well as participants in the life sciences industry. In connection with our alliances with providers of shipping services, we refer to their offerings as "*powered by Cryoport*SM" to reflect our solutions being integrated into our alliance partner's services.

Cryoport now serves and supports the three largest integrators in the world, responsible for over 85% of worldwide airfreight, with its advanced cryogenic logistics solutions for life sciences. We operate with each independently and confidentially in support of their respective market and sales strategies. We maintain our independent partnerships with strict confidentiality guidelines within the Company. These agreements represent a significant validation of our solutions and the way we conduct our business.

FedEx. In January 2013, we entered into a master agreement with Federal Express Corporation ("FedEx") (the "FedEx Agreement") renewing these services and providing FedEx with a non-exclusive license and right to use a customized version of our Cryoportal™ for the management of shipments made by FedEx customers. The FedEx Agreement became effective on January 1, 2013 and, unless sooner terminated as provided in the FedEx Agreement, expires on December 31, 2015. FedEx has the right to terminate this agreement at any time for convenience upon 180 days' notice.

Under our FedEx Agreement, we provide frozen shipping logistics services through the combination of our purpose-built proprietary technologies and turnkey management processes. FedEx markets and sells Cryoport's services for frozen temperature-controlled cold chain transportation as its FedEx® Deep Frozen Shipping Solution on a non-exclusive basis and at its sole expense. During fiscal year 2013, the Company worked closely with FedEx to further align its sales efforts and accelerate penetration within FedEx's life sciences customer base through improved processes, sales incentives, joint customer calls and more frequent communication at the sales and executive level. In addition, FedEx has developed a FedEx branded version of the Cryoportal™ software platform, which is "*powered by Cryoport*SM" for use by FedEx and its customers giving them access to the full capabilities of our cloud-based logistics management software platform.

DHL. In June 2014, we entered into a master agreement with LifeConEx, a part of DHL Global Forwarding ("DHL"). This relationship with DHL is a further implementation of the Company's expansion of distribution partnerships under the "*powered by Cryoport*SM" model described above, allowing us to expand our sales and marketing reach through our partners and build awareness of the benefits of our validated cryogenic solution offerings. DHL can now enhance and supplement its cold chain logistics offerings to its life sciences and healthcare customers with Cryoport's validated cryogenic solutions. DHL added 15 additional certified Life Sciences stations in the second quarter of 2014 bringing the Thermonet network to 60 stations in operation. Over the course of rolling out our new relationship, this expanded network will offer Cryoport's cryogenic solutions under the DHL brands as "*powered by Cryoport*SM". In addition, DHL's customers will be able to have direct access to our cloud-based order entry and tracking portal to order Cryoport Express® Solutions and receive preferred DHL shipping rates and discounts. Our proprietary logistics management operating platform, the CryoportalTM, is integrated with DHL's tracking and billing systems to provide DHL life sciences and healthcare customers with a seamless way of accessing critical information regarding shipments of biological material worldwide.

UPS. In October 2014, we added United Parcel Services, Inc. ("UPS") as our third major distributor by entering into an agreement with UPS Oasis Supply Corporation, a part of UPS, whereby UPS will offer our validated and comprehensive cryogenic solutions to its life sciences and healthcare customers on a global basis. This relationship with UPS is a further implementation of the Company's expansion of distributors under the "*powered by Cryoport*SM" model described above, allowing us to further expand our sales and marketing reach through our partners and build awareness of the benefits of our validated cryogenic solution offerings through UPS.

Over the course of rolling out our new relationship with UPS, UPS customers will have direct access to our cloud-based order entry and tracking portal to order Cryoport Express® Solutions and gain access to UPS's broad array of domestic and international shipping and logistics solutions at competitive prices. Our proprietary logistics management operating platform, the CryoportalTM, is integrated with UPS's tracking and billing systems to provide UPS life sciences and healthcare customers with a seamless way of accessing critical information regarding shipments of biological material worldwide.

These agreements with the three largest integrators in the world represent a significant validation of our solutions and the way we conduct our business.

Life Sciences Agreements

Zoetis. In December 2012, we signed an agreement with Pfizer Inc. relating to Zoetis Inc. (formerly the animal health business unit of Pfizer Inc.) pursuant to which we were engaged to manage frozen shipments of a key poultry vaccine. Under this arrangement, Cryoport provides on-site logistics personnel and its logistics management operating platform, the Cryoportal™ to manage shipments from the Zoetis manufacturing site in the United States to domestic customers as well as various international distribution centers. As part of our logistics management services, Cryoport is constantly analyzing logistics data and processes to further introduce economies and reliability throughout the network, ensuring products arrive at their destinations in specified conditions, on-time and with the optimum utilization of resources. The Company manages Zoetis' total fleet of dewar flask shippers used for this purpose, including liquid nitrogen shippers. In July 2013, the agreement was amended to expand Cryoport's scope to manage all logistics of Zoetis' key frozen poultry vaccine to all of Zoetis' international distribution centers as well as all domestic shipments. In October 2013, the agreement was further amended to further expand Cryoport's role to include the logistics management for a second poultry vaccine.

Liventa Bioscience. In February 2014, we entered into a services agreement with Liventa Bioscience, Inc. ("Liventa"), a privately-held, commercial stage biotechnology company focused on cell-based, advanced biologics in the orthopedic industry. Under this agreement, Liventa will use Cryoport's Regenerative Medicine Point-of-Care Repository Solution for the logistics of its cell-based therapies requiring cryogenic temperatures and also provide Cryoport Express® Solutions to other biologics suppliers within the orthopedic arena. The agreement combines Cryoport's proprietary, purpose-built cold chain logistics solutions for cell-based and advanced biologic tissue forms with Liventa's distribution capability to orthopedic care providers. The implementation of Cryoport's Regenerative Medicine Point-of-Care Repository Solution will eliminate the risks of degradation and also eliminate the need for expensive onsite cryogenic freezers for storage of cell-based orthopedic therapies. This will enable Liventa to confidently serve orthopedic practices, surgical centers, pain clinics, hospitals and, eventually, pharmacies and specialty care providers. The agreement has an initial three-year term and may be renewed for consecutive three-year terms, unless earlier terminated by either party. Liventa also agreed to certain performance criteria and the issuance of 150,000 shares of its common stock to Cryoport in exchange for the exclusive right to offer, market and promote Cryoport Express® Solutions for cellular-based therapies requiring cryogenic temperatures for use in the orthopedic arena in the United States.

In summary, we serve the life sciences industry with cryogenic logistics solutions that are advanced, comprehensive, reliable, validated, and efficient. Our clients include those companies and institutions that have logistics requirements for personalized medicine, immunotherapies, stem cells, cell lines, tissue, vaccines, in-vitro fertilization, cord blood, and other temperature sensitive commodities of life sciences.

Liquidity

The unaudited condensed consolidated financial statements have been prepared using the accrual method of accounting in accordance with U.S. GAAP. During the three months ended June 30, 2015, we used cash in operations of $1.9 million and had a net loss of $1.9 million.

We believe that our cash resources at June 30, 2015, additional funds raised subsequent to June 30, 2015 through our public equity offering (see Note 9), together with the revenues generated from our solutions will be sufficient to sustain our planned operations for the next 12 months. Future capital requirements will depend upon many factors, including the success of our commercialization efforts and the level of customer adoption of our Cryoport Express® Solutions as well as our ability to establish additional collaborative arrangements. Revenues increased $494,500 or 52.8% to $1.4 million for the three months ended June 30, 2015, as compared to $0.9 million for the three months ended June 30, 2014. However, we cannot make any assurances that the sales ramp will lead to achievement of sustained profitable operations or that any additional financing will be completed on a timely basis and on acceptable terms or at all.

Note 3. Summary of Significant Accounting Policies

Principles of Consolidation

The condensed consolidated financial statements include the accounts of Cryoport, Inc. and its wholly owned subsidiary, Cryoport Systems, Inc. All intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from estimated amounts. The Company's significant estimates include allowances for doubtful accounts, recoverability of long-lived assets, allowance for inventory obsolescence, deferred taxes and their accompanying valuations, and valuation of equity instruments and conversion features.

Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, related-party notes payable, notes payable, accounts payable and accrued expenses. The carrying value for all such instruments approximates fair value at June 30, 2015 and March 31, 2015 due to their short-term nature. The difference between the fair value and recorded values of the related-party notes payable is not significant.

Cash and Cash Equivalents

The Company considers highly liquid investments with original maturities of 90 days or less to be cash equivalents.

Customers

The Company grants credit to customers within the U.S. and to a limited number of international customers and does not require collateral. Revenues from international customers are generally secured by advance payments except for a limited number of established foreign customers. The Company generally requires advance or credit card payments for initial revenues from new customers. The Company's ability to collect receivables is affected by economic fluctuations in the geographic areas and industries served by the Company. Reserves for uncollectible amounts are provided based on past experience and a specific analysis of the accounts, which management believes is sufficient. Accounts receivable at June 30, 2015 and March 31, 2015 are net of reserves for doubtful accounts of $10,400 and $12,200, respectively. Although the Company expects to collect amounts due, actual collections may differ from the estimated amounts.

The majority of the Company's customers are in the biotechnology, pharmaceutical and life science industries. Consequently, there is a concentration of accounts receivable within these industries, which is subject to normal credit risk. At June 30, 2015 and March 31, 2015, there was one customer that accounted for 33.7% and 14.6%, respectively, of net accounts receivable. No other single customer owed us more than 10% of net accounts receivable at June 30, 2015 and March 31, 2015.

The Company has revenue from foreign customers primarily in Europe, Japan, Canada, India and Australia. During the three months ended June 30, 2015 and 2014, the Company had revenues from foreign customers of approximately $187,900 and $183,500, respectively, which constituted approximately 13.2% and 19.6% of total revenues, respectively.

For the three months ended June 30, 2015 and 2014, there was one customer that accounted for 18.1% and 30.4% of total revenues, respectively. No other single customer generated over 10% of total revenues during the three months ended June 30, 2015 and 2014.

Inventories

The Company's inventories consist of accessories that are sold and shipped to customers, along with pay-per-use shippers, that are not returned to the Company with the shippers at the culmination of the customer's shipping cycle. Inventories are stated at the lower of cost or current estimated market value. Cost is determined using the standard cost method which approximates the first-in, first-to-expire method. Inventories are reviewed periodically for slow-moving or obsolete status. The Company writes down the carrying value of its inventories to reflect situations in which the cost of inventories is not expected to be recovered. Once established, write-downs of inventories are considered permanent adjustments to the cost basis of the obsolete or excess inventories. Raw materials and finished goods include material costs less reserves for obsolete or excess inventories. The Company evaluates the current level of inventories considering historical trends and other factors, and based on the evaluation, records adjustments to reflect inventories at its net realizable value. These adjustments are estimates, which could vary significantly from actual results if future economic conditions, customer demand, competition or other relevant factors differ from expectations. These estimates require us to make assessments about future demand for the Company's products in order to categorize the status of such inventories items as slow-moving, obsolete or in excess-of-need. These estimates are subject to the ongoing accuracy of the Company's forecasts of market conditions, industry trends, competition and other factors.

Property and Equipment

The Company provides shipping containers to its customers and charges a fee in exchange for the use of the shipper. The Company's arrangements are similar to the accounting standard for leases since they convey the right to use the container over a period of time. The Company retains the title to the shippers and provides its customers the use of the container for a specific shipping cycle. At the culmination of the customer's shipping cycle, the shipper is returned to the Company. As a result, the Company classifies the shippers as fixed assets for the per-use shipper program.

Property and equipment are recorded at cost. Cryogenic shippers are depreciated using the straight-line method over their estimated useful lives of three years. Equipment and furniture are depreciated using the straight-line method over their estimated useful lives (generally three to seven years) and leasehold improvements are amortized using the straight-line method over the estimated useful life of the asset or the lease term, whichever is shorter. Equipment acquired under capital leases is amortized over the estimated useful life of the assets or term of the lease, whichever is shorter and included in depreciation and amortization expense.

Betterments, renewals and extraordinary repairs that extend the lives of the assets are capitalized; other repairs and maintenance charges are expensed as incurred. The cost and related accumulated depreciation and amortization applicable to assets retired are removed from the accounts, and the gain or loss on disposition is recognized in current operations.

Intangible Assets

Intangible assets are comprised of patents and trademarks and software development costs. The Company capitalizes costs of obtaining patents and trademarks, which are amortized, using the straight-line method over their estimated useful life of five years once the patent or trademark has been issued. The Company capitalizes certain costs related to software developed for internal use. Software development costs incurred during the preliminary or maintenance project stages are expensed as incurred, while costs incurred during the application development stage are capitalized and amortized using the straight-line method over the estimated useful life of the software, which is five years. Capitalized costs include purchased materials and costs of services including the valuation of warrants issued to consultants.

Long-lived Assets

If indicators of impairment exist, we assess the recoverability of the affected long-lived assets by determining whether the carrying value of such assets can be recovered through undiscounted future operating cash flows. If impairment is indicated, we measure the amount of such impairment by comparing the fair value to the carrying value. We believe the future cash flows to be received from the long-lived assets will exceed the assets' carrying value, and accordingly, we have not recognized any impairment losses through June 30, 2015.

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of the convertible notes payable and equity financings. Deferred financing costs related to the issuance of debt are being amortized over the term of the financing instrument using the effective interest method while offering costs from equity financings are netted against the gross proceeds received from the equity financings. Offering costs incurred as of June 30, 2015 in connection with the public equity offering (see Note 9) are included in other current assets in the accompanying condensed consolidated balance sheet.

Conversion Features

If a conversion feature of convertible debt is not accounted for as a derivative instrument and provides for a rate of conversion that is below market value, this feature is characterized as a beneficial conversion feature ("BCF"). A BCF is recorded by the Company as a debt discount. The convertible debt is recorded net of the discount related to the BCF. The Company amortizes the discount to interest expense over the life of the debt using the effective interest rate method.

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Preferred stock is convertible to common stock at a rate of conversion that is below market value and, therefore, this feature is characterized as a BCF. The Company records this BCF as a discount to the preferred stock and accretes the discount to retained earnings as a deemed dividend through the earliest conversion date or upon issuance if the preferred stock can be immediately converted.

Income Taxes

The Company accounts for income taxes under the provision of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740, *Income Taxes*, or ASC 740. As of June 30, 2015 and March 31, 2015, there were no unrecognized tax benefits included in the accompanying condensed consolidated balance sheets that would, if recognized, affect the effective tax rates.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided for certain deferred tax assets if it is more likely than not that the Company will not realize tax assets through future operations. Based on the weight of available evidence, the Company's management has determined that it is more likely than not that the net deferred tax assets will not be realized. Therefore, the Company has recorded a full valuation allowance against the net deferred tax assets. The Company's income tax provision consists of state minimum taxes.

The Company's policy is to recognize interest and/or penalties related to income tax matters in income tax expense. The Company had no accrual for interest or penalties on its condensed consolidated balance sheets at June 30, 2015 and March 31, 2015 and has not recognized interest and/or penalties in the condensed consolidated statement of operations for the three months ended June 30, 2015 and 2014. The Company is subject to taxation in the U.S. and various state jurisdictions. As of June 30, 2015, the Company is no longer subject to U.S. federal examinations for years before 2011 and for California franchise and income tax examinations for years before 2010. However, to the extent allowed by law, the taxing authorities may have the right to examine prior periods where net operating losses were generated and carried forward, and make adjustments up to the amount of the net operating loss carry forward amount. The Company is not currently under examination by U.S. federal or state jurisdictions.

Revenue Recognition

The Company provides shipping containers to its customers and charges a fee in exchange for the use of the shipper. The Company's arrangements are similar to the accounting standard for leases since they convey the right to use the shippers over a period of time. The Company retains title to the shipper and provides its customers the use of the shipper for a specified shipping cycle. At the culmination of the customer's shipping cycle, the shipper is returned to the Company.

The Company recognizes revenue for the use of the shipper at the time of the delivery of the shipper to the end user of the enclosed materials, and at the time that collectability is reasonably certain. Revenue is recorded net of discounts and allowances.

The Company also provides logistics support and management services to some customers, which may include onsite logistics personnel. Revenue is recognized for these services as services are rendered and at the time that collectability is reasonably certain.

Accounting for Shipping and Handling Revenue, Fees and Costs

The Company classifies amounts billed for shipping and handling as revenue. Shipping and handling fees and costs are included in cost of revenues in the accompanying condensed consolidated statements of operations.

Research and Development Expenses

Expenditures relating to research and development are expensed in the period incurred.

Stock-Based Compensation

The Company accounts for stock-based payments to employees and directors in accordance with stock-based payment accounting guidance which requires all stock-based payments to employees and directors, including grants of employee stock options and warrants, to be recognized based upon their fair values. The fair value of stock-based awards is estimated at the grant date using the Black-Scholes Option Pricing Model ("Black-Scholes") and the portion that is ultimately expected to vest is recognized as compensation cost over the requisite service period. The determination of fair value using Black-Scholes is affected by the Company's stock price as well as assumptions regarding a number of complex and subjective variables, including expected stock price volatility, risk-free interest rate, expected dividends and projected employee stock option exercise behaviors.

Since stock-based compensation is recognized only for those awards that are ultimately expected to vest, the Company has applied an estimated forfeiture rate to unvested awards for the purpose of calculating compensation cost. These estimates will be revised, if necessary, in future periods if actual forfeitures differ from estimates. Changes in forfeiture estimates impact compensation cost in the period in which the change in estimate occurs. The estimated forfeiture rates at June 30, 2015 and March 31, 2015 were zero as the Company has not had a significant history of forfeitures and does not expect significant forfeitures in the future.

Cash flows from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options or warrants are classified as financing cash flows. Due to the Company’s loss position, there were no such tax benefits during the three months ended June 30, 2015 and 2014.

The Company’s stock-based compensation plans are discussed further in Note 8.

Equity Instruments Issued to Non-Employees for Acquiring Goods or Services

Issuances of the Company’s common stock for acquiring goods or services are measured at the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. The measurement date for the fair value of the equity instruments issued to consultants or vendors is determined at the earlier of (i) the date at which a commitment for performance to earn the equity instruments is reached (a “performance commitment” which would include a penalty considered to be of a magnitude that is a sufficiently large disincentive for nonperformance) or (ii) the date at which performance is complete. When it is appropriate for the Company to recognize the cost of a transaction during financial reporting periods prior to the measurement date, for purposes of recognition of costs during those periods, the equity instrument is measured at the then-current fair values at each of those interim financial reporting dates.

Basic and Diluted Net Income (Loss) Per Share

We calculate basic and diluted net income (loss) per share attributable to common stockholders using the weighted average number of common shares outstanding during the periods presented, and adjust the amount of net income (loss) used in this calculation for deemed preferred stock dividends and cumulative preferred stock dividends, whether they are earned or not during the period. In periods of a net loss position, basic and diluted weighted average shares are the same. For the diluted earnings per share calculation, we adjust the weighted average number of common shares outstanding to include dilutive stock options, warrants and shares associated with the conversion of convertible debt and convertible preferred stock outstanding during the periods. As of June 30, 2015 and March 31, 2015, the Company had cumulative, undeclared, dividends that have not been accrued related to its preferred stock of $513,800 and $305,300, respectively. During the three months ended June 30, 2015 and 2014, undeclared dividends totaling

$208,500 and $27,700, respectively, were added to the net loss on the condensed consolidated statement of operations in order to calculate net loss per common share attributable to common stockholders.

The following shows the amounts used in computing net loss per share for the three months ended June 30:

	Three Months Ended June 30,	
	2015	2014
Net loss	$ (1,924,264)	$ (2,297,264)
Add:		
Preferred stock beneficial conversion charge	(4,474,348)	(741,786)
Undeclared cumulative preferred dividends	(208,490)	(27,723)
Net loss attributable to common stockholders	$ (6,607,102)	$ (3,066,773)
Weighted average shares issued and outstanding-basic and diluted	5,055,649	4,999,110
Basic and diluted net loss per share attributable to common stockholders	$ (1.31)	$ (0.61)

The following table sets forth the number of shares excluded from the computation of diluted loss per share, as their inclusion would have been anti-dilutive:

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	Three Months Ended June 30,	
	2015	2014
Class A convertible preferred stock	1,136,875	—
Class B convertible preferred stock	1,336,428	—
Stock options	770,558	339,050
Warrants	1,102,365	435,446
	4,346,226	774,496

Segment Reporting

We currently operate in one reportable segment.

Fair Value Measurements

We measure fair value based on the prices that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are based on a three-tier hierarchy that prioritizes the inputs used to measure fair value. These tiers include the following:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data. These inputs include quoted prices for similar assets or liabilities; quoted market prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, as well as consider counterparty credit risk in the assessment of fair value.

We have no assets or liabilities that are required to be measured at fair value on a recurring basis as of June 30, 2015 and March 31, 2015.

Foreign Currency Translation

We record foreign currency transactions at the exchange rate prevailing at the date of the transaction with resultant gains and losses being included in results of operations. Foreign currency transaction gains and losses have not been significant for any of the periods presented.

Recent Accounting Pronouncements

None.

Note 4. Related Party Transactions

As of June 30, 2015 and March 31, 2015, the Company had aggregate principal balances of $1.2 million and $1.3 million, respectively, in outstanding unsecured indebtedness owed to five related parties, including four former members of the Board of Directors, representing working capital advances made to the Company from February 2001 through March 2005.

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Related-Party Convertible Notes Payable

In March 2015, we entered into definitive agreements relating to the exchange or amendment of the notes evidencing such working capital advances. Three of the notes issued to Patrick Mullins, M.D., Maryl Petreccia and Jeffrey Dell, M.D., which as of June 30, 2015 had outstanding principal balances of $448,200, $266,700 and $208,900, respectively, were amended and restated, and the holders received warrants for the purchase 37,347, 22,224, and 17,412 shares, respectively, of our common stock at an exercise price of $6.00 per share, exercisable on March 2, 2015 and expiring on March 1, 2020, and warrants to purchase 834, 417, and 417 shares, respectively, of the our common stock at an exercise price of $6.00 per share, exercisable on March 2, 2015 and expiring on March 1, 2020, to reimburse the three note holders for any fees or other expenses incurred in connection with this transaction. The convertible notes, as amended and restated, require interest payments on a calendar quarterly basis and all outstanding principal and accrued interest on the maturity date, which is the earlier to occur of (i) March 1, 2016, (ii) the sale of all or substantially all of our assets, or (iii) the merger, consolidation or other similar reorganization of the Company or an affiliate of our Company with another entity. Under the terms of such convertible notes, upon the closing of a public offering pursuant to an effective registration statement under the Securities Act of 1933, as amended (the “Securities Act”), resulting in at least $5,000,000 of gross cash proceeds to the Company for the sale of shares of common stock or includes the sale of shares of common stock among the sale of other securities, the holder has the option to convert into the securities issued in such offering at a twenty percent (20%) discount to the price per share (or per unit, if applicable) of the securities issued by the Company in such offering. The securities issued to the holder upon conversion will be restricted securities.

One note issued to Raymond Takahashi, M.D., was exchanged for (i) a new convertible promissory note with an original principal amount equal to the outstanding principal and interest of the original note, and (ii) a warrant to purchase 1,490 shares of the Company’s common stock at an exercise price of $6.00 per share, exercisable on February 20, 2015 and expiring on February 19, 2018. The new convertible note, which as of June 30, 2015 had an outstanding principal balance of $35,800, requires interest payments on a calendar quarterly basis and all outstanding principal and accrued interest on the maturity date, which is March 1, 2016. Under the terms of such convertible note, upon the closing of a public offering pursuant to an effective registration statement under the Securities Act, resulting in at least $5,000,000 of gross cash proceeds to the Company for the sale of shares of common stock or includes the sale of shares of common stock among the sale of other securities, the holder has the option to convert into the securities issued in such offering at a twenty percent (20%) discount to the price per share (or per unit, if applicable) of the securities issued by the Company in such offering. The securities issued to the holder upon conversion will be restricted securities.

The conversion of the related-party convertible notes payable at a 20% discount is contingent as described above and results in a BCF. The fair value of the BCF will be recorded as a debt discount upon the contingency being resolved. The Company estimated the fair value of the BCF of the related-party convertible notes aggregated $521,100 at June 30, 2015.

The relative fair value of the related-party warrants of $280,400 was recorded as a debt discount and is being amortized to interest expense using the straight-line method which approximated the effective interest method over the term of the convertible notes. During the three months ended June 30, 2015 and 2014, the Company amortized $64,700 and $0, respectively, of the debt discount to interest expense for these convertible notes.

Related-party interest expense under these notes was $14,400 and $8,200 for the three months ended June 30, 2015 and 2014, respectively. Accrued interest, which is included in related-party notes payable in the accompanying condensed consolidated balance sheets, amounted to $19,000 and $4,600 as of June 30, 2015 and March 31, 2015, respectively.

Related-Party Note Payable

One note issued to Marc Grossman, M.D., which as of June 30, 2015 had an outstanding principal balance of $186,500, as amended, now provides for interest at a rate of 6% per annum commencing on March 13, 2015; however, no interest payments will be due if no event of default occurs and if the Company (i) complies with its regular payment obligations, (ii) reimburses the payee for attorneys' fees in connection with the negotiation of the note amendment, up to a maximum amount of $1,000, on the later of (A) March 13, 2015, or (B) three (3) days after receiving written notice from the payee of the amount of attorneys' fees incurred by payee, and (iii) the Company immediately pays all unpaid amounts due and payable in full before the earlier of May 1, 2016 or at the same time that payee(s) of any other promissory note(s) with the Company that were issued in 2005 are paid in full before May 1, 2016, other than (Y) notes that are satisfied upon conversion into common stock, warrants or any other equity of the Company, or (Z) notes that have been paid in full before March 2, 2015. All principal and interest under the original note, as amended by the note amendment, will be due and shall be paid on May 1, 2016. The note requires monthly payments of $20,000, except for the month of June 2015, where the monthly payment was $72,000.

Class B Convertible Preferred Stock

In May 2015, Mrs. Richard Berman, spouse of a board member, participated in the Class B convertible preferred stock offering and the Company issued 1,667 shares of Class B convertible preferred stock for total proceeds of $20,000.

Note 5. Notes Payable

From December 2014 through February 2015, the Company issued to certain accredited investors 2014 Series Secured Promissory Notes (the “7% Bridge Notes”) in the aggregate original principal amount of $915,000. The 7% Bridge Notes accrued interest at a rate of 7% per annum. All principal and interest under the 7% Bridge Notes were due on July 1, 2015. In January and March 2015, the Company repaid an aggregate of $173,600 of the original principal balance outstanding, representing 25% of the net proceeds received from the Class A and Class B convertible preferred stock offering through February 28, 2015. All remaining principal and accrued interest was repaid in April 2015.

In connection with the issuance of the 7% Bridge Notes, the Company issued the note holders warrants to purchase 190,625 shares of common stock at an exercise price of $6.00 per share. The warrants were exercisable on May 31, 2015 and expire on November 30, 2021. The relative fair value of the warrants of $458,900 was recorded as a debt discount and was amortized to interest expense using the straight-line method which approximates the effective interest method over the term of the notes. During the three months ended June 30, 2015, the Company amortized $221,400 of the debt discount to interest expense for these notes.

The Company did not pay any discounts or commissions with respect to the issuance of the 7% Bridge Notes or the warrants.

Note 6. Commitments and Contingencies

Facility and Equipment Leases

We lease 11,900 square feet of corporate, research and development, and warehouse facilities in Lake Forest, California under an operating lease on a month-to-month basis. The monthly base rent is $9,500 and either party has the right to cancel this month-to-month agreement by giving the other party a minimum of a 90-day prior written notice. We are currently exploring other facilities to meet our growing demands. We also lease certain office equipment which expires in March 2018.

Employment Agreements

We have entered into employment agreements with certain of our officers under which payment and benefits would become payable in the event of termination by us for any reason other than cause, or upon a change in control of our Company, or by the employee for good reason.

Consulting and Engineering Services

Effective November 1, 2010, the Company entered into a Second Amendment to Master Consulting and Engineering Services Agreement (the "Second Amendment") with KLATU Networks, LLC ("KLATU"), which amended the Master Consulting and Engineering Services Agreement between the parties dated as of October 9, 2007 (the "Agreement"), as amended by the First Amendment to Master Consulting and Engineering Services Agreement between the parties dated as of April 23, 2009. The parties entered into the Second Amendment to clarify their mutual intent and understanding that all license rights granted to the Company under the Agreement, as amended, shall survive any termination or expiration of the Agreement. In addition, in recognition that the Company has paid KLATU less than the market rate for comparable services, the Second Amendment provides that if the Company terminates the Agreement without cause, which the Company has no intention of doing, or liquidates, KLATU shall be entitled to receive additional consideration for its services provided from the commencement of the Agreement through such date of termination, which additional compensation shall not be less than $2 million plus two times the "cost of work" (as defined in the Agreement). Any such additional compensation would be payable in three equal installments within 12 months following the date the amount of such additional compensation is determined. If KLATU terminates the Agreement, no such payments are payable.

The Agreement provides for one year terms ending on December 31 of each year, but it automatically renews for one year periods unless otherwise terminated. Consulting fees for services provided by KLATU were $74,300 and $75,900 for the three months ended June 30, 2015 and 2014, respectively.

Litigation

The Company may become a party to product litigation in the normal course of business. The Company accrues for open claims based on its historical experience and available insurance coverage. In the opinion of management, there are no legal matters involving the Company that would have a material adverse effect upon the Company's consolidated financial condition or results of operations.

Indemnities and Guarantees

The Company has made certain indemnities and guarantees, under which it may be required to make payments to a guaranteed or indemnified party, in relation to certain actions or transactions. The guarantees and indemnities do not provide for any limitation of the maximum potential future payments the Company could be obligated to make.

Historically, the Company has not been obligated nor incurred any payments for these obligations and, therefore, no liabilities have been recorded for these indemnities and guarantees in the accompanying condensed consolidated balance sheets.

The Company indemnifies its directors, officers, employees and agents, as permitted under the laws of the States of California and Nevada. In connection with its facility lease, the Company has indemnified its lessor for certain claims arising from the use of the facility. The duration of the guarantees and indemnities varies, and is generally tied to the life of the agreement.

Note 7. Stockholders' Equity

Authorized Stock

The Company has 20,833,333 authorized shares of common stock with a par value of $0.001 per share. In September 2011, our stockholders approved an amendment to the Amended and Restated Articles of Incorporation to authorize a class of undesignated or "blank check" preferred stock, consisting of 2,500,000 shares at $0.001 par value per share. Shares of preferred stock may be issued in one or more series, with such rights, preferences, privileges and restrictions to be fixed by the Board of Directors. In May 2014, the Company filed with the Secretary of State of the State of Nevada a Certificate of Designation which designated 800,000 shares of the Company's previously authorized preferred stock, par value $0.001, as Class A Convertible Preferred Stock. In February 2015, the Company filed with the Secretary of State of the State of Nevada a Certificate of Designation which designated 400,000 shares of the Company's previously authorized preferred stock, par value $0.001, as Class B Convertible Preferred Stock. In April 2015, the Company filed with the Secretary of State of the State of Nevada an Amendment to the Certificate of Designation to increase the number shares of Class B Convertible Preferred Stock from 400,000 shares to 585,000 shares.

Class A Convertible Preferred Stock

As of June 30, 2015 and March 31, 2015, 454,750 shares of Class A Convertible Preferred Stock and 303,167 of the related warrants were outstanding for Class A Investors and 106,432 warrants were outstanding for Emergent Financial, Inc. ("Emergent") in connection with the Class A Convertible Preferred Stock offering and the 5% Bridge Note conversions.

No dividends have been declared as of June 30, 2015; however, a cumulative preferred stock dividend of $410,300 and $301,500 is included in the liquidation preference at June 30, 2015 and March 31, 2015, respectively.

Class B Convertible Preferred Stock

In February 2015, the Company entered into definitive agreements for a private placement of its securities to certain institutional and accredited investors (the "Class B Investors") pursuant to certain subscription agreements and elections to convert between the Company and the Class B Investors. During the three months ended June 30, 2015, aggregate gross cash proceeds of $4.5 million (approximately $3.9 million after offering costs) were collected in exchange for the issuance of 372,862 shares of our Class B Convertible Preferred Stock, and warrants, exercisable for five years, to purchase up to a total of 248,575 shares of our common stock at an exercise price of $6.00 per share. The Company intends to use the net proceeds for working capital purposes.

Pursuant to the subscription agreements, the Company issued shares of a newly established Class B Convertible Preferred Stock and warrants to purchase common stock of Cryoport. The shares and warrants were issued as a unit consisting of (i) one share of Class B Convertible Preferred Stock and (ii) one warrant to purchase 0.67 shares of the Company's common stock at an exercise price of $6.00 per share, which were immediately exercisable and may be exercised at any time on or before May 31, 2020.

The fair value of the beneficial conversion feature of the convertible preferred stock issuance and the relative fair value of the warrants issued, aggregated $4.5 million during the three months ended June 30, 2015. The amount of $4.5 million was accreted to accumulated deficit and additional paid-in capital during the three months ended June 30, 2015.

Emergent served as the Company's placement agent in this transaction and received, with respect to the gross proceeds received from Class B Investors, a commission of 10% and a non-accountable finance fee of 3% of the aggregate gross proceeds received from such Class B Investors, plus reimbursement of legal expenses of up to $5,000. Emergent was issued a warrant to purchase 0.25 shares of common stock at an exercise price of $6.00 per share for each Unit issued in this transaction. The offering of units to new Class B Investors concluded on June 9, 2015.

In May 2015, Mrs. Richard Berman, spouse of a board member, participated in the Class B convertible preferred stock offering and the Company issued 1,667 shares of Class B convertible preferred stock for proceeds of $20,000.

As of June 30, 2015 and March 31, 2015, 534,571 and 161,709 shares, respectively, of Class B Convertible Preferred Stock, and 356,381 and 107,806, respectively, of the related warrants were outstanding for Class B Investors and 130,914 and 38,115 warrants, respectively, were outstanding for Emergent in connection with the Class B Convertible Preferred Stock offering.

No dividends have been declared as of June 30, 2015; however, a cumulative preferred stock dividend of $103,500 and $3,800 is included in the liquidation preference at June 30, 2015 and March 31, 2015, respectively.

Common Stock Reserved for Future Issuance

As of June 30, 2015, approximately 10.5 million shares of common stock were issuable upon conversion or exercise of rights granted under prior financing arrangements, stock options and warrants, as follows:

Class A and B convertible preferred stock converted to common stock	2,473,303
Exercise of stock options	2,246,270
Exercise of warrants	5,764,897
Total shares of common stock reserved for future issuances	10,484,470

Note 8. Stock-Based Compensation

Warrant Activity

We typically issue warrants to purchase shares of our common stock to investors as part of a financing transaction or in connection with services rendered by placement agents and consultants. Our outstanding warrants expire on varying dates through November 2021. A summary of warrant activity is as follows:

	Number of Shares	Weighted-Average Exercise Price/Share	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (1)
Outstanding — March 31, 2015	5,475,806	7.20		
Issued	341,429	6.00		
Exercised	(49,339)	2.40		
Forfeited	—	—		
Expired	(2,999)	22.68		
Outstanding — June 30, 2015	5,764,897	$ 7.13	2.5	$8,428,800
Vested (exercisable) — June 30, 2015	5,764,897	$ 7.13	2.5	$8,428,800

(1) Aggregate intrinsic value represents the difference between the exercise price of the warrant and the closing market price of our common stock on June 30, 2015, which was $7.65 per share.

The fair value of each warrant issued was estimated on the date of issuance using Black-Scholes with the following assumptions:

Expected life (years)	5.0 – 5.2
Risk-free interest rate	1.33% - 1.73%
Volatility	98.6 – 121.3 %
Dividend yield	0 %

Stock Options

We have three stock incentive plans: the 2002 Stock Incentive Plan (the "2002 Plan"), the 2009 Stock Incentive Plan (the "2009 Plan") and the 2011 Stock Incentive Plan (the "2011 Plan"), (collectively, the "Plans"). The 2002 Plan expired and no options have been granted pursuant the 2002 Plan or 2009 Plan subsequent to the adoption of the 2011 Plan. On September 6, 2013, the stockholders approved an increase to the number of shares of the Company's common stock available for issuance under the 2011 Plan by 591,667 shares. On August 29, 2014 the stockholders approved an increase to the number of shares of the Company's common stock available for issuance under the 2011 Plan by 125,000 shares. As of June 30, 2015, the Company had 25,314 shares and 30,190 shares available for future awards under the 2009 Plan and the 2011 Plan, respectively.

In May 2015, the Company granted employees and members of the board of directors options to purchase 465,633 and 20,835 shares of common stock, respectively, with an exercise price of $7.80 per share, of which 355,001 shares were issued outside of a plan. The exercise price for the shares of common stock pursuant to the option is equal to the fair market value of the Company's common stock on the date of grant.

We granted stock options at exercise prices equal to or greater than the quoted market price of our common stock on the grant date. The fair value of each option grant was estimated on the date of grant using Black-Scholes with the following weighted average assumptions:

Expected life (years)	6.0
Risk-free interest rate	1.74 %
Volatility	120.0%
Dividend yield	0 %

The expected option life assumption is estimated based on the simplified method. Accordingly, the Company has utilized the average of the contractual term of the options and the weighted average vesting period for all options to calculate the expected option term. The risk-free interest rate assumption is based upon observed interest rates appropriate for the expected term of our employee stock options. The expected volatility is based on the historical volatility of our stock commensurate with the expected life of the stock-based award. We do not anticipate paying dividends on the common stock in the foreseeable future.

We recognize stock-based compensation cost over the vesting period using the straight-line single option method. Stock-based compensation expense is recognized only for those awards that are ultimately expected to vest. An estimated forfeiture rate has been applied to unvested awards for the purpose of calculating compensation cost. The estimated forfeiture rate of 0% per year is based on the historical forfeiture activity of unvested stock options. These estimates are revised, if necessary, in future periods if actual forfeitures differ from the estimates. Changes in forfeiture estimates impact compensation cost in the period in which the change in estimate occurs.

A summary of stock option activity is as follows:

	Number of Shares	Weighted-Average Exercise Price/Share	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (1)
Outstanding — March 31, 2015	1,793,745	$ 4.56		
Granted (weighted-average fair value of $6.74 per share)	486,468	7.80		
Exercised	(4,601)	2.47		
Forfeited	(29,342)	3.84		
Expired	—	—		
Outstanding — June 30, 2015	2,246,270	$ 5.25	8.5	$5,888,000
Vested (exercisable) — June 30, 2015	750,006	$ 4.71	6.8	$2,629,200
Unvested (unexercisable) — June 30, 2015	1,496,264	$ 5.52	3.4	$3,258,800

(1) Aggregate intrinsic value represents the difference between the exercise price of the option and the closing market price of our common stock on June 30, 2015, which was $7.65 per share.

As of June 30, 2015, there was unrecognized compensation expense of $7.0 million related to unvested stock options, which we expect to recognize over a weighted average period of 3.4 years.

Note 9. Subsequent Event

Public Equity Offering

On July 29, 2015, the Company completed the sale of common stock and warrants (the "Units") under a registered public offering. The gross proceeds to Cryoport from the offering, including the partial exercise of the over-allotment option, were approximately $6.8 million, before underwriting discounts and commissions and other offering expenses.

The public offering price per Unit was $3.25. Each Unit consists of one share of common stock and a warrant to purchase one share of common stock. Under the terms of the offering, Cryoport issued 2,090,750 shares of common stock and warrants to purchase up to an aggregate of 2,090,750 shares of common stock, inclusive of the partial exercise of the over-allotment option. The common stock and the warrants are immediately separable and trade on The Nasdaq Capital Market under the symbols CYRX, and CYRXW, respectively. The warrants have a per share exercise price of $3.57, are exercisable immediately and will expire five years from the date of issuance.

In connection with this offering, the Company issued to Aegis Capital Corp., the underwriters' representative in the offering, a warrant to purchase up to 80,000 shares of the Company's common stock. If such warrant is exercised, each share of common stock may be purchased at $4.47 per share (137.5% of the price of the units sold in the offering), commencing on July 23, 2016 and expiring July 23,2020.

In connection with this offering, the Company incurred $140,000 in financing costs as of June 30, 2015 that have been recorded as other current assets in the accompanying condensed consolidated balance sheet and will be offset against the proceeds from this offering.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

In this Form 10-Q, the terms "Cryoport", "Company" and similar terms refer to Cryoport, Inc., and its wholly owned subsidiary, Cryoport Systems, Inc.

SAFE HARBOR FOR FORWARD LOOKING STATEMENTS:

This Quarterly Report on Form 10-Q contains forward-looking statements that have been made pursuant to the provisions of the Private Securities Litigation Reform Act of 1995 and concern matters that involve risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements. In some cases, you can identify these statements by terminology such as "may," "will," "should," "could," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential," "continue" or similar words which are intended to identify forward-looking statements, although not all forward-looking statements contain these words. Although we believe that our opinions and expectations reflected in the forward-looking statements are reasonable as of the date of this Quarterly Report, we cannot guarantee future results, levels of activity, performance or achievements, and our actual results may differ substantially from the views and expectations set forth in this Quarterly Report. You should be aware that these statements are projections or estimates as to future events and are subject to a number of factors that may tend to influence the accuracy of the statements. These forward-looking statements should not be regarded as a representation by the Company or any other person that the events or plans of the Company will be achieved. You should not unduly rely on these forward-looking statements, which speak only as of the date of this Quarterly Report. We undertake no obligation to publicly revise any forward-looking statement to reflect circumstances or events after the date of this Quarterly Report or to reflect the occurrence of unanticipated events. You should, however, review the factors and risks we describe in the reports we file from time to time with the Securities and Exchange Commission ("SEC"), including those contained in our Annual Report on Form 10-K for the fiscal year ended March 31, 2015, as filed with the SEC on May 19, 2015 and those reports filed after the date of this Quarterly Report. Actual results may differ materially from any forward looking statement.

The following management's discussion and analysis of the Company's financial condition and results of operations ("MD&A") should be read in conjunction with the condensed consolidated balance sheet as of June 30, 2015 (unaudited) and the consolidated balance sheet as of March 31, 2015 (audited) and the related unaudited condensed consolidated statements of operations for the three months ended June 30, 2015 and 2014, and cash flows for the three months ended June 30, 2015 and 2014 and the related notes thereto (see Item 1. Financial Statements), as well as the audited consolidated financial statements of the Company as of March 31, 2015 and 2014 and for the years then ended included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2015.

General Overview

We provide cryogenic logistics solutions to the life sciences industry through a combination of purpose-built proprietary packaging, information technology and specialized cold chain logistics knowhow. We view our solutions as disruptive to the "older technologies" of dry ice and liquid nitrogen, in that our solutions are comprehensive and combine our competencies in configurations that are customized to our client's requirements. We provide comprehensive, reliable, economic alternatives to all existing logistics solutions and services utilized for frozen shipping in the life sciences industry (e.g., personalized medicine, cell therapies, stem cells, cell lines, vaccines, diagnostic materials, semen, eggs, embryos, cord blood, bio-pharmaceuticals, infectious substances, and other commodities that require continuous exposure to cryogenic or frozen temperatures). As part of our services, we provide the ability to monitor, record and archive crucial information for each shipment that can be used for scientific and regulatory purposes.

Our Cryoport Express® Solutions include a sophisticated cloud-based logistics operating platform, which is branded as the Cryoportal™. The Cryoportal™ supports the management of the entire shipment and logistics process through a single interface, including initial order input, document preparation, customs clearance, courier management, shipment tracking, issue resolution, and delivery. In addition, it provides unique and incisive information dashboards and validation documentation for every shipment. The Cryoportal™ records and retains a fully documented "chain-of-custody" and, at the client's option, "chain-of-condition" for every shipment, helping ensure that quality, safety, efficacy, and stability of shipped commodities are maintained throughout the process. This recorded and archived information allows our clients to meet exacting requirements necessary for scientific work and for proof of regulatory compliance during the logistics phase.

The branded packaging for our Cryoport Express® Solutions includes our liquid nitrogen dry vapor shippers, the Cryoport Express® Shippers. The Cryoport Express® Shippers are cost-effective and reusable cryogenic transport shippers (our standard shipper is a patented vacuum flask) utilizing an innovative application of "dry vapor" liquid nitrogen ("LN2") technology. Cryoport Express® Shippers are International Air Transport Association ("IATA") certified and validated to maintain stable temperatures of minus 150° C and below for a 10-day dynamic shipment period. The Company currently features three Cryoport Express® Shippers: the Standard Dry Shipper (holding up to 75 2.0 ml vials), the High Volume Dry Shipper (holding up to 500 2.0 ml vials) and the recently introduced Cryoport Express® CXVC1 Shipper (holding up to 1,500 2.0 ml vials). In addition, we assist clients with internal secondary packaging as well (e.g., vials, canes, straws, plates, etc.)

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Our most used solution is the "turnkey" solution, which can be accessed directly through our cloud-based Cryoportal™ or by contacting Cryoport Client Care for order entry. Once an order is placed and cleared, we ship a fully charged Cryoport Express® Shipper to the client who conveniently loads its frozen commodity into the inner chamber of the Cryoport Express® Shipper. The customer then closes the shipper package and reseals the shipping box displaying the next recipient's address ("Flap A") for pre-arranged carrier pick up. Cryoport arranges for the pick-up of the parcel by a shipping service provider, which is designated by the client or chosen by Cryoport, for delivery to the client's intended recipient. The recipient simply opens the shipper package and removes the frozen commodity that has been shipped. The recipient then reseals the package, displaying the nearest Cryoport Operations Center address ("Flap B"), making it ready for pre-arranged carrier pick-up. The When the Cryoport Operations Center receives the Cryoport Express® Shipper, it is cleaned, put through quality assurance testing, and returned to inventory for reuse.

In late 2012, we shifted our focus to become a comprehensive cryogenic logistics solutions provider. Recognizing that clients in the life sciences industry have varying requirements, we unbundled our technologies, establishing customer facing solutions and taking a consultative approach to the market. Today, in addition to our standard "Turn-key Solution," described above, we also provide the following customer facing, value-added solutions to address our various clients' needs:

- "***Customer Staged Solution***," designed for clients making 50 or more shipments per month. Under this solution, we supply an inventory of our Cryoport Express® Shippers to our customer, in an uncharged state, enabling our customer (after training/certification) to charge them with liquid nitrogen and use our Cryoportal™ to enter orders with shipping and delivery service providers for the transportation of the package. Once the order is released, our customer services professionals monitor the shipment and the return of the shipper to us for cleaning, quality assurance testing and reuse.

- "***Customer Managed Solution***," a limited customer implemented solution whereby we supply our Cryoport Express® Shippers to clients in a fully charged state, but leaving it to the client to manage the shipping, including the selection of the shipping and delivery service provider and the return of the shipper to us. .

- "***powered by Cryoport***℠," available to providers of shipping and delivery services who seek to offer a "branded" cryogenic logistics solution as part of their service offerings, with "*powered by Cryoport*℠" appearing prominently on the offering software interface and packaging. This solution can also be private labeled upon meeting certain requirements, such as minimum required shipping volumes.

- "***Integrated Solution,***" which is our outsource solution. It is our most comprehensive solution and involves our management of the entire cryogenic logistics process for our client, including Cryoport employees at the client's site to manage the client's cryogenic logistics function in total.

- "***Regenerative Medicine Point-of-Care Repository Solution,***" designed for allogeneic therapies. In this model we supply our Cryoport Express® Shipper to ship and store cryogenically preserved life science products for up to 6 days (or longer periods with supplementary shippers) at a point-of-care site, with the Cryoport Express® Shipper serving as a temporary freezer/repository enabling the efficient and effective distribution of temperature sensitive allogeneic cell-based therapies without the expense, inconvenience, and potential costly failure of an on-sight, cryopreservation device. Our customer service professionals monitor each shipment throughout the predetermined process including the return of the shipper to us. When the Cryoport Operations Center receives the Cryoport Express® Shipper package it is cleaned, put through quality assurance testing, and returned to inventory for reuse.

· "***Personalized Medicine and Cell-based Immunotherapy Solution,***" designed for autologous therapies. In this model our Cryoport Express® Shipper serves as an enabling technology for the safe transportation of manufactured autologous cellular-based immunotherapy market by providing a comprehensive logistics solution for the verified chain of custody and condition transport from, (a) the collection of the patient's cells in a hospital setting, to (b) a central processing facility where they are manufactured into a personalized medicine, to (c) the safe, cryogenically preserved return of these irreplaceable cells to a point-of-care treatment facility. If required, the Cryoport Express® Shipper can then serve as a temporary freezer/repository to allow the efficient distribution of this personalized medicine to the patient when and where the medical provider needs it most without the expense, inconvenience, and potential costly failure of an on-sight, cryopreservation device. Our customer services professionals monitor each shipment throughout the predetermined process, including the return of the shipper to us. When the Cryoport Operations Center receives the Cryoport Express® Shipper package it is cleaned, put through quality assurance testing, and returned to inventory for reuse.

Strategic Logistics Alliances

We have sought to establish strategic alliances as a method of mar the property of the Company or any Restricted Subsidiary or (ii) a Security Interest in shares of stock owned directly or indirectly by the Company or a Restricted Subsidiary in a corporation or in equity interests owned by the Company or a Restricted Subsidiary in a partnership or other entity not organized as a corporation or in the Company s rights or the rights of a Restricted Subsidiary in respect of Indebtedness of a corporation, partnership or other entity in which the Company or a Restricted Subsidiary has an equity interest. The securing in the foregoing manner of any such Indebtedness which immediately prior thereto was not Secured Debt shall be deemed to be the creation of Secured Debt at the time security is given.

Security Interests means any mortgage, pledge, lien, encumbrance or other security interest which secures the payment or performance of an obligation.

Specified Indebtedness means Indebtedness under (i) the Senior Notes, (ii) the Senior Indenture and (iii) the Credit Agreement dated as of April 8, 2004, among the Company and the banks named therein, as amended or supplemented from time to time, and any refinancing, extension, renewal or replacement of any of the foregoing.

The following defined term applies to the Subordinated Notes only:

Non-Recourse Indebtedness means Indebtedness or other obligations secured by a lien on property to the extent that the liability for the Indebtedness or other obligations is limited to the security of the property without liability on the part of the Company for any deficiency.

Modification and Waiver

We and the Trustee, with the consent of the holders of at least a majority of the principal amount of the outstanding Notes, may execute supplemental indentures adding any provisions to or changing or eliminating any of the provisions of the applicable Indenture or modifying the rights of the holders of the

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Notes, except that no such supplemental indenture may, without the consent of the holder of each outstanding security affected by the supplemental indenture, among other things:

(1) change the final maturity of the Notes, or reduce the rate or extend the time of payment of interest on the Notes, or reduce the principal amount of the Notes, or impair the right to institute suit for payment of the Notes;

(2) change the redemption provisions or the definitions relating thereto in any manner adverse to the holders of the Notes;

(3) reduce the percentage of Notes whose consent the holders of which is required for any such supplemental indenture, for any waiver of compliance with certain provisions of the applicable Indenture or certain defaults under the applicable Indenture and their consequences provided in the applicable Indenture; or

(4) modify any of the provisions regarding the modification of the applicable Indenture, waivers of past defaults and waivers of certain covenants, except to increase any percentage or to provide that certain other provisions of the applicable Indenture cannot be modified or waived without the consent of the holder of each outstanding security affected thereby.

Our Board of Directors does not have the power to waive any of the covenants of the Indentures. We and the Trustee may modify or amend provisions of the Indentures without the consent of any holder for any of the following purposes:

(1) to evidence the succession of another Person to us or any Guarantor under the applicable Indenture and the Notes;

(2) to add to our covenants or the covenants of any Guarantor for the benefit of the holders of the Notes or to surrender any right or power conferred upon us or such Guarantor by the applicable Indenture;

(3) to add Events of Default for the benefit of the holders of the Notes;

(4) to secure any debt securities under the applicable Indenture;

(5) to establish the form or terms of the debt securities of any series;

(6) to add Guarantors;

(7) to provide for the acceptance of appointment by a successor Trustee or facilitate the administration of the trusts under the applicable Indenture by more than one Trustee;

(8) to close the applicable Indenture to authentication and delivery of additional series of debt securities and to cure any ambiguity, defect or inconsistency in the applicable Indenture, provided such action does not adversely affect the interests of holders of the Notes; or

(9) to supplement any of the provisions of the applicable Indenture to the extent necessary to permit or facilitate defeasance and discharge of the Notes, provided that such action shall not adversely affect the interests of the holders of the Notes in any material respect.

The holders of at least a majority in principal amount of the outstanding debt securities may, on behalf of the holders of all debt securities, waive any past default under the applicable Indenture. However, they may not waive a default (1) in the payment of the principal of (or premium, if any) or any interest on any debt security or (2) in respect of a covenant or provision which under the applicable Indenture cannot be modified or amended without the consent of the holder of each outstanding debt security affected.

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Other Provisions

Any provisions with respect to the determination of an interest rate basis, the specification of interest rate basis, calculation of the interest rate applicable to, or the principal payable at maturity on, any Note, its interest payment dates or any other matter relating thereto may be modified by the terms as specified under Other Provisions on the face of the Note, or in an annex attached to the Note if specified on the face of the Note, and in the applicable pricing supplement.

Book-Entry System

The Depositary will act as securities depositary for the Book-Entry Notes. The Book-Entry Notes will be issued as fully registered securities registered in the name of Cede & Co. (the Depositary s partnership nominee). One fully registered global security will be issued for each issue of the Notes, each in the aggregate principal amount of the issue, and will be deposited with the Depositary. If, however, the aggregate principal amount of any issue exceeds the maximum principal amount, if any, permitted by the Depositary, one global security will be issued with respect to the maximum principal amount and an additional global security will be issued with respect to any remaining principal amount of the issue.

The following is based on information furnished by the Depositary:

The Depositary is:

a limited purpose trust company organized under the New York Banking Law;

a *banking organization* within the meaning of the New York Banking Law;

a member of the Federal Reserve System;

a *clearing corporation* within the meaning of the New York Uniform Commercial Code; and

a *clearing agency* registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended.

The Depositary holds securities that its participants (*Participants*) deposit with the Depositary. The Depositary also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants of the Depositary (*Direct Participants*) include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations.

The Depositary is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange LLC and the NASD. Access to the Depositary s system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (*Indirect Participants*). The rules applicable to the Depositary and its Participants are on file with the Securities and Exchange Commission.

Purchases of Book-Entry Notes under the Depositary s system must be made by or through Direct Participants, which will receive a credit for the Book-Entry Notes on the Depositary s records. The ownership interest of beneficial owners of each Book-Entry Note is in turn to be recorded on the records of Direct Participants and Indirect Participants. Beneficial owners will not receive written confirmation from the Depositary of their purchase, but beneficial owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct Participants or Indirect Participants through which the beneficial owner entered into the transaction. Transfers of ownership interests in a global security representing Book-Entry Notes are to be accomplished by entries made on the books of Participants acting on behalf of beneficial owners. Beneficial owners of a global security representing Book-Entry Notes will not receive certificates representing their ownership interests in Book-Entry Notes, except in the event that use of the book-entry system for the Book-Entry Notes is discontinued.

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To facilitate subsequent transfers, all global securities representing Book-Entry Notes which are deposited with the Depositary are registered in the name of the Depositary s nominee, Cede & Co., or another name as may be requested by an authorized representative of the Depositary. The deposit of global securities with the Depositary and their registration in the name of Cede & Co., or any other name requested by an authorized representative of the Depositary, effect no change in beneficial ownership. The Depositary has no knowledge of the actual beneficial owners of the global securities representing the Book-Entry Notes; the Depositary s records reflect only the identity of the Direct Participants to whose accounts the Book-Entry Notes are credited, which may or may not be the beneficial owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Delivery of notices and other communications by the Depositary to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to Cede & Co. If less than all of the Book-Entry Notes within an issue are being redeemed, the Depositary s practice is to determine by lot the amount of the interest of each Direct Participant in the issue to be redeemed.

Neither the Depositary nor Cede & Co. will consent or vote with respect to the global securities representing the Book-Entry Notes. Under its usual procedures, the Depositary mails an Omnibus Proxy to us as soon as possible after the applicable record date. The Omnibus Proxy assigns Cede & Co. s consenting or voting rights to those Direct Participants to whose accounts the Book-Entry Notes are credited on the applicable record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the global securities representing the Book-Entry Notes will be made to the Depositary. The Depositary s practice is to credit Direct Participants accounts on the applicable payment date in accordance with their respective holdings shown on the Depositary s records unless the Depositary has reason to believe that it will not receive payment on that date.

Payments by Participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in *street name,* and will be the responsibility of the Participant and not of the Depositary, the paying agent or us, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to the Depositary is the responsibility of us or the paying agent, disbursement of the payments to Direct Participants is the responsibility of the Depositary, and disbursement of payments to the beneficial owners is the responsibility of Direct Participants and Indirect Participants.

A beneficial owner will give notice of any option to elect to have its Book-Entry Notes purchased or tendered by us, through its Participant, to the paying agent, and shall effect delivery of the Book-Entry Notes by causing the Direct Participant to transfer the Participant s interest in the global security or securities representing the Book-Entry Notes, on the Depositary s records, to the paying agent. The requirement for physical delivery of Book-Entry Notes in connection with a demand for repayment will be deemed satisfied when the ownership rights in the global security or securities representing the Book-Entry Notes are transferred by Direct Participants on the Depositary s records.

The Depositary may discontinue providing its services as securities depositary with respect to the Book-Entry Notes at any time by giving reasonable notice to us or to the trustee.

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If the Depositary is at any time unwilling or unable to continue as depositary or if the Depositary ceases to be a *clearing agency* registered pursuant to the provisions of Section 17A of the Exchange Act, and, in either case, we do not appoint a successor depositary within 90 days, we will issue individual certificated Notes in exchange for Book-Entry Notes represented by global securities. In addition, we may at any time, and in our sole discretion, determine not to have one or more Book-Entry Notes represented by one or more global securities and, in such event, will issue individual certificated Notes in exchange for Book-Entry Notes represented by global securities. If the Notes are Book-Entry Notes represented by one or more global securities and if an Event of Default with respect to the Notes shall have occurred and be continuing, we will issue individual certificated Notes in exchange for such Book-Entry Notes represented by global securities.

We have obtained the information in this section concerning the Depositary and the Depositary s book-entry system from sources that we believe to be reliable, though the Depositary has declined to pass upon the accuracy of the statements contained herein.

None of us, any agents, the trustee, any paying agent or the registrar for the Notes will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in a global security or for maintaining, supervising or reviewing any records relating to these beneficial ownership interests.

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UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The following is a summary of the United States federal income tax considerations that are expected to apply to the purchase, ownership and disposition of Notes and that are expected to be material to U.S. Holders and non-U.S. Holders who purchase Notes. This summary is based on provisions of the Internal Revenue Code of 1986, as amended (the *Code*), applicable U.S. Treasury regulations promulgated under the Code (the *Treasury Regulations*), and publicly available administrative and judicial interpretations thereof, all as in effect as of the date of this prospectus supplement and all of which are subject to change, possibly with retroactive effect, or to different interpretations. This summary does not purport to be a complete technical analysis or listing of all potential tax considerations that may be relevant to U.S. holders or non-U.S. holders of the Notes in light of their particular circumstances.

This summary discusses only the principal United States federal income tax consequences to those beneficial owners holding Notes as *capital assets* within the meaning of Section 1221 of the Code. It does not address all of the tax consequences that may be relevant to a beneficial owner in light of the beneficial owner s particular circumstances or to beneficial owners subject to special rules (including pension plans and other tax-exempt investors, banks, thrifts, insurance companies, real estate investment trusts, regulated investment companies, dealers in securities, currencies and persons so treated for federal income tax purposes, persons whose functional currency (as defined in Section 985 of the Code) is other than the U.S. dollar, persons who hold Notes as part of a straddle, hedging or conversion transaction, expatriates, partnerships or other pass-through entities or investors in such entities, and persons who otherwise hold Notes as other than capital assets). This summary does not discuss the taxation of Notes which are considered *applicable high yield discount obligations* under Section 163(i) of the Code. Beneficial owners of applicable high yield discount obligations may be subject to special rules which will be set forth in the applicable pricing supplement, if appropriate. This summary also assumes that a taxpayer obtains any necessary consent of the Internal Revenue Service (the *IRS*) before changing a method of accounting.

Persons considering the purchase of Notes should consult their tax advisors with regard to the application of United States federal income tax laws to their particular situations as well as any tax consequences to them arising under the laws of any state, local or foreign taxing jurisdiction. State, local and foreign income tax laws may differ substantially from the corresponding federal income tax laws, and this discussion does not purport to describe any aspect of the tax laws of any state, local or foreign jurisdiction.

As used in this summary, the term *United States Holder* means a beneficial owner of a Note who or which is, for United States federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation or other entity taxable as a corporation that is created or organized in or under the laws of the United States or of any political subdivision thereof;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust (i) if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust or (ii) that has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a United States person.

The term *non-United States Holder* means a beneficial owner that is a nonresident alien individual or a corporation, trust or estate that is not a United States Holder.

If a beneficial owner of the Notes is treated as a partnership or a partner in a partnership for U.S. federal income tax purposes, the tax consequences of owning and disposing of the Notes will depend on a variety of factors, including the status and activities of the partnership and its partners. Partnerships considering the purchase of the Notes, and persons who are partners in such partnerships, are urged to consult their tax advisors regarding the tax consequences associated with owning and disposing of the Notes.

Taxation of Interest In General

The taxation of interest on a Note depends on whether the interest constitutes *qualified stated interest* or *original issue discount* (as those terms are defined below). Interest on a Note that is qualified stated interest is includible in a United States Holder s income as ordinary interest income when actually or constructively received (if the beneficial owner uses the cash method of accounting for federal income tax purposes) or when accrued (if the beneficial owner uses an accrual method of accounting for federal income tax purposes). Interest that is not qualified stated interest is generally treated as original issue discount and includible in a United States Holder s income as it accrues based upon a constant yield, as described below, regardless of the beneficial owner s method of accounting. Depending upon the terms of the Notes, as set forth in the applicable pricing supplement, a Note may have qualified stated interest, original issue discount, or both. Notwithstanding the foregoing, interest that is payable on a Note with a maturity of one year or less from its issue date, referred to as a *Short-Term Note*, is included in a United States Holder s income under the rules described below under Short-Term Notes.

Qualified Stated Interest

Generally, *qualified stated interest* is defined as interest that is unconditionally payable in cash or in property (other than with property constituting debt instruments of the issuer) at least annually (or treated as constructively received at least annually), and that is calculated at a single fixed rate or, under certain circumstances described below under Taxation of Floating Rate Notes, at a variable rate.

If interest is not unconditionally payable, is not paid or constructively received at least annually, or is not calculated at a single fixed rate (or a permitted variable rate), some or all of the interest will be included in the Note s *stated redemption price at maturity* and will be taken into account as original issue discount as described below under Original Issue Discount.

Original Issue Discount

Definition of OID. Original issue discount, or OID, is the excess, if any, of a Note s *stated redemption price at maturity* over its *issue price.* A Note s *stated redemption price at maturity* is the sum of all payments provided by the Note (whether designated as interest or principal) other than payments of qualified stated interest. Thus, if the interest payments on a Note do not represent qualified stated interest, the interest payments will be included in the stated redemption price at maturity and the Note will have OID. Also, a Note with an issue price less than its face amount by more than a de-minimis amount will generally have OID. The *issue price* and *issue date* of a Note sold for money will be the first price and the first settlement or closing date (whichever is applicable), respectively, at which a substantial amount of the Notes in the issuance that includes such Note is sold (excluding sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers).

As described more fully below, United States Holders of Notes that have OID and that mature more than one year from their issue date generally are required to include the OID in income as it accrues in accordance with the constant yield method described below, irrespective of the receipt of the related cash payments. A United States Holder s tax basis in a Note is increased by each accrual of OID and decreased by each payment other than a payment of qualified stated interest.

The amount of OID with respect to a Note will generally be treated as zero if the OID is less than a de-minimis amount equal to .0025 multiplied by the product of the stated redemption price at maturity and the number of complete years to maturity (or in the case of a Note that provides for payment of any amount other than qualified stated interest on one or more dates prior to maturity, the weighted average maturity of the Note). If the amount of OID with respect to a Note is less than the de-minimis amount, the OID that is not included in payments of qualified stated interest is generally included in income as

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capital gain as principal payments are made. The amount includible with respect to a principal payment equals the product of the total amount of de-minimis OID and a fraction, the numerator of which is the amount of the principal payment and the denominator of which is the stated principal amount of the Note.

Inclusion of OID in Income. The amount of OID (other than de minimis OID) includible in the income of a United States Holder for any taxable year is determined under the constant yield method, in four steps.

In the first step, the *yield to maturity* of the Note is computed. The yield to maturity is the discount rate that, when used in computing the present value as of the issue date of all interest and principal payments to be made under the Note (including payments of qualified stated interest) produces an amount equal to the issue price of the Note. The yield to maturity is constant over the term of the Note and, when expressed as a percentage, must be calculated to at least two decimal places.

In the second step, the term of the Note is divided into *accrual periods.* Accrual periods may be of any length and may vary in length over the term of the Note, provided that each accrual period is no longer than one year and that each scheduled payment of principal or interest occurs either on the final day of an accrual period or on the first day of an accrual period.

In the third step, the total amount of OID on the Note is allocated among accrual periods. In general, the OID allocable to an accrual period equals the product of the adjusted issue price of the Note at the beginning of the accrual period and the yield to maturity of the Note, less the amount of any qualified stated interest allocable to the accrual period. The adjusted issue price of a Note at the beginning of the first accrual period is its issue price. Thereafter, the adjusted issue price of the Note is its issue price, increased by the amount of OID previously includible in the gross income of any United States Holder and decreased by the amount of any payment previously made on the Note other than a payment of qualified stated interest. For purposes of computing the adjusted issue price of a Note, the amount of OID previously includible in the gross income of any United States Holder is determined without regard to *premium* and *acquisition premium,* as those terms are defined below.

In the fourth step, the *daily portions* of OID are determined by allocating to each day in an accrual period its ratable portion of the OID allocable to the accrual period.

A United States Holder includes in income in any taxable year the daily portions of OID for each day during the taxable year that the United States Holder held Notes. In general, under the constant yield method described above, United States Holders are required to include in income increasingly greater amounts of OID in successive accrual periods.

In the case of a Note that is redeemable at our option or repayable by us at the option of the United States Holder, the maturity and the yield to maturity of the Note are determined by assuming that we and the United States Holder will exercise or not exercise the options in a manner that minimizes the yield, in the case of options available to us, or maximizes the yield, in the case of options available to the United States Holder.

Redemption or Payment Prior to Maturity. Certain Notes having OID may be redeemed prior to maturity or may be repayable at the option of the United States Holder. These Notes may be subject to rules that differ from the general rules discussed above relating to the tax treatment of OID. Purchasers of Notes with a redemption feature should examine carefully the applicable pricing supplement and should consult their tax advisors with respect to the redemption feature since the tax consequences with respect to interest and OID will depend, in part, on the particular terms and the particular features of the Note.

Aggregation. The Treasury Regulations relating to the tax treatment of OID contain certain language (*aggregation rules*) stating in general that, with some exceptions, if more than one type of Note is issued in connection with the same transaction or related transactions, the Notes may be treated as a single debt instrument with a single issue price, maturity date, yield to maturity and stated redemption price at maturity for purposes of calculating and accruing any OID. Unless otherwise provided in the

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applicable pricing supplement, we do not expect to treat different types of Notes as being subject to the aggregation rules for purposes of computing OID.

Taxation of Fixed Rate Notes

Generally, based upon the terms contemplated for the fixed rate Notes, and except as provided in the applicable pricing supplement, stated interest on a fixed rate Note will constitute *qualified stated interest* to the extent the interest is unconditionally payable, or will be constructively received under Section 451 of the Code, at least annually, in cash or in property (other than our debt instruments). If these conditions are not met, the holder will take interest payments into account under the OID rules. Also, to the extent the principal amount of a fixed rate Note exceeds the issue price by more than the de-minimis amount, the excess will be taken into account as OID.

Taxation of Floating Rate Notes

Interest on a floating rate Note that is unconditionally payable, or will be constructively received under Section 451 of the Code, in cash or in property (other than our debt instruments) at least annually will constitute *qualified stated interest* if the Note is a *variable rate debt instrument* under the rules described below and if the interest is payable at a single *qualified floating rate* or single *objective rate* (each as defined below). If the Note is a variable rate debt instrument but the interest is payable other than at a single qualified floating rate or at a single objective rate, special rules apply to determine the portion of the interest that constitutes *qualified stated interest*. See Determination of Qualified Stated Interest and OID on Floating Rate Notes Notes that are Variable Rate Debt Instruments below. If interest on a floating rate Note is not unconditionally payable, is payable in our debt instruments, or is not payable (or constructively received) at least annually, or if a Note is not a variable rate debt instrument, none of the interest will constitute *qualified stated interest*, and all such interest will be taken into account under the OID rules. Also, any excess of the principal amount of a floating rate Note over the issue price of the Note will be taken into account as OID.

Definition of a Variable Rate Debt Instrument.

A floating rate Note is a variable rate debt instrument if all of the four following conditions are met.

First, the *issue price* (as described below) of the Note must not exceed the total noncontingent principal payments by more than an amount equal to the lesser of:

- .015 multiplied by the product of the total noncontingent principal payments and the number of complete years to maturity from the issue date (or, in the case of a Note that provides for payment of any amount other than qualified stated interest before maturity, its weighted average maturity); or

- 15% of the total noncontingent principal payments.

Second, the Note must provide for stated interest (compounded or paid at least annually) at:

- one or more *qualified floating rates* ;

- a single fixed rate and one or more qualified floating rates;

- a single *objective rate* ; or

- a single fixed rate and a single objective rate that is a *qualified inverse floating rate* (as defined below).

Third, the Note must provide that a qualified floating rate or objective rate in effect at any time during the term of the instrument is set at the current value of that rate. A current value is the value of the rate on any day that is no earlier than three months prior to the first day on which that value is in effect and no later than one year following that first day.

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Fourth, the Note may not provide for any principal payments that are contingent except as provided in the first requirement set forth above.

If any of these four conditions is not met with respect to a floating rate Note, the Note will not be treated as a *variable rate debt instrument*, so the interest on the Note will not be *qualified stated interest* but will be taken into account under the OID rules. See Determination of Qualified Stated Interest and OID on Floating Rate Notes Notes That Are Not Variable Rate Debt Instruments below.

Definition of a Qualified Floating Rate. Subject to certain exceptions, a variable rate of interest on a Note is a *qualified floating rate* if variations in the value of the rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which the Note is denominated. A variable rate is considered a qualified floating rate if the variable rate equals (1) the product of an otherwise qualified floating rate and a fixed multiple that is greater than 0.65 but not more than 1.35; or (2) an otherwise qualified floating rate (or the product described in clause (1)) plus or minus a fixed rate. If the variable rate equals the product of an otherwise qualified floating rate and a single multiplier greater than 1.35 or less than or equal to 0.65, however, the rate generally is an objective rate, described more fully below. A variable rate is not considered a qualified floating rate if the variable rate is subject to a cap, floor, governor (i.e., a restriction on the amount of increase or decrease in the stated interest rate) or similar restriction that is reasonably expected as of the issue date to cause the yield on the Note to be significantly more or less than the expected yield determined without the restriction (other than a cap, floor, governor or similar restriction that is fixed throughout the term of the Note).

Definition of an Objective Rate. Subject to certain exceptions, an *objective rate* is a rate (other than a qualified floating rate) that is determined using a single fixed formula and that is based on objective financial or economic information that is neither within the control of the issuer (or a related party) nor unique to the circumstances of the issuer (or a related party). For example, an objective rate generally includes a rate that is based on one or more qualified floating rates or on the yield or price of actively traded personal property (within the meaning of Section 1092(d)(1) of the Code). Notwithstanding the first sentence of this paragraph, a rate is not an objective rate if it is reasonably expected that the average value of the rate during the first half of the Note s term will be either significantly less than or significantly greater than the average value of the rate during the final half of the Note s term. The IRS may designate rates other than those specified above that will be treated as objective rates. As of the date of this prospectus supplement, no other rates have been designated. An objective rate is a *qualified inverse floating rate* if (1) the rate is equal to a fixed rate minus a qualified floating rate and (2) the variations in the rate can reasonably be expected to reflect inversely contemporaneous variations in the qualified floating rate (disregarding any caps, floors, governors or similar restrictions that would not, as described above, cause a rate to fail to be a qualified floating rate).

If interest on a Note is stated at a fixed rate for an initial period of one year or less, followed by a variable rate that is either a qualified floating rate or an objective rate for a subsequent period, and the value of the variable rate on the issue date is intended to approximate the fixed rate, the fixed rate and the variable rate together constitute a single qualified floating rate or objective rate.

Determination of Qualified Stated Interest and OID on Floating Rate Notes

The determination of the amount of qualified stated interest and OID (including interest that does not constitute qualified stated interest) on a floating rate Note will depend on whether the Note is a variable rate debt instrument, as that term is described above under Definition of a Variable Rate Debt Instrument.

Notes That Are Variable Rate Debt Instruments. In the case of a variable rate debt instrument that provides for unconditional payments, at least annually, of stated interest at a single variable rate, all stated interest is qualified stated interest and the amount of qualified stated interest and OID, if any, includible in income during a taxable year are determined under the rules applicable to fixed rate Notes (described above) by assuming that the variable rate is a fixed rate equal to:

in the case of a qualified floating rate or a qualified inverse floating rate, the value, as of the issue date, of the qualified floating rate or qualified inverse floating rate; or

in the case of an objective rate (other than a qualified inverse floating rate), the rate that reflects the yield that is reasonably expected for the Note.

Qualified stated interest allocable to an accrual period is increased (or decreased) if the interest actually paid during an accrual period exceeds (or is less than) the interest assumed to be paid during the accrual period.

If a Note that is a variable rate debt instrument does not provide for interest at a single variable rate as described above, the amount of qualified stated interest and OID accruals are determined by constructing an equivalent fixed rate debt instrument, as follows:

First, in the case of an instrument that provides for interest at one or more qualified floating rates or at a qualified inverse floating rate and, in addition, at a fixed rate, the fixed rate is replaced with a qualified floating rate (or qualified inverse floating rate) such that the fair market value of the instrument, so modified, as of the issue date would be approximately the same as the fair market value of the unmodified instrument.

Second, a fixed rate substitute is determined for each variable rate provided by the Note. The fixed rate substitute for each qualified floating rate provided by the Note is the value of that qualified floating rate on the issue date. If the Note provides for two or more qualified floating rates with different intervals between interest adjustment dates (for example, the 30-day Commercial Paper Rate and quarterly LIBOR), the fixed rate substitutes are based on intervals that are equal in length (for example, the 90-day Commercial Paper Rate and quarterly LIBOR, or the 30-day Commercial Paper Rate and monthly LIBOR). The fixed rate substitute for an objective rate that is a qualified inverse floating rate is the value of the qualified inverse floating rate on the issue date. The fixed rate substitute for an objective rate (other than a qualified inverse floating rate) is a fixed rate that reflects the yield that is reasonably expected for the Note.

Third, an equivalent fixed rate debt instrument is constructed with terms that are identical to those provided under the Note, except that the equivalent fixed rate debt instrument provides for the fixed rate substitutes determined in the second step, in lieu of the qualified floating rates or objective rate provided by the Note.

Fourth, the amount of qualified stated interest and OID is determined for the equivalent fixed rate debt instrument under the rules (described above) for fixed rate Notes. These amounts are taken into account as if the United States Holder held the equivalent fixed rate debt instrument. See Taxation of Interest Qualified Stated Interest, Taxation of Interest Original Issue Discount, and Taxation of Fixed Rate Notes above

Fifth, appropriate adjustments are made for the actual values of the variable rates. In this step, qualified stated interest or OID allocable to an accrual period is increased (or decreased) if the interest actually accrued or paid during the accrual period exceeds (or is less than) the interest assumed to be accrued or paid during the accrual period under the equivalent fixed rate debt instrument.

Notes That Are Not Variable Rate Debt Instruments. Floating rate Notes that are not variable rate debt instruments (*Contingent Notes*) are taxable under the rules applicable to contingent payment debt instruments (the *Contingent Debt Regulations*). Under the Contingent Debt Regulations, no portion of the interest payable on a Note that is not a variable rate debt instrument constitutes qualified stated interest. The Contingent Debt Regulations provide as follows.

First, we are required to determine, as of the issue date, the comparable yield for the Contingent Note. The comparable yield is generally the yield at which we would issue a fixed rate debt instrument with terms and conditions similar to those of the Contingent Note (including the level of subordination, term, timing of payments and general market conditions, but not taking into consideration the riskiness of the contingencies or the liquidity of the Contingent Note), but not less than the applicable federal rate announced monthly by the IRS (the *AFR*). In certain cases where Contingent Notes are marketed or sold in substantial part to tax-exempt investors or other investors for whom the prescribed inclusion of interest is not expected to have a substantial effect on their United States tax liability, the comparable yield for the Contingent Note, without proper evidence to the contrary, is presumed to be the AFR.

Second, solely for tax purposes, we construct a projected schedule of payments determined under the Contingent Debt Regulations for the Contingent Note (the *Schedule*). The Schedule is determined as of the issue date and generally remains in place throughout the term of the Contingent Note. If a contingent payment is based on market information, the amount of the projected payment is the forward price of the contingent payment. If a contingent payment is not based on market information, the amount of the projected payment is the expected value of the contingent payment as of the issue date. The Schedule must produce the comparable yield determined as set forth above. Otherwise, the Schedule must be adjusted under the rules set forth in the Contingent Debt Regulations.

Third, under the usual rules applicable to OID and based on the Schedule, the interest income on the Contingent Note for each accrual period is determined by multiplying the comparable yield of the Contingent Note (adjusted for the length of the accrual period) by the Contingent Note s adjusted issue price at the beginning of the accrual period (determined under rules set forth in the Contingent Debt Regulations). The amount so determined is then allocated on a ratable basis to each day in the accrual period that the United States Holder held the Contingent Note.

Fourth, appropriate adjustments are made to the interest income determined under the foregoing rules to account for any differences between the Schedule and actual contingent payments. Under the rules set forth in the Contingent Debt Regulations, differences between the actual amounts of any contingent payments made in a calendar year and the projected amounts of the payments are generally aggregated and taken into account, in the case of a positive difference, as additional interest income, or, in the case of a negative difference, first as a reduction in interest income for that year and thereafter, subject to certain limitations, as ordinary loss or capital loss.

We are required to provide each United States Holder of a Contingent Note with the Schedule described above. If we do not create a Schedule or the Schedule is unreasonable, a United States Holder must set its own projected payment schedule and explicitly disclose the use of the schedule and the reason therefor. Unless otherwise prescribed by the IRS, the United States Holder must make the disclosure on a statement attached to the United States Holder s timely filed federal income tax return for the taxable year in which the Contingent Note was acquired.

In general, any gain realized by a United States Holder on the sale, exchange, redemption, retirement or other disposition of a Contingent Note is interest income. In general, any loss on a Contingent Note accounted for under the method described above is ordinary loss to the extent it does not exceed the United States Holder s prior interest inclusions on the Contingent Note (net of negative adjustments). Special rules apply in determining the tax basis of a Contingent Note and the amount realized on the retirement of a Contingent Note.

Indexed Notes. Although the above discussion generally applies to Indexed Notes, special rules may apply to certain Indexed Notes. The tax consequences to a United States Holder of the ownership and disposition of Indexed Notes may vary depending on the exact terms of the Notes. United States Holders intending to purchase Indexed Notes should refer to the discussion relating to taxation in the applicable pricing supplement.

Market Discount

If a United States Holder acquires a Note that has a maturity date of more than one year from the date of its issuance and that has market discount, the market discount is subject to special rules. In the

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case of a Note that does not have OID, the Note has market discount if the tax basis of the Holder is less than the stated redemption price at maturity of the Note by more than a de-minimis amount. In the case of a Note that has OID, the Note has market discount if the tax basis of the Holder is less than its adjusted issue price (as defined above) by more than the de-minimis amount. The de-minimis amount equals .0025 multiplied by the product of the stated redemption price at maturity and the number of complete years to maturity (from the date of acquisition).

Under the market discount rules of the Code, a United States Holder is required to treat any principal payment (or, in the case of a Note that has OID, any payment that is not qualified stated interest) on, or any gain on the sale, exchange, retirement, redemption or other disposition of, a Note as ordinary income to the extent of the accrued market discount that has not previously been included in income. Thus, principal payments (including partial principal payments) and sales proceeds are treated as ordinary income to the extent of accrued market discount that has not previously been included in income. If the Note is disposed of by the United States Holder in certain otherwise nontaxable transactions, accrued market discount is includible as ordinary income by the United States Holder as if the United States Holder had disposed of the Note in a taxable transaction. Amounts treated as ordinary income under these rules are generally classified as interest.

In general, the amount of market discount that has accrued is determined on a ratable basis. A United States Holder may, however, elect to determine the amount of accrued market discount on a constant yield to maturity basis. This election is made on a Note-by-Note basis and is irrevocable.

With respect to Notes with market discount, the deduction by a United States Holder of all or part of the interest expense on any indebtedness incurred or continued to purchase or to carry the Notes may be deferred until the market discount is recognized. A United States Holder may elect to include market discount in income currently as it accrues, in which case the interest deferral rule set forth in the preceding sentence does not apply. Such an election applies to all debt instruments acquired by the United States Holder on or after the first day of the first taxable year to which the election applies and is irrevocable without the consent of the IRS. A United States Holder s tax basis in a Note is increased by the amount of market discount included in the United States Holder s income under the election.

In lieu of the foregoing rules, different rules apply in the case of Contingent Notes where a United States Holder s tax basis in a Contingent Note is less than the Contingent Note s adjusted issue price (determined under special rules set out in the Contingent Debt Regulations). Accordingly, prospective purchasers of Contingent Notes are urged to consult their tax advisors with respect to the application of the market discount rules.

Premium and Acquisition Premium

If a United States Holder purchases a Note at a *premium*, the United States Holder does not include any OID in gross income. A Note is purchased at a premium (or *amortizable bond premium*) if its adjusted basis in the hands of the purchaser immediately after the purchase exceeds the sum of all amounts payable on the Note after the purchase date other than payments of qualified stated interest. United States Holders may elect to amortize the premium as an offset to qualified stated interest income, using a constant yield method similar to that described above, over the remaining term of the Note (where the Note is not redeemable prior to its maturity date). In the case of Notes that may be redeemed prior to maturity, the premium is calculated assuming that we or the United States Holder will exercise or not exercise redemption rights in a manner that maximizes the United States Holder s yield. A United States Holder who elects to amortize bond premium must reduce the beneficial owner s tax basis in the Note by the amount of the premium used to offset qualified stated interest income as set forth above. If this election is made with respect to any Note, it will also apply to all debt instruments held by the United States Holder at the beginning of the first taxable year to which the election applies and to all debt instruments acquired by the United States Holder, and will be binding for all subsequent taxable years unless the election is revoked with the consent of the IRS.

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If a United States Holder purchases a Note with OID at an *acquisition premium*, the amount of OID that the United States Holder includes in gross income is reduced to reflect the acquisition premium. A Note is purchased at an acquisition premium if its adjusted basis in the hands of the purchaser immediately after the purchase is (1) less than or equal to the sum of all amounts payable on the Note after the purchase date other than payments of qualified stated interest and (2) greater than the Note s adjusted issue price (as described above).

If a Note is purchased at an acquisition premium, the United States Holder reduces the amount of OID otherwise includible in income during an accrual period by a fraction. The numerator of this fraction is the excess of the adjusted basis of the Note immediately after its acquisition by the purchaser over the adjusted issue price of the Note. The denominator of the fraction is the excess of the sum of all amounts payable on the Note after the purchase date, other than payments of qualified stated interest, over the Note s adjusted issue price.

As an alternative to reducing the amount of OID otherwise includible in income by this fraction, the United States Holder may elect to compute OID accruals by treating the purchase as a purchase at original issuance and applying the constant yield method described under Taxation of Interest Original Issue Discount above. See Election to Treat All Interest as OID below.

In lieu of the foregoing rules, different rules apply in the case of Contingent Notes where a United States Holder s tax basis in a Contingent Note is greater than the Contingent Note s adjusted issue price (determined under special rules set out in the Contingent Debt Regulations). Accordingly, prospective purchasers of Contingent Notes are urged to consult their tax advisors with respect to the application of the acquisition premium and amortizable bond premium rules.

Pre-Issuance Accrued Interest

If (1) a portion of the initial purchase price of a Note is attributable to pre-issuance accrued interest, (2) the first stated interest payment on the Note is to be made within one year of the Note s issue date and (3) the payment will equal or exceed the amount of pre-issuance accrued interest, then the United States Holder may elect to decrease the issue price of the Note by the amount of the pre-issuance accrued interest. In this event, a portion of the first stated interest payment will be treated as a return of the excluded pre-issuance accrued interest and not as an amount payable on the Note.

Short-Term Notes

In the case of a Note with a maturity of one year or less from its issue date (a *Short-Term Note*), United States Holders that report income for federal income tax purposes on an accrual method and certain other United States Holders, including banks and dealers in securities, generally are required to include OID, if any, in income on the Short-Term Notes on a straight-line basis, unless an election is made to accrue the OID according to a constant yield method based on daily compounding.

In the case of a United States Holder that is not required, and does not elect, to include OID in income currently, any gain realized on the sale, exchange, redemption, retirement or other disposition of a Short-Term Note is ordinary income to the extent of the OID accrued on a straight-line basis (or, if elected, according to a constant yield method based on daily compounding) through the date of disposition. In addition, such United States Holders are required to defer deductions for any interest paid on indebtedness incurred or continued to purchase or carry a Short-Term Note in an amount not exceeding the deferred interest income with respect to the Short-Term Note, until the deferred interest income is recognized. A United States Holder of a Short-Term Note may elect to apply the foregoing rules (except for the rule characterizing gain on disposition as ordinary) with respect to *acquisition discount* rather than OID. Acquisition discount is the excess of the stated redemption price at maturity of the Short-Term Note over the United States Holder s basis in the Short-Term Note. This election applies to all obligations acquired by the taxpayer on or after the first day of the first taxable year to which the election applies, unless revoked with the consent of the IRS. A United States Holder s tax basis in a Short-Term Note is increased by the amount included in the United States Holder s income on the Note.

Election to Treat All Interest as OID

United States Holders may elect to include in gross income all interest that accrues on a Note, including any stated interest, acquisition discount, OID, market discount, de minimis OID, de minimis market discount and unstated interest (as adjusted by amortizable bond premium and acquisition premium), by using the constant yield method described above under Taxation of Original Issue Discount. In applying the constant yield method to a Note with respect to which this election has been made, the issue price of the Note will equal the electing United States Holder s adjusted basis in the Note immediately after its acquisition, the issue date of the Note will be the date of its acquisition by the electing United States Holder and no payments on the Note will be treated as payments of qualified stated interest. This election generally will apply only to the Note with respect to which it is made and may be revoked only with the permission of the IRS. An election for a Note with amortizable bond premium results in a deemed election to amortize bond premium for all debt instruments owned and later acquired by the United States Holder with amortizable bond premium and may be revoked only with the permission of the IRS. Similarly, an election for a Note with market discount results in a deemed election to accrue market discount in income currently for the Note and for all other debt instruments acquired by the United States Holder with market discount on or after the first day of the taxable year to which the election first applies, and may be revoked only with the permission of the IRS. A United States Holder s tax basis in a Note is increased by each accrual of the amounts treated as OID under the constant yield election described in this paragraph.

The application of the foregoing rules may be different in the case of Contingent Notes. Accordingly, prospective purchasers are urged to consult their tax advisors concerning the election to treat all interest as OID.

Integration of Notes with Other Financial Instruments

Any United States Holder of Notes that also acquires or has acquired any financial instrument which, in combination with the Notes, would permit the calculation of a single yield to maturity or could generally constitute a variable rate debt instrument of an equivalent term, may in certain circumstances treat the Notes and the financial instrument as an integrated debt instrument for purposes of the Code, with a single determination of issue price and the character and timing of income, deductions, gains and losses. (For purposes of determining OID, none of the payments under the integrated debt instrument would be treated as qualified stated interest.) Moreover, the IRS may require in certain circumstances that a United States Holder who owns Notes integrate the Notes with a financial instrument held or acquired by the United States Holder or a related party. United States Holders should consult their tax advisors as to this possibility.

Sale, Exchange, Redemption, Retirement or Other Taxable Disposition of Notes

A United States Holder generally recognizes gain or loss upon the sale, exchange, redemption, retirement or other disposition of a Note equal to the difference between the amount realized upon the sale, exchange, redemption, retirement or other taxable (other than any such amount attributable to accrued but unpaid qualified stated interest) disposition and the United States Holder s adjusted basis in the Note. The adjusted basis in the Note generally equals the cost of the Note, increased by OID, acquisition discount or market discount previously included in income in respect thereof, and reduced (but not below zero) by any payments on the Note other than payments of qualified stated interest and by any premium amortization that the United States Holder has taken into account. To the extent attributable to accrued but unpaid qualified stated interest, the amount realized by the United States Holder is treated as a payment of interest. Any gain or loss is capital gain or loss, except as provided under Market Discount and Short-Term Notes, above. A United States Holder s ability to deduct capital losses may be limited. Special rules apply in determining the tax basis of a Contingent Note and the amount realized on the retirement of a Contingent Note.

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Amortizing Notes

Payments received pursuant to an Amortizing Note may consist of both a principal and an interest component. The principal component will generally constitute a tax-free return of capital that will reduce a United States Holder s adjusted tax basis in the Amortizing Note.

Extension of Maturity and Renewable Notes

If so indicated in the pricing supplement relating to a Note, either (i) we will have the option to extend the maturity of the Note or (ii) the holder of a Renewable Note will have the option to elect to extend the term of the Note. See Description of Notes Extension of Maturity and Description of Notes Renewable Notes above. The treatment of a United States Holder of Notes with respect to which such an option has been exercised (who does not elect to have us repay such Notes, in the case of Notes for which we have the option to elect to extend the maturity) on the stated maturity date will depend on the terms established for the Notes by us. The United States Holder may be treated for federal income tax purposes as having exchanged the Notes (the *old Notes*) for new Notes with revised terms (the *new Notes*). If the United States Holder is treated as having exchanged old Notes for new Notes, such exchange may be treated as either a taxable exchange or a recapitalization.

If the exercise of either option described in the preceding paragraph is not treated as an exchange of old Notes for new Notes, no gain or loss will be recognized by a United States Holder as a result thereof. If the exercise of either option is treated as a taxable exchange of old Notes for new Notes, a United States Holder will recognize gain or loss generally equal to the difference between the issue price of the new Notes and the United States Holder s adjusted tax basis in the old Notes. If the exercise of either such option is treated as a recapitalization, no loss will be recognized by a United States Holder as a result thereof and gain, if any, will be recognized to the extent of the fair market value of the excess, if any, of the principal amount of the new Notes over the principal amount of the old Notes. In this regard, the meaning of the term *principal amount* is not clear. This term could be interpreted to mean the face amounts of the Notes or, instead, the *issue price* with respect to the new Notes and *adjusted issue price* with respect to the old Notes.

Even if an exercise does not result in an exchange of the old Notes for new Notes, the old Notes may be treated as retired and then reissued on the date of exercise for the adjusted issue price of the old Notes solely for purposes of calculating original issue discount.

Additional tax considerations may arise from the ownership of extendible Notes or Renewable Notes in light of the particular features or combination of features of the Notes. Therefore, prospective beneficial owners of extendible Notes or Renewable Notes should examine carefully the applicable pricing supplement and are urged to consult their tax advisors regarding the tax consequences of the ownership of such Notes.

Non-United States Holders

The rules governing the U.S. federal income taxation of a non-United States Holder are complex. The following is intended solely to provide a summary of such rules. Non-United States Holders are urged to consult with their own tax advisors to determine the effect of federal, state, local and foreign income tax laws, as well as any applicable treaties, with regard to an investment in the Notes.

Under current United States federal income tax law now in effect, and subject to the discussion of effectively connected income, backup withholding and information reporting below, payments of principal and interest (including OID) with respect to a Note by us or any paying agent to a non-United States Holder are not subject to the withholding of United States federal income tax, *provided* in the case of interest (including OID), that:

the non-United States Holder does not own, actually or constructively, 10 percent or more of the total combined voting power of all classes of our stock entitled to vote, is not a controlled foreign corporation related, directly or indirectly, to us through stock ownership, and is not a bank receiving interest described in section 881(c)(3)(A) of the Code;

the payments are not payments of contingent interest (generally, interest (including OID), the amount of which is determined by reference to receipts, sales, cash flow, income, profits, property values, dividends or comparable attributes of us or a party related to us); and

the statement requirement set forth in Section 871(h) or Section 881(c) of the Code has been fulfilled with respect to the non-United States Holder, as discussed in the following paragraph.

The statement requirement set forth in Section 871(h) or 881(c) of the Code is satisfied if either (1) the beneficial owner of the Note certifies, under penalties of perjury, to the last United States payor (or non-United States payor who is an authorized foreign agent of the United States payor, a *qualified intermediary*, a United States branch of a foreign bank or foreign insurance company or a *withholding foreign partnership*) in the chain of payment (the *withholding agent*) that such owner is a non-United States Holder and provides such owner s name and address or (2) a securities clearing organization, a bank or another financial institution that holds customers securities in the ordinary course of its trade or business (a *financial institution*) that holds the Note certifies to the withholding agent, under penalties of perjury, that the certificate has been received from the beneficial owner by it or by a financial institution between it and the beneficial owner and furnishes the withholding agent with a copy thereof. Generally, this statement is made on IRS Form W-8BEN, which is effective for the remainder of the year of signature plus three full calendar years unless a change in circumstances makes any information on the form incorrect. Notwithstanding the preceding sentence, a W-8BEN with a U.S. taxpayer identification number will remain effective until a change in circumstances makes any information on the form incorrect, provided that the withholding agent reports at least annually to the beneficial owner on IRS Form 1042-S. The beneficial owner must inform the withholding agent (or financial institution) within 30 days of such change by furnishing a new W-8BEN (and the financial institution must promptly so inform the withholding agent). A non-United States Holder that is not an individual or corporation (or an entity treated as a corporation for United States federal income tax purposes) holding Notes on its own behalf may have substantially increased reporting requirements. In particular, in the case of Notes held by a foreign partnership (or foreign trust), the partners (or beneficiaries), rather than the partnership (or trust), are required to provide the certification discussed above, and the partnership (or trust) is required to provide certain additional information.

If a non-United States Holder of a Note is engaged in a trade or business in the United States and if interest (including OID) on the Note is effectively connected with the conduct of that trade or business, the non-United States Holder, although exempt from the withholding tax discussed in the preceding paragraphs, will generally be subject to regular United States federal income tax on interest and/or any gain realized on the disposition of the Note in the same manner as if it were a United States Holder. In lieu of the certificate described above, the non-United States Holder will be required to provide to the withholding agent an appropriate form (generally IRS Form W-8ECI), executed under penalties of perjury, in order to claim an exemption from withholding tax. In addition, if the non-United States Holder is a foreign corporation, it may be subject to a branch profits tax equal to 30% (or the lower rate provided by an applicable treaty) of its effectively connected earnings and profits for the taxable year, subject to certain adjustments.

Generally, any gain or income (other than that attributable to accrued interest (including OID), which is taxable in the manner described above) realized by a non-United States Holder on the disposition of a Note is not subject to United States federal income tax unless:

such gain or income is effectively connected with a United States trade or business of the non-United States Holder; or

in the case of a non-United States Holder who is an individual, the non-United States Holder is present in the United States for 183 days or more in the taxable year of the disposition and certain other conditions exist.

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Backup Withholding and Information Reporting

Under current United States federal income tax law, information reporting requirements apply to interest (including OID) and principal payments made to, and to the proceeds of sales before maturity by, certain noncorporate United States Holders of Notes. In the case of a noncorporate United States Holder, backup withholding applies if:

the United States Holder fails to furnish his or her Taxpayer Identification Number (*TIN*) (which, for an individual, would be his or her Social Security Number) to the payor in the manner required;

the United States Holder furnishes an incorrect TIN and the payor is so notified by the IRS;

the payor is notified by the IRS that the United States Holder has failed properly to report payments of interest and dividends; or

in certain circumstances, the United States Holder fails to certify, under penalties of perjury, that the United States Holder has not been notified by the IRS that it is subject to backup withholding for failure properly to report interest and dividend payments.

Backup withholding does not apply with respect to payments made to certain exempt recipients, such as corporations (within the meaning of Section 7701(a) of the Code) and tax-exempt organizations. The amount of any backup withholding from a payment to a United States Holder will be allowed as a credit against his, her or its United States federal income tax liability and may entitle the United States Holder to a refund, provided that the required information is furnished to the IRS.

Backup withholding and/or information reporting may apply to:

payments to a non-United States Holder of principal, premium and interest (including OID); and

payments to a non-United States Holder on the sale, exchange, redemption, retirement or other disposition of a Note,

unless the non-United States Holder provides the required certification to establish an exemption from the withholding of the United States federal income tax or otherwise establishes an exemption.

Non-United States Holders of Notes should consult their tax advisors regarding the application of information reporting and backup withholding in their particular situations, the availability of an exemption therefrom, and the procedure for obtaining the exemption, if available.

PLAN OF DISTRIBUTION

The Notes are being offered on a continuous basis by M.D.C. Holdings, Inc. through Banc of America Securities LLC; BNP Paribas Securities Corp.; Citigroup Global Markets Inc.; Comerica Securities; Credit Suisse First Boston LLC; Deutsche Bank Securities Inc.; Greenwich Capital Markets, Inc.; J.P. Morgan Securities Inc.; KeyBanc Capital Markets, a division of McDonald Investments Inc.; Merrill Lynch, Pierce, Fenner & Smith Incorporated; SunTrust Capital Markets, Inc. Capital Markets; UBS Securities LLC; and Wachovia Capital Markets, LLC, as agents. The agents have agreed to use their commercially reasonable efforts to solicit orders to purchase Notes. The agents and MDC are parties to a distribution agreement. MDC will have the sole right to accept orders to purchase Notes and may reject proposed purchases in whole or in part. The agents will have the right to reject any proposed purchase in whole or in part. MDC reserves the right to withdraw, cancel or modify the offer made by this prospectus supplement, the accompanying prospectus or any pricing supplement without notice.

The aggregate commissions or discounts payable in connection with offerings of the Notes will be determined at the time of issuance and disclosed in the applicable pricing supplement. Commissions and discounts will vary depending upon the stated maturity of the Notes.

MDC may also sell Notes at a discount to an agent for its own account or for resale to one or more purchasers at varying prices related to prevailing market prices or at a fixed public offering price. After any initial public offering of Notes to be resold to purchasers at a fixed public offering price, the public offering price and any concession or discount may be changed. Unless otherwise specified in the applicable pricing supplement, any Note purchased by an agent as a principal will be purchased at 100% of the principal amount or face amount less a percentage equal to the commission applicable to an agency sale of a Note of identical maturity.

An agent may offer and sell Notes purchased by it as principal to other dealers. These Notes may be sold at a discount which, unless otherwise specified in the applicable pricing supplement, will not exceed the discount received by such agent.

MDC reserves the right to sell Notes directly to investors on its own behalf and to enter into agreements similar to the distribution agreement with other parties. No commission will be payable nor will a discount be allowed on any sales made directly by MDC.

Unless Notes are issued upon the reopening of a prior series, no Note will have an established trading market when issued. Unless otherwise specified in the applicable pricing supplement, the Notes will not be listed on any securities exchange. An agent may make a market in the Notes, but such agent is not obligated to do so. An agent may discontinue any market-making at any time without notice, at its sole discretion. We cannot assure you of the existence or liquidity of a secondary market for any Notes, or that the maximum amount of Notes will be sold.

MDC will disclose its estimated total expenses for the offering, excluding underwriting commissions and discounts, in the applicable pricing supplement.

Any agent may be deemed to be an underwriter within the meaning of the Securities Act of 1933. MDC has agreed to indemnify the agents against liabilities relating to material misstatements and omissions, or to contribute to payments that the agents may be required to make relating to these liabilities. MDC will reimburse the agents for customary legal and other expenses incurred by them in connection with the offer and sale of the Notes.

Unless otherwise specified in the applicable pricing supplement, payment of the purchase price of the Notes will be required to be made in immediately available funds in U.S. dollars in New York City on the date of settlement.

Concurrently with the offering of Notes through the agents as described in this prospectus supplement, MDC may issue other securities under the applicable indenture referred to in the prospectus.

In connection with an offering of Notes purchased by one or more agents as principal on a fixed offering price basis, the applicable agents will be permitted to engage in certain transactions that stabilize the price of Notes. These transactions may consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of Notes. If those agents create a short position in Notes, i.e., if they sell Notes in an amount exceeding the amount referred to in the applicable pricing supplement, they may reduce that short position by purchasing Notes in the open market. In general, purchases of Notes for the purpose of stabilization or to reduce a short position could cause the price of Notes to be higher than it might be in the absence of these type of purchases.

In the ordinary course of its business, the agents and their affiliates have engaged, and may in the future engage, in investment and commercial banking transactions with MDC and certain of its affiliates. In addition, certain of the agents or their affiliates are lenders under MDC s existing credit facilities. Accordingly, any offerings under this prospectus supplement will be conducted in accordance with Rule 2710(h) of the NASD.

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LEGAL MATTERS

Certain matters with respect to the legality and binding nature of the securities are being passed upon for us by Holme Roberts & Owen LLP, Denver, Colorado. Cahill Gordon & Reindel LLP, New York, New York, will pass upon specified legal matters in connection with this offering for the agents.

EXPERTS

The consolidated financial statements incorporated in this prospectus by reference to the Annual Report on Form 10-K, relating to the financial statements as of December 31, 2004 and 2003 and for each of the three years ended December 31, 2004, have been so incorporated in reliance on the report of Ernst & Young LLP, independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

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M.D.C. Holdings, Inc.
$1,000,000,000

The following are types of securities that we may offer and sell under this prospectus:

common stock

preferred stock

debt securities

We may offer these securities separately or as units which may include other securities. We will describe in a prospectus supplement, which must accompany this prospectus, the securities we are offering and selling, as well as the specific terms of the securities. Those terms may include:

Maturity

Interest rate

Sinking fund terms

Currency of payments

Redemption terms

Listing on a securities exchange

Amount payable at maturity

Guarantees by some of our subsidiaries

This prospectus is not an offer to sell those securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Our common stock, par value $0.01 per share, trades on the New York Stock Exchange and the Pacific Stock Exchange under the symbol MDC. We may offer the securities in amounts, at prices and on terms determined at the time of offering. We may sell the securities directly to you, through agents we select, or through underwriters and dealers we select. If we use agents, underwriters or dealers to sell the securities, we will name them and describe their compensation in a prospectus supplement.

December 1, 2005

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M.D.C. HOLDINGS, INC.

M.D.C. Holdings, Inc., or MDC, is a Delaware corporation. We started business in 1972. Our primary business is owning and managing subsidiary companies which build homes under the name Richmond American Homes. We also own and manage HomeAmerican Mortgage Corporation which originates mortgage loans primarily for our homebuyers; American Home Insurance Agency, Inc., which sells casualty insurance products to our homebuyers; and American Home Title and Escrow, Inc. which provides title insurance and closing services for our customers. Unless specifically stated otherwise, references in this prospectus or any prospectus supplement to we, us or our include only MDC, and not our subsidiaries.

Our principal executive offices are at 4350 South Monaco Street, Suite 500, Denver, Colorado 80237 (telephone (303) 773-1100). Additional information about us can be obtained on the investor relations section of our website. Our website is www.richmondamerican.com, although the information on our website is not incorporated into this prospectus.

You can obtain additional information about us in the reports and other documents incorporated by reference in this prospectus. See Where You Can Find More Information and Incorporation of Certain Documents by Reference.

USE OF PROCEEDS

Except as may otherwise be described in the prospectus supplement relating to an offering of securities, we will use the net proceeds from the sale of the securities offered under this prospectus and the prospectus supplement for general corporate purposes. We will determine any specific allocation of the net proceeds of an offering of securities to a specific purpose at the time of the offering and will describe the allocation in the related prospectus supplement.

DESCRIPTION OF COMMON STOCK

MDC has authorized 100,000,000 shares of common stock. At October 31, 2005, we had approximately 44,600,000 shares outstanding.

DESCRIPTION OF PREFERRED STOCK

MDC has authorized 25,000,000 shares of preferred stock, none of which were outstanding as of October 31, 2005. Shares of preferred stock may be issued in one or more series, as authorized by our board of directors with any rights and restrictions that are specified by our board of directors and permitted by Delaware law. When our board of directors specifies the terms of the preferred stock, the terms will be set forth in a certificate of designations to be filed with the secretary of state of Delaware.

DESCRIPTION OF THE DEBT SECURITIES

The debt securities will be direct unsecured obligations of MDC and may be senior debt securities, senior subordinated debt securities or junior subordinated debt securities. The total amount of additional debt securities that we may issue is limited by covenants in our existing debt instruments to approximately $1,040.0 million as of September 30, 2005, assuming no additional cash flow.

The debt securities will be issued under one or more indentures in the form that has been filed as an exhibit to the registration statement of which this prospectus is a part. The indentures will be subject to and governed by the Trust Indenture Act of 1939.

MDC may issue the debt securities in one or more series. Specific terms of each series of debt securities will be contained in resolutions of our board of directors or in a supplemental indenture. The specific terms will be described in a prospectus supplement. Our board of directors has designated

$500,000,000 of the securities that may be offered hereby for issuance under our current medium-term note program.

Debt securities may or may not be guaranteed by our subsidiaries.

LEGAL MATTERS

The validity of the common stock and the preferred stock and the status of the debt securities as binding obligations of MDC and any guarantees as binding obligations of the guarantors will be passed on for MDC by Holme Roberts & Owen llp, Denver, Colorado.

EXPERTS

The consolidated financial statements of M.D.C. Holdings, Inc. appearing in M.D.C. Holdings, Inc. s Annual Report (Form 10-K) for the year ended December 31, 2004, have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their report thereon included therein and incorporated herein by reference. Such consolidated financial statements are incorporated herein by reference in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, or the Exchange Act. You may read and copy this information at the following location of the SEC:

Judiciary Plaza, Room 10024
450 Fifth Street, N.W.
Washington, D.C. 20549

You can also obtain copies of this information by mail from the Public Reference Room of the SEC, 100 F. Street, N.E., Room 1580, Washington D.C. 20549, at prescribed rates. You may obtain information on the operation of the Public Reference Room by calling the SEC at (800) SEC-0330. Our SEC filings are also available through the New York Stock Exchange, on which our common stock is listed, at 20 Broad Street, New York, N.Y. 10005.

The SEC also maintains an Internet world wide web site that contains reports, proxy statements and other information about issuers, like MDC, that file electronically with the SEC. The address of that site is http://www.sec.gov.

We have filed with the SEC a registration statement on Form S-3 that registers the securities we are offering. The registration statement, including the attached exhibits and schedules, contains additional relevant information about us and our securities. The rules and regulations of the SEC allow us to omit certain information included in the registration statement from this prospectus.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The SEC allows us to incorporate by reference information into this prospectus. This means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be part of this prospectus, except for any information that is superseded by information that is included directly in this document.

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This prospectus includes by reference the documents listed below that we have previously filed with the SEC and that are not included in or delivered with this document (provided, however, that we are not incorporating any information furnished under either Item 2.02 or Item 7.01 of any Current Report on Form 8-K). They contain important information about our company and its financial condition.

Filing	**Period**
Quarterly Reports on Form 10-Q	Quarter ended March 31, 2005, June 30, 2005 and September 30, 2005
Annual Report on Form 10-K	Year ended December 31, 2004
Current Report on Form 8-K	Filed February 1, 2005, February 28, 2005, June 29, 2005, July 7, 2005, July 20, 2005, July 27, 2005 and September 30, 2005

All documents filed by us pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this prospectus and prior to the termination of this offering (excluding any information furnished under Item 2.02 or Item 7.01 of Form 8-K) shall be deemed to be incorporated by reference herein and to be a part of this prospectus from the date of filing of such documents. Any statement contained in a document incorporated by reference herein shall be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus.

You can obtain any of the documents incorporated by reference in this document from us without charge, excluding any exhibits to those documents unless the exhibit is specifically incorporated by reference as an exhibit to this prospectus. You can obtain documents incorporated by reference in this prospectus by requesting them in writing or by telephone from us at the following address:

Joseph H. Fretz
Secretary and Corporate Counsel
M.D.C. Holdings, Inc.
4350 South Monaco Street
Suite 500
Denver, Colorado 80237
(303) 773-1100

Additional information about us can be obtained on the investor relations section of our website. Our website is www.richmondamerican.com, although the information on our website is not incorporated into this prospectus.

We have not authorized anyone to give any information or make any representation about us that is different from, or in addition to, that contained in this prospectus or in any of the materials that we have incorporated by reference into this document. Therefore, if anyone does give you information of this sort, you should keep in mind that such information has not been authorized and may therefore not be accurate. If you are in a jurisdiction where offers to sell, or solicitations of offers to purchase, the securities offered by this document are unlawful, or if you are a person to whom it is unlawful to direct these types of activities, then the offer presented in this document does not extend to you.

$1,000,000,000

M.D.C. Holdings, Inc.

Medium Term Senior Notes

Medium Term Subordinated Notes
Due Nine Months or More from the Original Issue Date

PROSPECTUS SUPPLEMENT

January 9, 2006

Banc of America Securities LLC

BNP PARIBAS
Citigroup
Comerica Securities
Credit Suisse First Boston
Deutsche Bank Securities
JPMorgan
KeyBanc Capital Markets
Merrill Lynch & Co.
RBS Greenwich Capital
SunTrust Robinson Humphrey
UBS Investment Bank
Wachovia Securities