PHARMANETICS INC
Form POS AM
June 29, 2004
Table of Contents

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JUNE 29, 2004

REGISTRATION STATEMENT NO. 333-106087

SECURITIES AND EXCHANGE COMMISSION

POST-EFFECTIVE AMENDMENT NO. 1

TO

FORM S-3

ON

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

PHARMANETICS, INC.

(Exact name of registrant as specified in its charter)

North Carolina	**56-2098302**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

9401 Globe Center Drive, Suite 140

Morrisville, North Carolina 27560

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

John P. Funkhouser

President

PharmaNetics, Inc.

9401 Globe Center Drive, Suite 140

Morrisville, North Carolina 27560

(919) 582-2600

(Name, address, including zip code, and telephone number, including area code, of agent for service)

COPIES TO:

Kevin A. Prakke

Wyrick Robbins Yates & Ponton LLP

4101 Lake Boone Trail, Suite 300

Raleigh, North Carolina 27607

(919) 781-4000

Fax (919) 781-4865

Approximate Date Of Proposed Sale To The Public:

From time to time after this registration statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. ¨

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ¨

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

The information in this prospectus is not complete. It might change. We cannot sell these securities until the registration statement that we have filed with the SEC is effective. This prospectus is not an offer to sell, nor does it solicit offers to buy, these securities in any state where the offer or sale is not permitted.

Subject to Completion, Dated June 29, 2004

2,472,364 SHARES

PHARMANETICS, INC.

COMMON STOCK

The shareholders of PharmaNetics, Inc. listed herein are offering and selling from time to time up to 2,472,364 shares of our common stock under this resale prospectus. We will not receive any proceeds from the sale of the shares.

Our common stock is traded on the OTC Bulletin Board under the symbol PHAR.OB. On June 25, 2004, the last sale price of our common stock on the OTC Bulletin Board was $0.48 per share.

The selling shareholders may offer the shares through public or private transactions, on or off the OTC Bulletin Board, at prevailing market prices or at privately negotiated prices. See Plan of Distribution.

Investing in our common stock involves risks. See Risk Factors beginning on page 7.

Neither the SEC nor any state securities commission has approved or disapproved our securities or determined that this prospectus is truthful or complete. It is illegal for anyone to tell you otherwise.

The date of this prospectus is _____ __, 2004.

Table of Contents

Prospectus Summary

About PharmaNetics

Prior to ceasing substantially all of our operations in March 2004, we developed, manufactured and marketed rapid diagnostics to dose, manage and screen patients on drugs affecting coagulation. Our products are a proprietary analyzer and dry chemistry tests and controls, known as the Thrombolytic Assessment System, or TAS, that provide a physician, at the point of patient care, information that can affect therapy. Our tests were and can be used in the treatment of a variety of adverse conditions caused by abnormal blood clotting in different areas of the body, including angina, heart attack, stroke, deep vein thrombosis and pulmonary and arterial emboli.

TAS is a stat, or as soon as possible , point-of-care system capable of monitoring the formation and dissolution of blood clots. This monitoring provides information which is critical to health care providers in administering drugs that either prevent the formation of blood clots or dissolve them, both of which are used in the treatment of a variety of medical disorders. Blood clotting, or hemostatic, test results must be provided quickly because a majority of the drugs used to regulate clotting are cleared rapidly from the body, and certain drugs must be closely monitored to maintain drug levels within an effective treatment range. We believe that the TAS can provide critical information regarding the formation and dissolution of blood clots as well as drug monitoring on a timely basis, permitting quicker diagnosis and therapeutic intervention, which will improve therapy and the quality of patient care. We believe that this improvement may facilitate quicker transfers out of expensive critical care settings, reduce the overall length of hospital stays, reduce expenditures for laboratory equipment and its associated maintenance, and reduce the unnecessary use of drugs. In addition, point-of-care testing can reduce hospitals costs by reducing the numerous steps, paperwork and personnel used in collecting, transporting, documenting and processing blood samples.

Our products include the TAS analyzer and a menu of tests and controls. We currently have seven tests approved by the Food and Drug Administration, or FDA, that have been sold for commercial use. We have sold three other tests for investigational use only. In addition, we have obtained a special FDA approval for humanitarian devices for one of our test cards used in managing patients suffering from heparin induced thrombocytopenia, a condition characterized by persistent decrease in blood platelets resulting from the administration of the anti-clogging drug, heparin. This special approval is an expedited FDA authorization process to market devices used in rare disease states where no existing solution is available.

Recent Developments

In November 2003, we filed a lawsuit in the eastern district of North Carolina against Aventis Pharmaceuticals, Inc. In cooperation with Aventis, we had developed a rapid bedside test, known as the Enox test, that we believe enhances the way Lovenox®, a popular anti-blood clotting drug marketed by Aventis, currently is managed. We believe the test has the potential to facilitate the drug s use in patients in the cardiac community who stand to benefit from its use. Aventis collaborated with us in a multi-million dollar project in which it made milestone payments to us to develop and co-promote the test together with Lovenox for targeted patient populations. The lawsuit alleges that Aventis has engaged in false and misleading advertising of

Table of Contents

Lovenox, which damaged our efforts to market and sell the Enox test card. The lawsuit also alleges that Aventis has failed to fulfill its obligation to promote the test and is systematically and falsely advising physicians that the test is not necessary through its claims that Lovenox requires no monitoring and is therapeutic from dose one. We are seeking injunctive relief against Aventis to stop these actions and demanding that Aventis promote the need for monitoring as required in Lovenox s labeling and as required by the development agreement we entered into with Aventis in August 2000.

In March 2004, the court hearing our case against Aventis held a hearing on our motion for a preliminary injunction against Aventis. In April 2004, the court issued an order denying our request for a preliminary injunction, but in denying our motion, the court made a judicial determination that two of Aventis advertising claims regarding Lovenox were literally false. First, the court found that Aventis claim that Lovenox reaches therapeutic levels with 1/2 hour of administration to be literally false. Second, the court found literally false Aventis claim that Lovenox was therapeutic from dose one. Although the court did not grant our request for a preliminary injunction, one of the reasons cited by the court for not enjoining these false advertising messages was that Aventis has discontinued using these false statements in its advertising. In particular, after we filed our false advertising lawsuit against Aventis in November 2003, almost immediately thereafter Aventis withdrew these statements from its advertising of Lovenox.

In addition, the court found that certain disparaging statements made by Aventis representatives concerning our Enox test card were also literally false. However, rather than issue a preliminary injunction, the court ultimately left this issue for the jury to decide. The court also ruled on Aventis motion for summary judgment in which Aventis essentially sought dismissal of our false advertising claims. In denying Aventis motion, the court noted that we had raised genuine issues of material fact concerning our claims against Aventis and, accordingly, the court ruled that the merits of this case should ultimately be evaluated by a jury. In order to prevail in a jury trial, we must prove a variety of factual issues as well as substantiate our calculation of damages. We intend to aggressively pursue the lawsuit to enforce our rights, and we expect the lawsuit could take a year or more to complete and consume significant time and expense.

In December 2003, we announced that, as a result primarily of the Aventis litigation and its impact on our business and prospects, we are seeking a variety of strategic alternatives, including the sale of our manufacturing operations. In March 2004, because a willing and able buyer for our operations had not by then been identified, we terminated our distribution agreement with our distribution partner, Bayer Diagnostics. In addition, we terminated the sales and technical service personnel formerly engaged by us through PDI, the contractor and provider of the Enox sales and technical support teams. Since filing the lawsuit, we have implemented personnel reductions and have engaged Davenport & Company LLC, an investment banking firm, as our financial advisor. Davenport & Company is currently assisting us in pursuing a sale of our manufacturing operations and intellectual property. We believe these steps were and are necessary in order to reduce overhead costs and to conserve cash for the proposed license or sale of assets and the intellectual property as well as to finance our lawsuit against Aventis. We are shifting our corporate strategy from a manufacturing/distribution model to that of a biotech model, whereby revenues, if any, would be tied to royalty streams from any future product sales. We are actively seeking a buyer for our operating assets and to sell or license our intellectual

Table of Contents

property with a significant portion of the potential valuation tied to royalties. In essence, under this new model we would be in a position to receive royalties on tests developed and would not be responsible for manufacturing and distribution.

By the end of March 2004, we have ceased developing, producing and selling all of our products and plan to terminate substantially all remaining employees except our chief executive officer. We plan to retain the chief executive officer to manage the Aventis litigation until it is completed or settled and to continue to seek a buyer of our operations, manufacturing assets and intellectual property. We expect to engage other personnel to conduct business for us on a contract basis as necessary during the course of these efforts. If we were to receive any proceeds in connection with the Aventis litigation, after payment of litigation and remaining operating expenses, we would consider distributing such remaining proceeds, if any, to our shareholders or using them to restart operations. Such determination would depend on a variety of factors, including the size and timing of any payments, the expenses of completing the litigation, management s assessment of the viability of restarting the business and availability of necessary personnel. However, there can be no assurance that we will prevail in the litigation against Aventis or that if we do prevail, the proceeds would be sufficient to provide significant shareholder value. At this time, we believe as a result of these cost-cutting actions, that we have the financial ability to fund the lawsuit to its conclusion.

Due to our failure to comply with the requirements for continued listing of our shares of common stock on the Nasdaq SmallCap Market, we were delisted from the Nasdaq SmallCap Market on May 13, 2004. Our common stock is quoted and trades on the OTC Bulletin Board.

Products

The following summarizes our products and test cards, all of which we have ceased manufacturing, developing and marketing as a result of the Recent Developments described above.

The TAS analyzer weighs approximately four pounds and is about the size of a typical office telephone. The analyzer and test cards are designed to work effectively in a decentralized testing environment where they are used by healthcare personnel who do not need formal central laboratory training. Typically within three minutes of inserting a test card with a single drop of blood or plasma into the analyzer, the screen on the TAS analyzer displays a numerical test result, which is comparable to the result which would be achieved in a central laboratory using traditional testing procedures.

Our Accent product is a microprocessor-based hardware accessory to the TAS analyzer. It connects to the TAS analyzer and automatically calculates the information required by physicians to manage the anticoagulation of patients on heparin during cardiopulmonary bypass procedures. It can be used in conjunction with three of our test cards.

The following describes our test cards that have been cleared by the FDA:

Our enoxaparin test, or Enox test, detects the anticoagulant effect of enoxaparin, a low molecular weight heparin drug used for the treatment and prevention of blood-clotting diseases. Enoxaparin is the world s top-selling low molecular weight heparin and is marketed by Aventis Pharmaceuticals in the United States under the brand name Lovenox® and outside of the United States under the brand name Clexane®.

4

Table of Contents

Our PT, or Prothrombin Time, test is a general screening test that is used to assess a patient s baseline blood-clotting function or to monitor the use of oral anticoagulants, such as warfarin. Warfarin is widely used in the United States for long-term treatment in patients who have previously developed clots, including after heart attacks, to inhibit clot formation and reduce the risk of developing additional clots. Physicians use our PT test to monitor and maintain drug levels within a safe treatment range.

Our aPTT, or Activated Partial Thromboplastin Time, test is a coagulation-screening test which may be used in conjunction with our PT test to provide a global assessment of a patient s ability to form a blood clot. In addition, our aPTT test is used to monitor heparin, an injectable anticoagulant. Hospitals routinely use heparin as the initial treatment for patients with a blood clot, including patients suffering from heart attacks or strokes. Heparin also prevents blood clots from forming in patients undergoing procedures involving particular risks of clotting, such as angiography, open heart surgery, dialysis and several other surgeries. Heparin must be closely monitored to assure adequate anticoagulation without increasing the risk of developing a bleeding complication.

Because aPTT tests are generally incapable of monitoring high levels of heparin, we formerly developed and marketed our HMT, or Heparin Management Test, card for monitoring patients requiring high dose heparin therapy during procedures such as open heart surgery or dialysis. In addition, we have two more test cards that can be combined with our HMT test to provide a system for individualized heparin management during cardiac surgery.

Our LHMT, or Low-range Heparin Management Test, card is used principally in cardiac catheterization and interventional cardiology procedures. It is designed to monitor the effects of concentrations of heparin above the range measured by our aPTT card but below that of our HMT card.

Our ECT, or Ecarin Clotting Time, card is used to manage patients suffering from heparin-induced thrombocytopenia. The FDA s approval for this test only allows the use of the test for managing patients who receive Refludan®, an anticoagulant drug marketed by Pharmion and Berlex for patients undergoing cardiopulmonary bypass surgery.

Company Information

PharmaNetics, Inc. is a holding company incorporated in North Carolina in 1998 as the parent company of Cardiovascular Diagnostics, Inc. Cardiovascular Diagnostics, Inc. was incorporated in 1985 and was our sole operating subsidiary until we ceased substantially all of our operations in March 2004. Our principal executive offices are located at 9401 Globe Center Drive, Suite 140, Morrisville, North Carolina 27560. Our telephone number at that location is (919) 582-2600. Information contained on our website, www.pharmanetics.com, is not a part of this prospectus.

Table of Contents

The Offering

Shares of common stock offered by us	None
Shares of common stock which may be sold by the selling shareholders	2,472,364(1)
Use of proceeds	We will not receive any proceeds from the resale of shares offered hereby, all of which proceeds will be paid to the selling shareholders
Risk factors	The purchase of our common stock involves a high degree of risk. You should carefully review and consider Risk Factors beginning on page 7.
OTC Bulletin Board Symbol	PHAR.OB

(1) Consists of: (a) 1,725,168 shares of common stock issuable upon conversion of currently outstanding shares of Series B preferred stock; (b) 542,865 shares of common stock issuable upon exercise of warrants; and (c) 204,331 shares of common stock issuable upon the exercise of Series B Preferred Stock that we are required to issue in payment of the remaining in-kind dividends on our Series B preferred stock from the date of this prospectus through September 2005.

Table of Contents

Risk Factors

You should be aware that there are various risks to an investment in our common stock, including those described below. You should carefully consider these risk factors, together with all of the other information included in this prospectus, before you decide to invest in shares of our common stock.

We expect continued losses, which could have an adverse impact on your investment.

We anticipate that we will continue to incur losses and negative cash flows for the foreseeable future. Since our inception as a public company, we have reported operating losses and operating cash flow deficits as we organized and launched our business operations. During this period, we incurred significant operating expenses and made significant investments in our business without an established source of revenue. Although we ceased substantially all operations in March 2004, we will continue to be required to spend substantial funds to continue our litigation efforts against Aventis and satisfy our continuing SEC reporting obligations. There can be no assurance that we will receive any proceeds from the Aventis litigation, or that if we ever re-start operations, that we will generate sufficient revenue to make us profitable. As of March 31, 2004, we had incurred cumulative losses since inception of approximately $81.5 million.

Our products have not achieved and might not achieve market acceptance in an essentially new market, which could limit the marketability of our assets.

The commercial success of our products, whether marketed by us or an acquiror, will depend upon their acceptance by the medical community as being useful and cost-effective. Market acceptance will depend upon several factors, including the establishment of the utility and cost-effectiveness of our tests and the receipt of regulatory clearances in the United States and elsewhere. The availability of point-of-care hemostasis test systems has been limited to date, so our point-of-care hemostasis test products are targeting an essentially new market. Diagnostic tests similar to those developed by us are generally performed by a central laboratory at a hospital or clinic. The approval of the purchase of diagnostic equipment by a hospital is generally controlled by its central laboratory. We expect there will be resistance by central laboratories to yield control of tests they have previously performed. We, or an acquiror, will also have to demonstrate to physicians that our diagnostic products perform as intended, meaning that the level of accuracy and precision attained by our products must be comparable to test results achieved by central laboratory systems. Failure of our products to achieve broader market acceptance could have a material adverse effect on us and our ability to sell our assets to a purchaser.

Prior to ceasing substantially all operations in March 2004, we were substantially dependent upon Bayer Diagnostics as our principal distributor for marketing and distribution of our products. If we were to restart operations or sell our assets to a third party, there can be no assurance that Bayer Diagnostics, or any other distributors will be successful in marketing or selling our products or that we, or an acquiror, could build a cost-effective and adequate sales and marketing staff. The substantial dependence on distribution partners could have a material adverse effect on us and our ability to sell our assets to a purchaser.

Table of Contents

Intense competition and the risk of technological obsolescence might render our products noncompetitive.

The medical diagnostic testing industry is characterized by rapidly evolving technology and intense competition. The current TAS menu would compete in the coagulation and hematology testing market with manufacturers that provide testing equipment to central and stat laboratories of hospitals. These laboratories currently perform a substantial portion of such testing. The TAS menu would also compete with other point-of-care coagulation and hematology test system manufacturers. Laboratories provide some of the same tests capable of being performed by TAS; however, these laboratory tests generally require the use of skilled technicians and complex, expensive equipment. We believe that TAS offers several advantages over these laboratory-based instruments, including faster results, ease-of-use, reduced opportunity for error and cost-effectiveness.

Prior to ceasing substantially all operations in March 2004, we had several competitors, including Roche Diagnostics, International Technidyne Corporation and Medtronic, that manufacture and market point-of-care coagulation and hematology test systems. International Technidyne Corporation, in particular, has a large installed base of systems, which it has been selling for over 20 years. Despite the fact that we believe that TAS is capable of competing favorably with these systems, International Technidyne Corporation s installed base could give it a competitive advantage. We believe that potential customers will base their purchasing decisions upon a combination of factors, including accuracy and precision, speed, cost-effectiveness, data management, ease-of-use, compliance with CLIA guidelines, and availability of a comprehensive test menu. Other manufacturers and academic institutions may be conducting research and development with respect to blood testing technologies and other companies may in the future engage in research and development activities regarding products that compete with our products. Many of the companies in the medical technology industry, including those listed above, have substantially greater capital resources, research and development staffs, sales and manufacturing capabilities and manufacturing facilities than us. Even if we attain sufficient financial resources to restart operations, there can be no assurance that we can rebuild our sales and marketing team and operational workforce in order to be competitive. Such entities may be developing or could in the future attempt to develop additional products competitive with TAS. Many of these companies also have substantially greater experience than we do in research and development, obtaining regulatory clearances, manufacturing and marketing, and may therefore represent significant competition for us. There can be no assurance that our competitors will not succeed in developing or marketing technologies and products that will be more effective or less expensive than those formerly marketed by us or that would render our technology and products obsolete or noncompetitive. Even if we attain sufficient financial resources to restart operations, there can be no assurance that we can rebuild our sales and marketing team and operational workforce in order to be competitive.

Our heavy dependence on patents and proprietary technology could be costly to us.

Our success, or the success of an acquiror of our assets, will depend in part on the ability to enforce our patents, to preserve our trade secrets and to operate without infringing the proprietary rights of third parties. The scope of any patent protection might not exclude competitors or provide competitive advantages to us or an acquiror. Any of our patents could be held invalid if subsequently challenged and others might claim rights in or ownership to the

Table of Contents

patents and other proprietary rights held by us. Furthermore, others might have developed or will develop similar products, duplicate our products or design around our patents. If any relevant claims of third-party patents are upheld as valid and enforceable, we or an acquiror could be prevented from practicing the subject matter claimed in such patents or could be required to obtain licenses from the patent owners of each of such patents or to redesign our products or processes to avoid infringement. Such licenses might not be available or, if available, could be on unacceptable terms.

We also rely upon unpatented trade secrets to protect our proprietary technology. In particular, we believe that our custom-designed automated test card production line embodies proprietary process technology. Others may independently develop or otherwise acquire equivalent technology or otherwise gain access to our proprietary technology and we might not ultimately be able to protect meaningful rights to such unpatented proprietary technology. There has been substantial litigation regarding patent and other intellectual property rights in the medical device industry. These factors could hinder our efforts to sell our intellectual property and other assets.

The sale of the shares registered in this offering could cause our stock price to decline.

All shares registered in this offering will be freely tradable upon effectiveness of this registration statement. The sale of a significant amount of shares registered in this offering, or the prospect of such a sale, at any given time could cause the trading price of our common stock to decline and to be highly volatile.

A significant number of our shares are eligible for future sale and the sale of our shares into the market might negatively affect our stock price.

As of May 31, 2004, we had outstanding:

- warrants to purchase an aggregate of approximately 793,865 shares of our common stock; and
- preferred stock that is convertible into an aggregate of approximately 2,367,668 shares of common stock.

We have also reserved for issuance 1,639,187 shares of our common stock pursuant to stock plans, under which options to purchase 563,972 shares of common stock were outstanding as of May 31, 2004.

The existence of these securities may adversely affect us or our shareholders for many reasons, including:

- the market price of our common stock might be adversely affected;
- if any of these securities are exercised, the value of the common stock held by shareholders will be diluted if the value of the common stock immediately prior to the exercise of these securities exceeds the exercise price;

some of these securities give the holders of them the opportunity, at nominal cost, to profit from a rise in the market price of our common stock; and

Table of Contents

the terms upon which we could issue additional shares of common stock or obtain other sources of financing may be adversely affected.

Holders of warrants and options are also likely to exercise them when, in all likelihood, we could obtain additional financing from other sources on terms more favorable than those provided by the warrants and options.

If third-party payors do not provide coverage or reimburse patients for our products and related treatment, our ability to sell our assets and technology could suffer.

Our ability to sell our assets and technology successfully or execute on our new business model may depend in part on the extent to which reimbursement for the cost of our products and related treatment will be available from government health administration authorities (such as the Health Care Financing Administration, or HCFA), which determines Medicare reimbursement levels, private health insurers and other organizations, collectively known as Payors. Payors are increasingly challenging the prices of medical products and services. Payors may deny reimbursement if they determine that a prescribed device has not received appropriate FDA or other governmental regulatory clearances, is not used in accordance with cost-effective treatment methods, or is experimental, unnecessary or inappropriate. In addition, under current HCFA regulations, equipment costs generally are not reimbursed separately, but rather are included in a single, fixed-rate, per-patient reimbursement. Also, the trend towards managed healthcare in the United States and the concurrent growth of organizations such as HMOs, which could control or significantly influence the purchase of healthcare services and products, as well as legislative proposals to reform healthcare or reduce government insurance programs, might diminish the marketability and value of our TAS products. The cost containment measures that healthcare providers are instituting and the impact of any healthcare reform could have an adverse effect on our ability to sell our assets and may have a material adverse effect on us.

There can be no assurance that reimbursement in the United States or foreign countries will be available for any of our products, or that if available it will not be decreased in the future, or that any reduction in reimbursement amounts will not reduce the demand for or the price of our products. The unavailability of third-party reimbursement or the inadequacy of the reimbursement for medical procedures using our tests would have a material adverse effect on us.

We have issued preferred stock and could issue additional preferred stock and take other actions that might discourage third parties from acquiring us in a transaction that you might consider to be in your best interest.

Our board of directors has the authority, without further action by the shareholders, to issue up to 1,000,000 shares of preferred stock, 65,000 of which are outstanding as Series A preferred stock and 103,508 are outstanding as Series B preferred stock, and to fix the rights, preferences, privileges and restrictions, including voting rights, of such shares. Holders of our Series A and Series B preferred stock have rights to have their shares redeemed by us in connection with a change of control. The rights of the holders of the common stock are subject to the rights of the holders of our outstanding preferred stock, and will be subject to, and may be

Table of Contents

adversely affected by, the rights of the holders of any preferred stock that we may issue in the future. Issuing preferred stock could have the effect of making it more difficult for a third party to acquire a majority of our outstanding voting stock, thereby delaying, deferring or preventing a change in control of our company. Furthermore, the preferred stock may have other rights, including economic rights, senior to our common stock, and as a result, issuing preferred stock could have a material adverse effect on the market value of our common stock and the price that investors might be willing to pay for your shares.

Certain provisions of our articles of incorporation and our bylaws could make it more difficult for a third party to acquire, and could discourage a third party from attempting to acquire, control of our company. Some of them eliminate the right of shareholders to act by written consent and impose various procedural and other requirements which could make it more difficult for shareholders to undertake certain corporate actions. These provisions could limit the price that certain investors might be willing to pay in the future for shares of our common stock and may have the effect of delaying or preventing a change in control of us. We may in the future adopt other measures that may have the effect of delaying, deferring or preventing a change in control of the company. Certain of these measures may be adopted without any further vote or action by the shareholders, although we have no present plans to adopt any such measures.

We could be exposed to product liability claims that could prevent or interfere with our efforts to sell our assets or businesses.

We face an inherent business risk of exposure to product liability claims in the event that the use of our previously-sold products is alleged to have resulted in adverse effects. We maintain product liability insurance with coverage of up to $15 million per claim, with an annual aggregate policy limit of $16 million. Liability claims could exceed the coverage limits of such policies and such insurance might not continue to be available on commercially acceptable terms, or at all. We might elect or be forced to drop our insurance coverage in connection with our efforts to focus our limited remaining resources to pursue litigation against Aventis. Consequently, product liability claims could have a material adverse effect on our business, financial condition and results of operations.

We might not be able to use net operating loss carryforwards.

As of December 31, 2003, we had net operating loss carryforwards for federal income tax purposes of approximately $58.3 million, which will expire at various dates beginning in 2004 if not utilized. Our ability to use these net operating loss and credit carryforwards to offset future tax obligations, if any, may be limited by changes in ownership. In addition, our decision to cease substantially all of our operations in March 2004 makes it less likely that we would be in a position to use net operating loss carryforwards before they expire. Any limitation on the use of net operating loss carryforwards, to the extent it increases the amount of federal income tax that we must actually pay, may have an adverse impact on our financial condition.

We do not presently anticipate paying cash dividends on our common stock.

We are not currently generating any significant revenues. Even if we are successful in our litigation against Aventis, we can provide no assurance that the proceeds derived therefrom,

Table of Contents

if any, will be sufficient to pay cash dividends on our common stock or to make any distribution at all. In addition, our outstanding preferred stock contains restrictions on our ability to declare and pay dividends on our common stock. Consequently, we do not anticipate paying any cash dividends on our common stock for the foreseeable future.

Because we are no longer listed on the Nasdaq National Market or the Nasdaq SmallCap Market, the value and liquidity of your shares could be impaired.

Our common stock is currently traded on the Over-the-Counter Bulletin Board. As such, our stock could be subject to what are known as the penny stock rules. The penny stock rules place additional requirements on broker-dealers who sell or make a market in such securities. Consequently, if we become subject to those rules, the ability or willingness of broker-dealers to sell or make a market in our common stock could decline. In addition, the Over-the-Counter Bulletin Board is generally a significantly less active market than the Nasdaq National Market or the Nasdaq SmallCap Market. As a result, your ability to resell your shares of our common stock, and the market price of those shares, could be adversely affected.

Table of Contents

Special Note Regarding Forward-Looking Statements

Some of the statements contained in this prospectus discuss our plans and strategies for our business and are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act. The words anticipates, believes, estimates, expects, plans, intends and sim expressions are meant to identify these statements as forward-looking statements, but they are not the exclusive means of identifying them. The forward-looking statements in this prospectus reflect the current views of our management; however, various risks, uncertainties and contingencies could cause our actual results, performance or achievements to differ materially from those expressed or implied by these statements, including:

- The success or failure of our efforts to prevail in our litigation against Aventis or to sell portions of our assets and technology;
- Our history of losses and negative operating cash flows;
- Our future capital needs and the uncertainty of additional funding; and
- The other factors discussed in the Risk Factors section and elsewhere in this prospectus.

We assume no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. For a discussion of important risks of an investment in our common stock, including factors that could cause actual results to differ materially from results referred to in the forward-looking statements, see the Risk Factors section of this prospectus. In light of the risks and uncertainties discussed in Risk Factors and elsewhere in this prospectus, events referred to in forward-looking statements in this prospectus might not occur.

Use of Proceeds

We will not receive any of the proceeds from the sale of shares of the common stock offered by the selling shareholders. We are registering the shares for sale to provide the holders thereof with freely tradable securities, but the registration of such shares does not necessarily mean that any of such shares will be offered or sold by the holders thereof.

Selling Shareholders

The shares offered under this prospectus may be sold from time to time for the account of the selling shareholders named in the following table. The table also contains information regarding each selling shareholder s beneficial ownership of shares of our common stock as of June 1, 2004, and as adjusted to give effect to the sale of the shares. As of June 1, 2004, we had 10,094,290 shares of common stock outstanding.

	Beneficial Ownership Prior To Offering (as of June 1, 2004)	Beneficial Ownership After Offering (1)

Name	Number of Shares(2)	Number of Shares To Be Sold(3)	Number of Shares	Percent of Class
Camden Partners Strategic Fund II-A, L.P.(4)	1,142,166	1,226,434		
Camden Partners Strategic Fund II-B, L.P.(4)	67,756	72,755		
AIG DKR SoundShore Private Investors Holding Fund Ltd.(5)	130,482	140,107		
BayStar Capital II, LP(6)	237,240	254,741		
Capital Ventures International(7)	142,344	152,846		
Crestview Capital Fund I, LP(8)	130,429	140,160		
Crestview Capital Fund II, LP(8)	35,586	38,211		
Crestview Capital Offshore Fund, Inc.(8)	11,815	12,686		
Mainfield Enterprises Inc.(9)	113,875	122,277	5,000	*
Omicron Master Trust(10)	118,620	127,368		
Smithfield Fiduciary LLC(11)	142,344	152,846		
SG Cowen Securities Corporation(12)	31,933	31,933		
Totals:	2,304,690	2,472,364	5,000	*%

* Less than one percent

(1) Assumes the sale of all the shares offered hereby. This registration statement also shall cover any additional shares of common stock which become issuable in connection with the shares registered for resale hereby by reason of any stock dividend, stock split, recapitalization or other similar transaction effected without the receipt of consideration which results in an increase in the outstanding shares of our common stock.

Table of Contents

(2) Represents shares of common stock issuable upon conversion of currently outstanding shares of Series B preferred stock and upon the exercise of currently exercisable warrants.

(3) Includes 332,840 total shares representing our obligation to issue 2.125% cumulative quarterly dividends on the Series B preferred stock through September 2005. Through June 30, 2004, 165,122 of these dividend shares have been issued to the selling shareholders, but the remaining 167,718 dividend shares have not yet been earned or issued. The number of dividend shares we have registered hereunder will be sufficient to cover all of the dividends we would be required to pay to the selling shareholders through September 2005, assuming no prior conversions or redemptions of the preferred shares. Any dividends we might elect to pay in shares of common stock, in lieu of cash, after September 2005 are not registered for resale hereunder and are not required to be so registered.

(4) Richard M. Johnston has been appointed to our Board of Directors as the designee of the Series B preferred shareholders. Mr. Johnston, David L. Warnock, Donald W. Hughes and Richard M. Berkeley are the managing members of Camden Partners Strategic II, LLC which serves as the general partner to Camden Partners Strategic Fund II-A, L.P. and Camden Partners Strategic Fund II-B, L.P. As such, each of these individuals may be deemed indirect beneficial owners of these shares to the extent of his pecuniary interest therein. Each of these individuals disclaims beneficial ownership of these shares, except to the extent of his indirect pecuniary interest therein.

(5) Howard Fischer, as the President of the portfolio manager of AIG DKR SoundShore Private Investors Holding Fund Ltd., has the power to vote and dispose of these shares. As such, he may be deemed the beneficial owner of these shares, which ownership he disclaims except to the extent of his pecuniary interest therein.

(6) Steve Darby, Steven M. Lamar and Lawrence Goldfarb are the managing members of the general partner of BayStar Capital II, LP, each having the power to vote and/or dispose of these shares. As such, each of these individuals may be deemed beneficial owners of these shares, which ownership each of them disclaims except to the extent of his pecuniary interest therein.

(7) Heights Capital Management, Inc., a Delaware corporation, has the power to vote and dispose of these shares.

(8) Stewart Flink and Richard Levy may be deemed the beneficial owners of these shares by virtue of their power to vote and dispose of the shares. Each of them disclaims beneficial ownership of these shares except to the extent of his pecuniary interest therein.

(9) Avi Vigder, as the President of the sub-manager of Mainfield Enterprises, Inc., has the power to vote and dispose of these shares. As such, he may be deemed the beneficial owner of these shares, which ownership he disclaims except to the extent of his pecuniary interest therein.

(10) Omicron Capital, L.P., a Delaware limited partnership (Omicron Capital), serves as investment manager to Omicron Master Trust, a trust formed under the laws of Bermuda (Omicron), Omicron Capital, Inc., a Delaware corporation (OCI), serves as general partner of Omicron Capital, and Winchester Global Trust Company Limited (Winchester) serves as the trustee of Omicron. By reason of such relationships, Omicron Capital and OCI may be deemed to share dispositive power over the shares of our common stock owned by Omicron, and Winchester may be deemed to share voting and dispositive power over the shares of our common stock owned by Omicron. Omicron Capital, OCI and Winchester disclaim beneficial ownership of such shares of our common stock. Omicron Capital has delegated authority from the board of directors of Winchester regarding the portfolio management decisions with respect to the shares of common stock owned by Omicron and, as of April 21, 2003, Mr. Olivier H. Morali and Mr. Bruce T. Bernstein, officers of OCI, have delegated authority from the board of directors of OCI regarding the portfolio management decisions of Omicron Capital with respect to the shares of common stock owned by Omicron. By reason of such delegated authority, Messrs. Morali and Bernstein may be deemed to share dispositive power over the shares of our common stock owned by Omicron. Messrs. Morali and Bernstein disclaim beneficial ownership of such shares of our common stock and neither of such persons has any legal right to maintain such delegated authority. No other person has sole or shared voting or dispositive power with respect to the shares of our common stock being offered by Omicron, as those terms are used for purposes under Regulation 13D-G of the Securities Exchange Act of 1934, as amended. Omicron and Winchester are not affiliates of one another, as that term is used for purposes of the Securities Exchange Act of 1934, as amended, or of any other person named in this prospectus as a selling stockholder. No person or group (as that term is used in Section 13(d) of the Securities Exchange Act of 1934, as amended, or the SEC s Regulation 13D-G) controls Omicron and Winchester.

(11) Glen Dubin and Henry Swieca may be deemed the beneficial owners of these shares by virtue of their control of the trading manager of Smithfield Fiduciary, LLC, which has voting control and investment discretion with respect to these shares. Each of the trading manager and Messrs. Dubin and Swieca disclaim beneficial ownership of these shares, except to the extent of their pecuniary interest therein.

(12) Consists of a warrant to purchase shares of our common stock at $7.20 per share issued in consideration for placement agent services provided to us in connection with the Series B preferred private placement. We also paid SG Cowen Securities Corporation cash commissions of $622,700 for their services, representing 6.5% of the gross proceeds raised.

We issued an aggregate of 95,800 shares of Series B preferred stock, convertible 16.6667-for-1 into a total of 1,596,665 of our common stock, to the selling shareholders in connection with our $9,579,990 private placement in May 2003. We also issued warrants to the

Table of Contents

investors to purchase a total of 510,932 shares of common stock at $7.20 per share, along with a warrant to the placement agent to purchase 31,933 shares of common stock at $7.20 per share, in connection with this private placement. We agreed to register for resale all of these shares, along with common stock issuable upon conversion of Series B preferred stock which we are required to issue as dividends on the Series B preferred stock through September 2005, and to pay substantially all of the expenses of offering them under this prospectus.

Dividend Policy

We have never paid a cash dividend on our common stock. We anticipate that for the foreseeable future any earnings will be retained for use in our business or to fund the litigation against Aventis and, accordingly, do not anticipate the payment of cash dividends on our common stock.

Market For Securities

Due to our failure to comply with the requirements for continued listing of our shares of common stock on the Nasdaq SmallCap Market, we were delisted from the Nasdaq SmallCap Market on May 13, 2004. Our common stock is currently listed on the OTC Bulletin Board under the symbol PHAR.OB. For each full fiscal quarter since the beginning of 2002, the high and low closing sales prices for our common stock, as reported by Nasdaq and the OTC Bulletin Board, were as set forth below. These prices are based on quotations between dealers, which do not reflect retail mark-up, mark-down or commissions, and may not necessarily represent actual transactions.

	High	Low
2002		
First quarter	$ 9.88	$ 6.50
Second quarter	$ 8.15	$ 4.96
Third quarter	$ 6.99	$ 3.50
Fourth quarter	$ 7.04	$ 4.89
2003		
First quarter	$ 10.35	$ 6.93
Second quarter	$ 9.60	$ 5.55
Third quarter	$ 5.93	$ 3.80
Fourth quarter	$ 4.99	$ 1.40
2004		
First quarter	$ 2.90	$ 1.45
Second quarter (through June 25)	$ 2.34	$ 0.35

On June 25, 2004, the high and low sales prices of our common stock, as reported by the OTC Bulletin Board, were $0.48 and $0.47, respectively. As of March 25, 2004, the number of record holders of our common stock was approximately 99 and we believe that the number of beneficial owners was approximately 3,500.

Table of Contents

Selected Consolidated Financial Data

You should read the selected consolidated financial data set forth below in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations, Business and our financial statements and the related notes included elsewhere in this prospectus. The historical results are not necessarily indicative of the operating results to be expected in the future.

PHARMANETICS, INC. AND SUBSIDIARIES

Selected Consolidated Financial Data (in thousands, except per share data)

	Three Months Ended March 31		Year Ended December 31,				
	2004	2003	2003	2002	2001	2000	1999
RESULTS OF OPERATIONS							
Net product sales to related party	1,688	1,147	$ 5,388	$ 3,863	$ 2,895	$ 3,322	$ 1,957
Net product sales to third parties	175	15	126	227	1,644	947	1,952
Grant/royalty income			38	44	24	46	90
Development income	261	261	1,042	587	264	492	100
Total Revenue	2,124	1,423	6,594	4,721	4,827	4,807	4,099
Operating expenses:							
Cost of goods sold	1,107	683	3,922	3,495	4,046	3,590	3,179
General and administrative	2,390	1,062	4,099	4,899	4,525	3,330	2,715
Sales and marketing	396	728	3,453	1,498	1,208	1,051	799
Research and development	374	1,263	3,997	6,008	3,950	3,685	2,777
Write-down of inventory to net realizable value(2)	378		1,973				
Impairment of long-lived assets(2)			2,516				
Total operating expenses	4,645	3,736	19,960	15,900	13,729	11,656	9,470
Operating loss	(2,521)	(2,313)	(13,366)	(11,179)	(8,902)	(6,849)	(5,371)
Other income (expense), net	86	(31)	5	63	300	515	(43)
Loss from continuing operations	(2,435)	(2,344)	(13,361)	(11,116)	(8,602)	(6,334)	(5,414)
Discontinued operations:							
Income from operations							18
Loss on disposal							(826)
Net and comprehensive loss	(2,435)	(2,344)	(13,361)	(11,116)	(8,602)	(6,334)	(6,222)
Beneficial conversion feature of preferred stock			(3,459)			(3,004)	
Preferred stock dividends	(186)	(123)	(822)	(482)	(566)	(626)	
Net loss attributable to common shareholders	(2,621)	(2,467)	$ (17,642)	$ (11,598)	$ (9,168)	$ (9,964)	$ (6,222)

Basic and diluted loss per common share:							
Net loss attributable to common shareholders	$ (0.26)	$ (0.25)	$ (1.80)	$ (1.21)	$ (1.03)	$ (1.31)	$ (0.83)
Weighted average shares outstanding	10,022	9,701	9,799	9,567	8,877	7,626	7,469
Pro forma amounts assuming SAB 101 was retroactively applied(1):							
Net and comprehensive loss attributable to common shareholders	$ (2,621)	$ (2,467)	$ (17,642)	$ (11,598)	$ (9,168)	$ (9,964)	$ (5,926)
Basic and diluted loss attributable to common shareholders per share	$ (0.26)	$ (0.25)	$ (1.80)	$ (1.21)	$ (1.03)	$ (1.31)	$ (0.79)

Table of Contents

	As of March 31	As of December 31,				
	2004	2003	2002	2001	2000	1999
FINANCIAL CONDITION						
Cash and cash equivalents	$ 5,716	$ 8,463	$ 9,146	$ 14,883	$ 5,344	$ 3,661
Short term investments	286	282	147	85	3,904	1,500
Total assets	11,260	15,267	21,702	27,014	18,314	11,647
Long term debt and capital lease obligations, excluding current portion	21	617	1,095	66	36	862
Total liabilities	4,188	5,760	7,543	3,386	3,632	2,039
Accumulated deficit	(81,477)	(78,855)	(61,214)	(49,616)	(40,448)	(30,484)
Preferred stock	12,896	12,851	7,520	7,520	8,102	
Contingently redeemable common stock				8,538		
Common shareholders equity (deficit)	$ (5,824)	$ (3,344)	$ 6,638	$ 7,570	$ 6,580	$ 9,608

(1) In fiscal 2000, the Company adopted SEC Staff Accounting Bulletin No. 101 (SAB 101). Under this method of accounting, development payments are deferred and recognized into income over the period of the related agreement. The amounts disclosed assume that SAB 101 was retroactively applied to prior years.

(2) In fiscal 2003, as a result of events in the fourth quarter, the Company recorded write-downs of its inventories and long-lived assets.

Table of Contents

Supplementary Quarterly Financial Data

Certain quarterly financial data is set forth below:

	2004
	First Quarter
Total revenues	$ 2,124,000
Gross profit	581,000
Net loss before preferred stock charges	(2,435,000)
Net loss before preferred stock charges per common share	$ (0.24)
Net loss attributable to common shareholders	(2,621,000)
Net loss attributable to common shareholders per common share	$ (0.26)

	2003			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total revenues	$ 1,423,000	$ 1,915,000	$ 1,641,000	$ 1,615,000
Gross profit	479,000	665,000	424,000	23,000
Net loss before preferred stock charges	(2,344,000)	(2,126,000)	(1,987,000)	(6,904,000)(a)
Net loss before preferred stock charges per common share	$ (0.24)	$ (0.22)	$ (0.20)	$ (0.70)(a)
Net loss attributable to common shareholders	(2,467,000)	(5,830,000)(b)	(2,271,000)	(7,074,000)(a)
Net loss attributable to common shareholders per common share	$ (0.25)	$ (0.60)(b)	$ (0.23)	$ (0.72)(a)

	2002			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total revenues	$ 1,057,000	$ 937,000	$ 1,307,000	$ 1,421,000
Gross profit	37,000	77,000	254,000	227,000
Net loss before preferred stock charges	(2,255,000)	(2,323,000)	(2,185,000)	(4,353,000)(c)
Net loss attributable to common shareholders per common share	$ (0.24)	$ (0.24)	$ (0.23)	$ (0.45)(c)
Net loss attributable to common shareholders	(2,381,000)	(2,426,000)	(2,293,000)	(4,498,000)(c)
Net loss attributable to common shareholders per common share	$ (0.25)	$ (0.25)	$ (0.24)	$ (0.47)(c)

(a) Includes $4.5 million in write-downs of inventory and long-lived assets
(b) Includes $3.5 million beneficial conversion feature charge related to issuance of Series B preferred stock

(c) Includes $1.3 million non-cash compensation expense related to stock-based compensation

Table of Contents

Management s Discussion and Analysis of Financial Condition

and Results of Operations

Business

Prior to ceasing substantially all of our operations in March 2004, through our wholly-owned subsidiary Cardiovascular Diagnostics, Inc., we had developed, manufactured and marketed rapid turnaround diagnostics to assess blood clot formation and dissolution. Our products are a proprietary analyzer and dry chemistry tests, known as the Thrombolytic Assessment System, or TAS, that provide, at the point of patient care, rapid and accurate information that can affect therapy. We had also worked to establish our company in the emerging field of theranostics, or rapid near-patient testing, in which the diagnostic results may influence treatment decisions. Our tests can be used in the treatment of angina, heart attack, stroke, deep vein thrombosis and pulmonary and arterial emboli. The TAS technology can be used at the point of patient care which we believe provides many potential benefits, including faster results for better treatment of patients, reduced usage of blood products for bleeding complications, quicker patient transfers from costly critical care settings and reduced hospital costs due to less paperwork and personnel time in processing blood samples.

Overview

We have derived income from the following sources: TAS product sales, interest income, and development income recognized in connection with collaboration agreements. Product sales have mainly consisted of our routine test cards, the PT, aPTT, HMT, HTT, PRT and LHMT tests along with the related controls and analyzers. These products were distributed under a global distribution agreement with Bayer Diagnostics. In August 1998, we signed a five-year global distribution agreement, subject to minimum annual sales, with Chiron Diagnostics, now Bayer Diagnostics, to distribute the products. At that time and under a separate purchase agreement, we received an up-front investment of $6 million from Bayer in exchange for 600,000 shares of our common stock, all of which were recorded as an increase to stockholder s equity. Under that agreement, Bayer agreed to purchase minimum quantities of our products covered by the agreement at pre-determined prices. The prices charged to Bayer were variable depending on purchase volumes. Subsequently, in April 2001, Bayer purchased 1,450,000 shares of our common stock at a negotiated price of $12 per share, representing a negotiated premium to market price at that time, for $17.4 million, all of which was recorded as an increase to stockholder s equity. At that time, this investment increased Bayer s ownership percentage in our company from approximately 7% to 19.9%. In connection with the 2001 investment, we entered into an amended distribution agreement with Bayer to replace the previous distribution agreement. Under the terms of the amended agreement, Bayer agreed to purchase, at the same pre-determined prices as in the original distribution agreement, the same products as covered by the original agreement. For these products distributed by Bayer, Bayer would send monthly purchase orders and we would transfer ownership of the product to and receive payment from Bayer. As requested by Bayer, and in accordance with Bayer s pre-determined delivery schedule, upon receipt of the committed purchase order, we would produce and transfer the product into Bayer s segregated space at our warehouse facility. We do not retain any specific performance obligation with respect to product once it has been completed and transferred to the segregated warehouse space. We sold this product to Bayer at the pre-determined prices set forth in the amended distribution agreement and Bayer took ownership of and assumed all risk for the

Table of Contents

inventory upon transfer and then held it for resale. Bayer does not have any right to return unsold product and has no history of requesting return. Assuming full conversion of outstanding preferred stock into common stock, Bayer now owns approximately 17% of our outstanding shares and maintains the right to designate one nominee for election to our board of directors. Currently, no representative from Bayer is a member of our board of directors, although it retains the right to name a designee in the future.

Upon entering into the amended distribution agreement with Bayer, we expanded our relationship with Bayer to cover collaborative distribution and supply of certain theranostic tests in the United States, principally the Enox test. Under the provisions of the agreement, Bayer was exclusively responsible for receiving the Enox sales order from the hospital, informing us of the order, sending an invoice to the hospital and collecting that resulting receivable, thus assuming the credit and collection risk. For these services, Bayer received a commission of 10% of the price of each card. The Enox test inventories were maintained on our books until shipment and we would invoice Bayer for the shipment of Enox tests and record revenue upon shipment of the product to the hospital that placed the order with Bayer, which is when all elements of our revenue recognition policy have been met. We offered no price concession to Bayer, received payment therefore directly from Bayer within 30 to 70 days of the invoice date and Bayer s 10% commission was netted and recorded against the revenue in the financial statements.

In December 2003, we announced that, primarily as a result of the Aventis litigation and its impact on our business and prospects, we are pursuing a variety of strategic alternatives, including the sale of our manufacturing operations. At that time, we also announced that, if a willing and able buyer for our operations is not identified, we would terminate our distribution agreement with our distribution partner, Bayer Diagnostics. As required under our distribution agreement with Bayer, we provided Bayer 90-day notice that we would terminate this agreement effective March 12, 2004. In addition, we provided 90-day notice to PDI, the contractor and provider of the Enox sales and technical support teams, that the sales and technical service personnel would be terminated by March 12, 2004. We believe these steps were and are necessary in order to reduce overhead costs and to conserve cash for the license or sale of assets and the intellectual property as well as to finance our lawsuit against Aventis. In conjunction with these actions, we recorded an impairment charge of $2.5 million related to our long-lived assets. Since filing the lawsuit, we have implemented significant personnel reductions and have engaged Davenport & Company LLC, an investment banking firm, as our financial advisor. Davenport & Company is currently assisting us in pursuing a sale of our manufacturing operations and intellectual property. By the end of March 2004, because no buyer had yet emerged, we ended our distribution agreement with Bayer and ceased producing and selling all products. We are shifting our corporate strategy from a manufacturing/distribution model to that of a biotech model, whereby revenues, if any, would be tied to royalty streams from any future product sales. We are actively seeking a buyer for our operating assets and to sell or license our intellectual property with a significant portion of the potential valuation tied to royalties. In essence, if successful in implementing this new strategy, we would receive royalties on tests developed and would not be responsible for manufacturing and distribution.

Critical Accounting Policies

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles, which require us to make estimates and judgments that affect the

Table of Contents

reported amounts of assets, liabilities, revenues, expenses and related disclosure of contingent assets and liabilities. We evaluate the estimates, judgments and the policies underlying these estimates on a periodic basis as the situation changes, and regularly discuss financial events, policies, and issues with our independent auditors and members of the audit committee. Actual results could differ from these estimates. In addition, in March 2004, we ended our distribution agreement with Bayer and ceased producing and selling all products.

We believe that the following are some of the more critical judgment areas in the application of accounting policies that affect our financial condition and results of operations.

Revenue Recognition

Revenue from the sale of products is recorded when an arrangement exists, delivery has occurred or services have been rendered, the seller s price is fixed and determinable and collectibility is reasonably assured. Substantially all of our product sales in 2002, 2003 and in the first quarter of 2004 were made to our distributor, Bayer. Income under license and development agreements is recognized over the anticipated period of the agreements with the collaborators, in accordance with SEC Staff Accounting Bulletin No. 101 (SAB 101). SAB 101 clarifies conditions to be met to recognize up-front non-refundable payments. Such payments are recognized over the life of the related agreement unless the payment relates to products delivered or services performed that represent the completion of the earnings process. Payments received but not recognized into income in the year of receipt are deferred and recognized over the period of the respective agreements. We have recognized revenue related to the development agreement with Aventis. We are recognizing revenue related to the Aventis development contract, which was entered into in 2000. Previous milestone payments from Aventis, which are non-refundable, remain deferred because even though our development agreement with Aventis has been terminated, we remain under obligation not to develop another test card that would compete with Aventis through November 2006. We are recognizing development income from Aventis on a straight-line basis through November 2006.

Stock-Based Compensation

We have adopted Statement of Financial Accounting Standards No. 123, Accounting for Stock Based Compensation (SFAS No. 123). As permitted by SFAS No. 123, we have chosen to continue to apply APB Opinion No. 25 Accounting for Stock Issued to Employees (APB No. 25) and related interpretations in accounting for our stock plans. Accordingly, in each period, we have used the intrinsic-value method to record stock based employee compensation. No compensation expense has been recognized for stock options granted to employees with an exercise price equal to or above the trading price per share of our common stock on the grant date. During 2002, we recorded a non-cash expense of $1.3 million for deferred compensation related to extending by five years the termination date of options previously granted to a number of employees. In accordance with accounting guidelines, an expense was recorded at the modification date for the affected options.

Inventories

Inventories are stated at the lower of standard cost (which approximates cost on a first-in, first-out basis) or market. We assess our inventory on a periodic basis and recognize reserves

Table of Contents

when necessary. We recorded a write-down of our inventories of $1,973,000 to reduce them to their net realizable value as of December 31, 2003. In December 2003, we notified Bayer of our intention to terminate our distribution agreement in March 2004. Due to the resulting ceasing of sales and production, we determined that excess inventories existed at December 31, 2003 and March 31, 2004 that will not be consumed or sold in the ordinary course of business. These excess inventories of raw materials, work in process and finished goods have been written-down to their net realizable values.

Impairment of Long-Lived Assets

We have adopted Statement of Financial Accounting Standards No. 144 (FAS 144), Accounting for the Impairment of Disposal of Long-Lived Assets . FAS 144 requires that long-lived assets be tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. The carrying amount is not recoverable when the undiscounted cash flows expected to be generated from the use of the long-lived assets and their eventual disposition are less than their carrying amount. Our fixed assets, patents and other non-current assets are considered long-lived assets. Events occurred in our 2003 fourth quarter which indicate that the carrying amount of these assets may not be recoverable. In accordance with the provisions of the statement, we have performed impairment tests and determined that an impairment of the noted assets is present as of December 31, 2003. This analysis requires the use of judgments and estimates concerning future cash flows and fair values upon disposition of assets. We then estimated potential discounted future cash flows related to these assets under four scenarios in conjunction with a third-party valuation that arrived at a fair value. An impairment write-down of $2,516,000 has been taken in the year ended December 31, 2003 and is included in a separate line item in our Statement of Operations. If the probabilities of the highest and lowest cash flow scenarios were adjusted upward and downward by 10%, the write-down would increase or decrease by $1,060,000 respectively. See Notes 1, 4, 5 and 6 to the consolidated financial statements included in this prospectus.

Results of Operations

We do not expect to have any operating revenue following the cessation of operations in March 2004 and operating expenses should be significantly reduced to focus almost exclusively on the Aventis litigation, potential sale of assets and maintaining our financial reporting obligations.

Three Months Ended March 31, 2004 vs March 31, 2003

Net product sales for the quartered ended March 31, 2004 were $1,863,000 compared to $1,162,000 in the same period in 2003. Sales to Bayer represented 91% and 99% of our product sales in the quarters ended March 31, 2004 and 2003, respectively. Revenues from routine test cards and controls increased $735,000 in the 2004 period compared to the 2003 period because Bayer increased its orders prior to termination of the distribution agreement on March 12, 2004.

Development income was $261,000 in the quarters in March 31, 2004 and 2003. All of the development income recognized in these quarters relates to collaboration payments previously received from Aventis Pharmaceuticals in 2000, 2001 and 2002. We are recognizing these payments into income over the period of the agreement in accordance with SAB 104.

Table of Contents

Cost of goods sold for the quarter ended March 31, 2004 was $1,107,000 compared to $683,000 in the comparable period in 2003. High volumes of routine test cards and controls in the first quarter of 2004 resulted in increased costs of goods sold.

General and administrative expenses were $2,390,000 in the first quarter of 2004 compared to $1,062,000 for the comparable period in 2003. These expenses were higher primarily due to a $638,000 in expenses related to severing employees during the quarter and due to increased legal expenses of $615,000, principally related to our litigation with Aventis. Depreciation expense also increased by $106,00 as fixed assets are being depreciated over a shorter life than in 2003. Sales and marketing expenses were $396,000 in the first quarter of 2004 compared to $728,000 in the same period in 2003 due to lower compensation and travel expenses of approximately $278,000 in connection with terminating our contract sales and technical service force related to enoxaparin test as well as severing our own sales, marketing and distribution personnel. Promotion and other marketing expenses decreased $48,000 due to ceasing marketing efforts in the first quarter in 2004. Research and development expenses decreased to $374,000 in the first quarter of 2004 compared to $1,263,000 in the same period in 2003 due to ceasing research and development during the first quarter of 2004 on all projects which resulted in reduced personnel and project costs.

Net interest and other income (expense) for the quarter ended March 31, 2004, which is composed of interest income, interest expense and other income, was a net income of $86,000 compared to a net expense of $31,000 in the first quarter of 2003. The increase was mainly due to recognition of deferred revenue at the date of termination of the Bayer agreement related to amounts previously paid to us.

During the quarters ended March 31, 2004 and 2003, we paid a dividend to Series A preferred shareholders by issuing 41, 690 and 12,913 shares of common stock respectively, representing a total dividend payment for accounting purposes valued at $100,000 and $123,000, respectively. The number of common stock dividend shares required to be issued is determined using the average of the closing prices of the common stock as reported on the principal trading exchange over the 30-day period ending three days prior to the end of each quarter. The number of shares to be issued is then multiplied by the closing market price of our common stock on the dividend payment date to determine the amount recorded as the dividend for the period. In addition, for the quarter ended March 31, 2004, we paid dividends to Series B preferred shareholders by issuing 2, 154 shares of Series B preferred stock. These shares are convertible into approximately 35,901 shares of common stock, which number is multiplied by the closing market price of our stock on the dividend payment date to determine the amount recorded as the Series B dividend of $86,000.

Year Ended December 31, 2003 vs. Year Ended December 31, 2002.

Net product sales for the year ended December 31, 2003 totaled $5.5 million compared to $4.1 million in 2002. Our revenue from Bayer totaled approximately 98% and 94% of total product revenue during 2003 and 2002, respectively. Specialty test card sales in 2003, which included the Enox and ECT tests, totaled $365,000 compared to $223,000 in 2002 as the Enox test was launched in January 2003. Routine test card revenues increased to $3.4 million compared to $2.4 million in 2002 as Bayer increased its test card purchases due to higher

Table of Contents

demand from its customers. Given higher test card sales, controls revenue, which relates to the quality control products used with the test cards, also increased to $512,000 in 2003 compared to $342,000 in 2002. Analyzer revenues for 2003 decreased slightly to $1.0 million compared to $1.1 million in the prior year.

Development income was $1.0 million for 2003 compared to $587,000 in 2002. All of the development income recognized during both periods related to collaboration payments previously received from Aventis Pharmaceuticals. During 2002, two equal milestone payments totaling $3 million were received from Aventis in August and November. These payments are being recognized straight-line into income over the period of the agreement (through 2006) in accordance with SAB 101. Since the $3 million was received in the latter half of 2002, income was recognized for only part of 2002 but was recognized during all of 2003. License and royalty income was essentially unchanged from the prior year.

Cost of goods sold for the year ended December 31, 2003 was $3.9 million compared to $3.5 million for the same period in 2002. Material and labor costs increased $362,000 associated with higher unit sales of all products. Overhead costs also increased $65,000 compared to 2002. The gross margin improved as increased volumes allowed fixed costs to be spread over more units. In addition, sales of the Enox and HTT/PRT tests increased in 2003 compared to 2002 contributing to improved gross margins because these tests are sold at higher prices than the routine test cards.

General and administrative expenses were $4.1 million for 2003 compared to $4.9 million in 2002. This decrease was due to a $1.1 million non-cash charge in 2002, that did not occur in 2003, for deferred compensation related to extending the termination date of stock options previously granted to a number of employees. In accordance with accounting guidelines, we recorded an expense at the modification date, December 2002, for the affected options. This decrease was partially offset by an increase in legal fees of $282,000 mainly related to our litigation with Aventis.

Sales and marketing expenses increased to $3.5 million for 2003 compared to $1.5 million in 2002. This increase was due to higher compensation and travel expenses of approximately $1.7 million in connection with the hiring of a contract sales and technical service force for the launch of the enoxaparin test card beginning in the first quarter of 2003. Depreciation expense also increased $182,000 as new information systems were implemented related to managing sales in the first quarter of 2003.

Research and development expenses decreased to $4.0 million in 2003 from $6.0 million in 2002, mainly due to lower project costs of $1.5 million compared to 2002, chiefly in the Enox, thrombin inhibitor management and LHMT test card projects. These projects incurred development and trials expenses in 2002 that were not incurred in 2003 because research and development in these projects had been substantially completed by 2003. In addition, compensation and benefit costs decreased $420,000 as a result of decreased compensation and benefit costs related to corporate downsizing and departmental restructuring during 2003. As of the date of this filing, we do not have any on-going research projects.

Other income for 2003 was a net income of $5,000 compared to net income of $63,000 for 2002. This change was principally due to higher interest expense paid in 2003 under the new $1.5 million loan obtained from General Electric Capital in December 2002.

Table of Contents

In connection with the events leading up to our decision to cease operations and production in March 2004, we recorded a write-down of our inventories of $1,973,000 to reduce them to their estimated net realizable values as of December 31, 2003. As a result of ceasing production, we determined that excess inventories exist at December 31, 2003 that will not be consumed or sold in the ordinary course of business. These excess inventories of raw materials, work in process and finished goods have been written-down to their net realizable values.

In addition, impairment charges of $2,516,000 were recorded related to our long-lived assets. In accordance with the provisions of FAS 144 and as discussed in our critical accounting policy footnote related to the impairment of long-lived assets, we determined that the full carrying amount of our long-lived assets were not recoverable as the cash flows expected to be generated from the use of the long-lived assets and their eventual disposition are less than their carrying amount. We then estimated potential discounted future cash flows related to these assets under four scenarios in conjunction with a third-party valuation that arrived at a fair value. If the probabilities of the highest and lowest cash flow scenarios were adjusted upward or downward by 10%, the write-down would increase or decrease by $1,060,000 respectively. We do not consider these assets part of a discontinued operation at December 31, 2003 as the assets were not held for sale because we continued to produce product in the first quarter of 2004 to meet our obligations under our distribution agreement with Bayer. The inventory and long-lived asset write-downs are included in separate line items in our Statement of Operations.

For 2003 and 2002, we paid a dividend to Series A preferred shareholders by issuing 110,110 and 81,087, respectively, shares of common stock, representing a total of $451,805 and $482,000 in dividends, respectively. The number of common stock dividend shares required to be issued is determined using the average of the closing prices of the common stock as reported on the Nasdaq SmallCap Market over the 30-day period ending three days prior to the end of each quarter. The number of shares to be issued is then multiplied by the closing market price of our stock on the dividend payment date to determine the amount recorded as the dividend for that period. In addition, for 2003, we paid dividends to Series B preferred shareholders by issuing 5,554 shares of Series B preferred stock. These shares are convertible into approximately 92,568 shares of common stock. Each quarter, the number of shares of common stock issuable from the Series B preferred stock dividend is multiplied by the closing market price of our common stock on the payment date to determine the amount recorded as the Series B dividend. For 2003, the Series B dividend totaled $370,000. On the date of issuance of the Series B, the effective conversion price of the Series B was at a discount to the price of the common stock into which the Series B is convertible. In accordance with EITF 98-5, Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios and EITF 00-27 Application of Issue No. 98-5 to Certain Convertible Instruments , this discount totaled $3,459,000 and was recorded as a preferred stock dividend in the second quarter of 2003. The proceeds of the offering were allocated between preferred stock and warrants issued and the $3.5 million discount was determined by subtracting the effective conversion price of the common stock of $4.95 from the common stock market value of $7.12 the day before the closing and multiplying that number by the number of common shares issuable upon conversion of the preferred stock.

Table of Contents

Year Ended December 31, 2002 vs. Year Ended December 31, 2001.

Net product sales for the year ended December 31, 2002 decreased to $4.1 million compared to $4.5 million in 2001. Our revenue from Bayer totaled approximately 94% and 64 % of total product revenue during 2002 and 2001, respectively. Specialty test card sales in 2002 totaled $223,000 compared to $1.6 million in 2001. In 2001, we recorded specialty card revenue of $1.5 million related to a payment received from AstraZeneca following their communication that they desired to terminate an interim agreement entered into in 2000. AstraZeneca had previously purchased specialty test cards in 2000 to be used in their clinical trials, but exercised their right to terminate the agreement in 2001 by paying an increased price for the test cards previously purchased. We had an obligation to supply test cards to Astra through the end of 2001, thus the $1.5 million was recognized into sales over the final three quarters of 2001. Routine test card sales were essentially flat in 2002, totaling $2.4 million compared to $2.3 million in 2001. However, analyzer revenues increased in 2002, totaling $1.1 million compared to $284,000 in 2001 as Bayer purchased additional units to meet customer demands. Controls revenue also increased in 2002 to $342,000 compared to $257,000 in 2001.

Development income totaled $587,000 in 2002 compared to $264,000 in 2001. Development income in both years was derived from a collaboration agreement signed with Aventis Pharmaceuticals during 2000 related to ours enoxaparin test. The milestone payments received in 2002 of $3 million were deferred and are being recognized into income, along with milestone payments previously received, over the remaining life of this agreement of four years in accordance with SAB 101.

The gross profit margin in 2002 was 15% compared to 11% in 2001. Gross margin increased because higher material and labor costs from higher unit sales of analyzers were offset by decreased operational and technical support overhead devoted to producing test cards for sale. As a result of a new accounting software system, production overhead costs in 2002 of approximately $1.1 million have been classified as research and development expense in the statement of operations based on test cards produced and consumed in development activities. Prior to 2002, data was not available from the accounting system to capture or make an estimate of production overhead costs related to research and development activities. Thus, in 2001 all production overhead costs are reported in cost of goods sold.

General and administrative expenses in 2002 increased $375,000 compared to 2001. Expenses related to relocating our facility decreased compared to 2001 as these costs incurred in 2001 were not incurred in 2002. In addition, we incurred expenses related to implementing an ERP system during 2001 that were not incurred during 2002. These decreases totaled $700,000. The decreases were offset by a $1.1 million non-cash charge for deferred compensation related to extending the termination date of stock options previously granted to a number of employees. In accordance with accounting guidelines, we recorded an expense at the modification date for the affected options.

Sales and marketing expenses increased to $1.5 million from $1.2 million due to budgeted higher compensation costs of current personnel, fees related to recruiting a contract sales and technical service force and a $137,000 non-cash charge for deferred compensation related to extending the termination date of option grants for sales personnel. The contract sales and technical service personnel began work in January 2003.

Table of Contents

Research and development expenses increased in 2002 to $6.0 million from $4.0 million in 2001 related to budgeted personnel cost increases and higher costs associated with on-going development projects for supplies, experimental test cards and clinical trials expense. Development expense related to the Enox test alone increased approximately $1 million compared to the prior year. We also recorded a $71,000 non-cash charge for deferred compensation related to extending the termination date of option grants for research personnel.

Interest expense for the year ended December 31, 2002 decreased compared to 2001. In June 2001, we paid off debt to Transamerica Business Credit Corp. that had been entered into in 1997 to fund working capital and capital expenditures. We entered into a new loan with GE Capital in December 2002. See Liquidity and Capital Resources . Interest income decreased in 2002 compared to 2001 due to significantly decreased interest rates and also lower average cash balances which lowered returns during the year.

In February 2000, we completed a private placement of 120,000 shares of Series A convertible preferred stock. The Series A has a dividend of 6% payable quarterly in cash or in shares of common stock at our option. During the year ended December 31, 2002, the Series A dividend was paid by issuing 81,087 shares of common stock totaling $481,589.

Liquidity and Capital Resources

At March 31, 2004, we had cash, cash equivalents and short-term investments of $6.0 million and working capital of $4.4 million, as compared to $8.7 million and $7.1 million, respectively, at December 31, 2003. During 2003 and the first quarter of 2004, we used cash in operating activities of $8.3 million and $1.6 million, respectively. The operating use of cash was principally due to funding our net operating loss, offset by non-cash charges for depreciation expense and the write-down inventory. Payables and accrued expenses at the end of 2003 were lower compared to 2002, which resulted in a cash outflow. Larger costs for fixed assets, inventory and clinical trials were incurred and included in payables and accrued expenses at the end of 2002 compared to 2003. Deferred revenue decreased during 2003 due to amortization of the Aventis up-front milestone payments into income, which is reflected as a use of cash. No cash inflows from development agreements occurred during 2003.

Net cash used in investing activities was $604,000 in 2003. Net cash provided by investing activities was $1.4 million in 2002. In 2003, we expended $397,000 for new production machinery and for computer equipment and $107,000 related to patents. Short-term investments increased $130,000 in 2003 compared to 2002.

Cash provided by financing activities was $8.3 million in 2003 as compared to $1.8 million in 2002. Cash provided by financing activities was mainly attributable to the completion of a private placement of 95,800 shares of Series B convertible redeemable preferred stock in May 2003. See a discussion of the terms of the Series B preferred stock in Note 11 Convertible Redeemable Preferred Stock of the Notes to the Consolidated Financial Statements. In 2003, we paid down our long-term debt to General Electric and our capital leases by $446,000, leaving a total of $1,132,000 in total debt and capital leases due thereunder on December 31, 2003. Cash used in financing activities in the quarter ended March 31, 2004 was due to payments on our debt and capital leases. We paid the remaining balance of our outstanding equipment loan from General Electric (GE). The debt and capital lease paydown including repaying the remainder of the GE debt during the quarter, totaled $1.1 million.

Table of Contents

We have sustained continuing operating losses in 2003 and 2004 and had an accumulated deficit of $81.5 million as of March 31, 2004. In December 2003, we announced that, due to continued legal action against Aventis and the impact of that litigation on our operations and prospects, we are seeking strategic alternatives, including the sale of our manufacturing operations. We also announced that, if a willing and able buyer for our operations is not identified, we would terminate our distribution agreement with Bayer. We notified Bayer that we would terminate this agreement. By the end of 2004, because no buyer had yet emerged, we ended our distribution agreement with Bayer and ceased producing and selling all products. We are continuing our search for a buyer and intend to continue seeking a buyer during 2004.

We intend to pursue the lawsuit with Aventis with our existing funds, which totals approximately $6.0 million as of March 31, 2004. During March 2004, we repaid the entire amount of our outstanding note payable with General Electric using $976,000 of cash. We plan to eliminate capital and operating leases for office equipment by expending approximately $200,000. In addition, we have terminated substantially all of our employees during the first quarter of 2004, resulting in severance costs of approximately $638,000. We will continue to lease our building in 2004, resulting in anticipated expense in the last nine months of 2004 of approximately $297,000. We believe we have sufficient resources to fund our limited on-going operating costs and the litigation with Aventis through the anticipated trial date, which is expected to occur between the first and third quarters of 2005. However, we can provide no assurance that our resources will ultimately be sufficient. Pending the outcome of the litigation, presently we do not expect to need nor do we intend to seek additional sources of financing.

Barring the receipt of proceeds from a successful completion of the Aventis litigation or revenues and profit from future operations, the holders of our common stock would not be in a position to receive proceeds from any liquidation or sale of the company unless and until the aggregate liquidation preference of approximately $16 million held by our preferred stockholders had first been satisfied.

Contractual Obligations

We have contractual obligations under notes payable, capital and operating lease agreements and other obligations for years subsequent to 2003. Future payments as of December 31, 2003 are as follows:

	2004	2005- 2006	2007- 2008	After 2008	Total
Notes payable*	$ 581,363	$ 627,425			$ 1,208,788
Capital leases**	19,521	26,028			45,549
Operating leases***	384,751	748,803	753,843	879,378	2,766,775
Other contractual obligations****	75,375				75,375
Total payments $	$ 1,061,010	$ 1,402,256	$ 753,843	$ 879,378	$ 4,096,487

* The contractual obligation for principal and interest related to the loan with General Electric, totaling $1.2 million as of December 31, 2003. This loan was repaid in full in March 2004.

Table of Contents

** Relates to lease expense for office equipment. We intend to eliminate the capital lease during 2004 at an estimated cost of $50,000.
*** These commitments are associated with operating leases. Payments due reflect future rent expense for the building and equipment. We intend to seek a sub-lease for the building and to eliminate the equipment operating leases at an estimated cost of $150,000.
**** Relates to inventory purchase commitments remaining as of the end of March 2004.

Recent Accounting Pronouncements

In May 2003, the FASB issued SFAS No. 150 (SFAS No. 150), Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity . This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. Some of the provisions of this Statement are consistent with the current definition of liabilities in FASB Concepts Statement No. 6, *Elements of Financial Statements.* The remaining provisions of this Statement are consistent with the Board s proposal to revise that definition to encompass certain obligations that a reporting entity can or must settle by issuing its own equity shares, depending on the nature of the relationship established between the holder and the issuer. While the Board still plans to revise that definition through an amendment to Concepts Statement 6, the Board decided to defer issuing that amendment until it has concluded its deliberations on the next phase of this project. That next phase will deal with certain compound financial instruments including puttable shares, convertible bonds, and dual-indexed financial instruments. These provisions of SFAS No. 150 are effective for financial statements for fiscal years ending after June 15, 2003. The next phase of this FASB project may require us to reclassify our preferred stock from the mezzanine section to either the liabilities or equity section of the balance sheet. The application of SFAS No. 150 will not have a material effect on our operations.

In November 2002, the FASB approved FASB Interpretation No. (FIN) 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of

Table of Contents

Indebtedness to Others . FIN 45 elaborates on the existing disclosure requirements for most guarantees. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value, or market value, of the obligations it assumes under that guarantee and must disclose that information in its interim and annual financial statements. The disclosure requirements of FIN 45 were effective for financial statements of interim or annual periods ending after December 31, 2002. We have adopted the disclosure provisions of this interpretation and it did not have a material impact on the consolidated financial statements.

In January 2003, the FASB approved FASB Interpretation No. (FIN) 46, Consolidation of Variable Interest Entities . The primary objectives of FIN 46 are to provide guidance on the identification of entities for which control is achieved through means other than through voting rights (variable interest entities or VIEs) and how to determine when and which business enterprise should consolidate the VIE (the primary beneficiary). This new model for consolidation applies to an entity which either (1) the equity investors (if any) do not have a controlling financial interest or (2) the equity investment at risk is insufficient to finance that entity s activities without receiving additional subordinated financial support from other parties. In addition, FIN 46 requires that both the primary beneficiary and all other enterprises with a significant variable interest in a VIE make additional disclosures. This statement is effective no later than the first interim or annual reporting period beginning after June 15, 2003. The adoption of FIN 46 did not have a material impact on the consolidated financial statements.

Factors That Might Affect Future Results

A number of uncertainties exist that might affect our future operating results and stock price. There can be no assurance that we will be successful in our lawsuit against Aventis or that we will find a buyer for any of our assets. See the section entitled Business-Recent Developments in this prospectus for a discussion of the status of our litigation against Aventis. Other risks include: market acceptance of TAS; our continuing losses and the resulting potential need for additional capital in the future; managed care and continuing market consolidation; competition within the diagnostic testing industry and FDA regulations and other regulatory guidelines affecting us and/or our collaborators or potential acquirors. The market price of our common stock could be subject to significant fluctuations in response to variations in our quarterly operating results as well as other factors which may be unrelated to our performance. The stock market in recent years has experienced extreme price and volume fluctuations that often have been unrelated or disproportionate to the operating performance of and announcements concerning public companies. Such broad fluctuations may adversely affect the market price of our common stock. Securities of issuers having relatively limited capitalization are particularly susceptible to volatility based on short-term trading strategies of certain investors.

Quantitative and Qualitative Disclosure About Market Risk

In the normal course of business, we are exposed to a variety of risks including market risk associated with interest rate movements. Our exposure to market risk for changes in interest rates relates primarily to any investments we may hold at various times. When investing, our purchases consist of highly liquid investments with maturities at the date of purchase between three and twelve months, thus, due to the short-term nature of such investments and our usual intention to hold these investments until maturity, the impact of interest rate changes would not have a material impact on our results of operations. During 2004, we repaid our outstanding note payable with General Electric.

Table of Contents

Business

We are a holding company incorporated in North Carolina in 1998 as the parent company of Cardiovascular Diagnostics, Inc. Cardiovascular Diagnostics, Inc. was incorporated in 1985 and was our sole operating subsidiary until we ceased substantially all of our operations in March 2004.

Prior to ceasing substantially all of our operations in March 2004, we developed, manufactured and marketed rapid diagnostics to dose, manage and screen patients on drugs affecting coagulation. Our products are a proprietary analyzer and dry chemistry tests and controls, known as the Thrombolytic Assessment System, or TAS, that provide a physician, at the point of patient care, information that can affect therapy. Our tests were and can be used in the treatment of a variety of adverse conditions caused by abnormal blood clotting in different areas of the body, including angina, heart attack, stroke, deep vein thrombosis and pulmonary and arterial emboli.

TAS is a stat, or as soon as possible , point-of-care system capable of monitoring the formation and dissolution of blood clots. Such monitoring provides information which is critical to health care providers in administering drugs that either prevent the formation of blood clots or dissolve them, both of which are used in the treatment of a variety of medical disorders. Blood clotting, or hemostatic test results must be provided quickly because a majority of the drugs used to regulate clotting are cleared rapidly from the body, and certain drugs must be closely monitored to maintain drug levels within an effective treatment range. We believe that the TAS can provide critical information regarding the formation and dissolution of blood clots as well as drug monitoring on a timely basis, permitting quicker diagnosis and therapeutic intervention, which can improve therapy and the quality of patient care. We believe that this improvement may facilitate quicker transfers out of expensive critical care settings, reduce the overall length of hospital stays, reduce expenditures for laboratory equipment and its associated maintenance, and reduce the unnecessary use of drugs. In addition, point-of-care testing can reduce hospitals costs by reducing the numerous steps, paperwork and personnel used in collecting, transporting, documenting and processing blood samples.

Our products include our TAS analyzer and a menu of tests and controls. FDA approved tests that have been sold for commercial use are listed and described below under the subheading Products . We have sold three other tests, the Lysis Onset Time, Ecarin Clotting Time and a modified ecarin clotting time test for investigational use only which are described below under the subheading Research and Development Test Cards . In addition, we have obtained a special FDA approval, a Humanitarian Device Exemption, or HDE, for our Ecarin Clotting Time card, which can be used in managing patients suffering from heparin induced thrombocytopenia, a condition characterized by persistent decrease in blood platelets resulting from the administration of the anti-clotting drug, heparin. HDE approval is an expedited FDA authorization process to market devices used in rare disease states where no existing solution is available. In connection with the Recent Developments described below, we have ceased the development, production, sale and marketing of our test cards and other products.

Table of Contents

Recent Developments

In November 2003, we filed a lawsuit in the eastern district of North Carolina against Aventis Pharmaceuticals, Inc. In cooperation with Aventis, we developed a rapid bedside test, known as the Enox test, that we believe enhances the way Lovenox®, a popular anti-blood clotting drug marketed by Aventis, currently is managed. We believe the test has the potential to facilitate the drug s use in patients in the cardiac community who stand to benefit from its use. Aventis collaborated with us in a multi-million dollar project in which it made milestone payments to us to develop and co-promote the test together with Lovenox for targeted patient populations. The lawsuit alleges that Aventis has engaged in false and misleading advertising of Lovenox, which damaged our efforts to market and sell the Enox test card. The lawsuit also alleges that Aventis has failed to fulfill its obligation to promote the test and is systematically and falsely advising physicians that the test is not necessary through its claims that Lovenox requires no monitoring and is therapeutic from dose one. We are seeking injunctive relief against Aventis to stop these actions and are demanding that Aventis promote the need for monitoring as required in Lovenox s labeling and as required by the development agreement we entered into with Aventis in August 2000.

In March 2004, the court hearing our case against Aventis held a hearing on our motion for a preliminary injunction against Aventis. In April 2004, Judge Louise W. Flanagan issued an order denying our request for a preliminary injunction, but in denying our motion, Judge Flanagan made a judicial determination that two of Aventis advertising claims regarding Lovenox were literally false. First, the court found that Aventis claim that Lovenox reaches therapeutic levels with 1/2 hour of administration to be literally false. Second, the Court found literally false Aventis claim that Lovenox was therapeutic from dose one. Although Judge Flanagan did not grant our request for a preliminary injunction, one of the reasons cited by the court for not enjoining these false advertising messages was that Aventis has discontinued using these false statements in its advertising. In particular, after we filed our false advertising lawsuit against Aventis in November 2003, almost immediately thereafter Aventis withdrew these statements from its advertising of Lovenox.

In addition, the court found that certain disparaging statements made by Aventis representatives concerning our Enox test card were also literally false. However, rather than issue a preliminary injunction, the court ultimately left this issue for the jury to decide. The court also ruled on Aventis motion for summary judgment in which Aventis essentially sought dismissal of our false advertising claims. In denying Aventis motion, Judge Flanagan noted that we had raised genuine issues of material fact concerning our claims against Aventis and, accordingly, Judge Flanagan ruled that the merits of this case should ultimately be evaluated by a jury. In order to prevail in a jury trial, we must prove a variety of factual issues as well as substantiate our calculation of damages. We intend to aggressively pursue the lawsuit to enforce our rights, and we expect the lawsuit could take a year or more to complete and consume significant time and expense.

In December 2003, we announced that, as a result primarily of the Aventis litigation and its impact on our business and prospects, we are seeking a variety of strategic alternatives, including the sale of our manufacturing operations. In March 2004, because a willing and able buyer for our operations had not by then been identified, we terminated our distribution agreement with our distribution partner, Bayer Diagnostics. In addition, we terminated PDI, the

Table of Contents

contractor and provider of the Enox sales and technical support teams. Since filing the lawsuit, we have implemented personnel reductions and have engaged Davenport & Company LLC, an investment banking firm, as our financial advisor. Davenport & Company is currently assisting us in pursuing a sale of our manufacturing operations and intellectual property. We believe these steps were and are necessary in order to reduce overhead costs and to conserve cash for the proposed license or sale of our assets and intellectual property as well as to finance our lawsuit against Aventis. We are shifting our corporate strategy from a manufacturing/distribution model to that of a biotech model, whereby revenues, if any, would be tied to royalty streams from any future product sales. We are actively seeking a buyer for our operating assets and to sell or license our intellectual property with a significant portion of the potential valuation tied to royalties. In essence, under this new model we would be in a position to receive royalties on tests developed and would not be responsible for manufacturing and distribution. This does not preclude us from initiating future operations related to new products.

We have ceased developing, producing and selling all of our products and plan to terminate substantially all remaining employees except our chief executive officer. We plan to retain our chief executive officer to manage the Aventis litigation until it is completed or settled and to continue to seek a buyer of our operations, manufacturing assets and intellectual property. We expect to engage other personnel to conduct business for us on a contract basis as necessary during the course of these efforts. If we were to receive any proceeds in connection with the Aventis litigation, after payment of litigation and remaining operating expenses, we would consider distributing such remaining proceeds, if any, to our shareholders or using them to restart operations. Such determination would depend on a variety of factors, including the size and timing of any payments, the expenses of completing the litigation, management s assessment of the viability of restarting the business and availability of necessary personnel. However, there can be no assurance that we will prevail in the litigation against Aventis or that if we do prevail, the proceeds would be sufficient to provide significant shareholder value. At this time, we believe as a result of these cost-cutting actions, that we have the financial ability to fund the lawsuit to its conclusion.

Due to our failure to comply with the requirements for continued listing of our shares of common stock on the Nasdaq SmallCap Market, we were delisted from the Nasdaq SmallCap Market on May 13, 2004. Our common stock now trades on the Nasdaq OTC Bulletin Board.

The following discussion summarizes our business prior to ceasing our operations in March 2004.

Industry Overview

Blood testing within the practice of laboratory medicine has been evolving in response to the introduction of new cardiovascular drugs and the physician s demand for information. This demand for information is particularly acute in blood testing, where access to timely and accurate results is critical to effective patient care. Initially, hospital blood analysis was performed in multiple small laboratories that typically used time-consuming manual techniques. The advent of automated blood testing allowed for centralization and standardization of laboratory tests. With improved access to blood analysis, physicians began to use laboratory tests as a primary diagnostic tool and consequently demanded more tests and faster results. In an effort to meet this demand, some hospitals established decentralized stat laboratories nearer the

Table of Contents

patient. These laboratories typically rely on technology designed for efficiency in a high-volume centralized department. We believe that reliance on this technology makes stat laboratories inadequate and expensive, creating a need for new technology suitable for use at the point of patient care. As diagnostics move closer to the patient, the centralized lab has had a reduced role in the purchasing decisions for point-of-care systems. The physician is more likely to have influence over the use of point-of-care technology given its ability to be a valuable tool for managing therapy.

Timely and accurate coagulation test results are important because a majority of the drugs used to regulate clotting are cleared rapidly from the body and these drugs must be closely monitored to maintain drug levels within a safe and effective treatment range. Recent advances in technology allow many blood tests to be performed at the point of patient care, where the physician can most effectively use test results. While speed is important in point-of-care testing, accuracy is critical. Because point-of-care testing is often performed by operators who lack special laboratory skills or training, error-proof testing systems are important. By design, most point-of-care tests require limited materials and minimum labor. Point-of-care test systems must also comply with the Clinical Laboratory Improvement Act of 1988, or CLIA, and its regulations. See Government Regulation .

Technology

The TAS was designed to perform blood analysis rapidly and accurately at the point of care to provide a solution to these current healthcare demands. Our core technology relating to both the TAS analyzer and test cards is currently protected by a number of U.S. and corresponding international patents. The TAS card technology combines a mixture of dry reagents and paramagnetic iron oxide particles, or PIOP, that is contained within the card s reaction chamber. The test card has the approximate dimensions and half the thickness of a standard credit card. Blood samples are introduced into this reagent/particle mixture, dissolving the dry reagent and freeing the magnetic particles to move within the card s chamber. When the oscillating magnetic field is generated by the TAS analyzer, the magnetic particles within the TAS card s reaction chamber move in response to the magnetic field. An optical sensor within the TAS analyzer monitors the motion of the magnetic particles without touching the blood sample. When movement diminishes to a predetermined amplitude, the TAS system determines that a clot has been formed.

Conversely, the same technology is used to measure the time required for a clot to dissolve. Our technology permits the measurement of clot dissolution by introducing a sample of blood to a mixture of magnetic particles and reagents including a clot-forming chemical, thereby inducing a clot. The system then measures the amount of time required for the induced clot to dissolve. We believe that TAS is the only point-of-care system capable of monitoring both coagulation and dissolution of clots. Furthermore, the TAS technology has the flexibility to allow new tests to be developed by using different reagents in the test cards.

Products

TAS Analyzer

The TAS analyzer weighs approximately four pounds and has a four-line LCD display, which is driven by software to prompt the technician to input the user and patient ID numbers, sample type, and timing of application of the blood.

Table of Contents

The analyzer and test cards are designed to work effectively in a decentralized testing environment where they can be used by healthcare personnel who do not need formal central laboratory training. To operate TAS, a test card is passed through the magnetic strip reader of the analyzer, which automatically initiates quality controls and begins to elicit information from the operator through a series of prompts outlining the operating procedure for the specific test to be performed. The test card is then inserted into the TAS analyzer. A single drop of unprocessed, noncitrated or citrated whole blood or plasma is then placed into the reaction chamber of the test card, which already contains the appropriate mixture of dry reagents and PIOP for the test being performed. Typically within three minutes, the screen on the TAS analyzer displays a numerical test result, which is comparable to the result which would be achieved in a central laboratory using traditional testing procedures. The portable analyzer has been designed with a memory capability, may be connected to a printer, and with a software upgrade may be connected to the hospital s patient information system. The internal memory of the TAS analyzer allows for the storage of up to 1,000 individual test results and has an alphanumeric keypad that allows for the input of up to a 20-character patient identification code. Additionally, the keypad provides for coded entry so only authorized personnel can gain access to the system. The analyzer can operate either on wall current or on an internal rechargeable battery.

Accent

The Accent is a microprocessor-based hardware accessory to the TAS analyzer. It connects to the TAS analyzer and automatically calculates the information required by physicians to manage the anticoagulation of patients on heparin during cardiopulmonary bypass procedures. It can be used in conjunction with three of our test cards. The data collected by Accent can be transferred to a printer and/or hospital information system for storage.

FDA-Cleared Test Cards

The following describes our test cards that have been cleared by the FDA:

The Enoxaparin test, or Enox test, detects the anticoagulant effect of enoxaparin, a low molecular weight heparin drug used for the treatment and prevention of blood clotting diseases. Enoxaparin is the world s top-selling low molecular weight heparin and is marketed by Aventis Pharmaceuticals in the United States under the brand name Lovenox® and outside the United States under the brand name Clexane®. This test was developed in a collaborative development program with Aventis. The test assists physicians in evaluating anticoagulation status rapidly before and during percutaneous coronary intervention, and before removing the sheath.

The PT, or Prothrombin Time, test is a general screening test that is used to assess a patient s baseline blood clotting function or to monitor the use of oral anticoagulants, such as warfarin. Warfarin is widely used in the United States for long-term treatment in patients who have previously developed clots, including after heart attacks, to inhibit clot formation and reduce the risk of developing additional clots. Physicians use the PT test

Table of Contents

to monitor and maintain drug levels within a safe treatment range; too little warfarin will not prevent a new clot from developing, and too much of the drug may result in a bleeding complication. Prior to ceasing operations in March 2004, we manufactured and sold three different types of PT test cards, a general purpose PT test card routinely used in the United States, the PT One, which uses a more sensitive scale of measurement, and the PT-NC, which is used with finger stick samples.

The aPTT, or Activated Partial Thromboplastin Time, test is a coagulation screening test which may be used in conjunction with the PT test to provide a global assessment of a patient s ability to form a blood clot. In addition, the aPTT test is used to monitor heparin, an injectable anticoagulant. Hospitals routinely use heparin as the initial treatment for patients with a blood clot, including patients suffering from heart attacks or strokes. Heparin also prevents blood clots from forming in patients undergoing procedures involving particular risks of clotting, such as angiography, open heart surgery, dialysis and several other surgeries. Heparin must be closely monitored to assure adequate anticoagulation without increasing the risk of developing a bleeding complication. Time is particularly important when monitoring heparin, since the intravenously administered drug affects a patient s coagulation system within minutes.

Generally, aPTT tests are incapable of monitoring high levels of heparin. The HMT, or Heparin Management Test, is a coagulation test for monitoring patients requiring high dose heparin therapy during procedures such as open heart surgery or dialysis. For example, during the course of an open heart surgery, the patient s blood may be tested as many as four to six times to assure an adequate heparin effect. We believe that our HMT test is a more effective test than comparable tests because it is easier to use and less prone to operator error. Also, it is not sensitive to changes in blood temperature or dilution, such as typically occur during bypass surgery.

In addition, we developed two more test cards that can be combined with our HMT test to provide a system for individualized heparin management during cardiac surgery. The HTT, Heparin Titration Test, and the PRT, Protamine Response Test, cards are combined with the HMT to provide a system for total individualized heparin management during cardiac surgery. Heparin management is complicated due to patients widely variable response to this drug as well as its clearance rate from the blood during surgery. Heparin dosing based on weight-based protocols is often unreliable, particularly in complicated cases with patients receiving simultaneous therapy. We believe the HTT/PRT approach should make it easier and cost effective to incorporate individual heparin management into routine practice.

The LHMT, or Low-range Heparin Management Test, card can be used principally in cardiac catheterization and interventional cardiology procedures. It is designed to monitor the effects of concentrations of heparin above the range of the aPTT test but below that of the HMTcard.

Our Ecarin Clotting Time test card is available for use under the FDA s Humanitarian Device Exemption program. The Ecarin Clotting Time card can be used in managing patients suffering from heparin induced thrombocytopenia. The FDA s approval only allows the use of the test for managing patients who receive Refludan®, an anticoagulant drug marketed by Pharmion and Berlex for patients undergoing cardiopulmonary bypass surgery.

Table of Contents

Research and Development Test Cards

Prior to the cessation of operations in March 2004, we performed research and development in an effort to expand our menu of tests for the TAS analyzer. We performed research and/or development on the following tests:

Test	Description
Ecarin Clotting Time	Test to monitor direct thrombin inhibitors for use in patients treated for heart attack or prevention of deep vein thrombosis. Sold under the HDE program.
Thrombin Inhibitor Management	Test to allow the monitoring of oral antithrombin drugs for treatment of DVT and atrial fibrillation. The test was submitted to the FDA for review in April 2003 and we are awaiting completion of the FDA review.
Synthetic Xa inhibitors	Test designed to monitor the anticoagulant effect of pentasaccharides. This test has been through feasibility study and subsequent development would require field and clinical trials.
LR Enox	Test to detect the anticoagulant effects of enoxaparin sodium in special patient populations receiving enoxparin for treatment of prophylaxis of deep vein thrombosis. This test has been developed through field trials and subsequent development would require clinical trials.
LRF	Test to monitor the effects of Ancrod, a fibrinogen-lowering drug for the treatment of stroke. This test has been developed through feasibility and subsequent development would require field and clinical trials.
SK Panel	Test to assess response to streptokinase. This test has been developed through feasibility and subsequent development would require field and clinical trials.
Lysis Onset Time	Test to monitor a patient s lytic response to any thrombolytic drug used for the treatment of heart attack, stroke or other thrombotic diseases. This test has been developed through feasibility and subsequent development would require field and clinical trials.

Prior to or in connection with our cessation of operations in March 2004, we ceased further development and regulatory approval efforts related to all of our products, including these research and development test cards. Further development of these tests will likely depend on whether a potential acquiror of our operations emerges and the outcome of our litigation with Aventis.

Table of Contents

Quality Control Products

We also formerly developed and sold single-use crush-vial controls for each test card. These controls were produced by us and a contract manufacturer and allow quality assurance testing at the point of care. In addition, we formerly developed and sold an Electronic Quality Control card used to test analyzer function.

Sales, Marketing and Distribution

We have substantially ceased all sales, marketing and distribution activities relating to all of our products. Our marketing strategy for most of our test cards formerly relied on a distribution partner. In August 1998, we signed a five-year global distribution agreement, subject to minimum annual sales, with Chiron Diagnostics Corp., now a part of Bayer, to distribute these test cards. At that time, we received an up-front investment of $6 million in exchange for 600,000 shares of our common stock. Additionally, in April 2001, Bayer purchased 1,450,000 shares of our common stock at $12 per share for $17.4 million. This investment increased Bayer s ownership percentage in our company from approximately 7% to 19.9% at that time. In connection with the investment, we entered into an amended distribution agreement with Bayer to replace the previous distribution agreement. Under the terms of the amended agreement, Bayer was required to purchase, at pre-determined prices, our routine test cards identified in the agreement. Bayer provided a six-month rolling purchasing forecast, three months of which represented firm orders. We generally sought to maintain a two to three month level of inventory on hand to meet the firm purchasing forecasts.

We also expanded our relationship with Bayer to cover collaborative distribution and supply of certain theranostic tests in the United States, principally the enox test card. Under the provisions of the agreement related to these specialty tests, which agreement expired in March 2004, Bayer was responsible for taking the orders, shipping and collecting receivables for these tests sold by our contract sales team. In return, Bayer received a 10% commission. This arrangement enabled the customer to order all of our products from a single source.

We also marketed TAS products in the European Union, Australia and Canada with Bayer formerly acting as our exclusive distributor for all our products in these territories.

In December 2003, we announced that, as a result primarily of the Aventis litigation and its impact on our business and prospects, we are seeking a variety of strategic alternatives, including the sale of our manufacturing operations. In connection with these developments, we terminated our distribution agreement with our distribution partner, Bayer Diagnostics. In addition, we terminated our relationship with PDI, the contractor and provider of the Enox sales and technical support teams.

As part of our former marketing strategy for the enox test, during 2003, we hired a contract sales force of 9 sales people located throughout the United States, and six contract technical service representatives, to work with Aventis Lovenox® sales force, which numbers approximately 700. We believe the ENOX test may provide physicians with a tool to more confidently prescribe enoxaparin for all of their patients, because they can assess the anticoagulant state of patients who could be sent to the catheterization laboratory.

Table of Contents

Any future sales of our products, by us or by a potential acquiror, will depend, not only upon the outcome of the Aventis litigation and our ability to restart or sell the business to a third party, but also upon acceptance of these products by the medical community as being useful and cost-effective. Market acceptance will depend upon several factors, including the establishment of the utility and cost-effectiveness of our tests and the receipt of regulatory clearances in the United States and elsewhere. Coagulation testing has historically been performed and dominated by the hospital s central laboratory and the approval of the purchase of diagnostic equipment by a hospital is generally controlled by its central laboratory. Along with several of our competitors, we have sought to develop and sell into the newer and developing market for point-of-care coagulation testing. Central laboratories may resist yielding control of tests they have previously performed. We, or others, will also have to demonstrate to physicians that our diagnostic products perform as intended, meaning that the level of accuracy and precision attained by the products must be comparable to test results achieved by central laboratory systems.

Collaborations

We have substantially ceased all of our collaboration efforts in connection with the cessation of our operations in March 2004. Over the past several years, our strategy was to increasingly focus on becoming a leader in the theranostic testing market, specifically managing new therapeutics which affect coagulation. Many drugs currently under development may require faster, more accurate assessment, given short half-lives and narrow therapeutic windows, and thus we believe physicians will increasingly demand therapeutic drug monitoring. To further the goal of establishing our company in the emerging field of theranostics, we entered into development agreements with major pharmaceutical companies such as The Medicines Company and Knoll AG (now a part of Abbott Laboratories) pursuant to which we developed test cards for potential use in patient identification and monitoring of therapies affecting coagulation being investigated by these companies.

In relation to the development of test cards to monitor direct thrombin inhibitors, we have a worldwide exclusive sublicense from Abbott to use the reagent associated with the test. We believe the medical community will embrace the need for a test for managing therapeutic levels in patients receiving oral and injectable direct thrombin inhibitors. To this end, during 2003, we filed a 510(k) submission with the FDA for our Thrombin Inhibitor Management Test for the rapid management of The Medicines Company s anticoagulant, Angiomax® and are awaiting completion of the FDA review. We do not currently intend to pursue further regulatory approval for any other test.

Competition

The medical diagnostic testing industry has been characterized by rapidly evolving technology and intense competition. The TAS menu competed in the coagulation and hematology testing market with manufacturers that provide testing equipment to central and stat laboratories of hospitals. These laboratories currently perform a substantial portion of such testing. The TAS menu also competed with other point-of-care coagulation and hematology test system manufacturers. Laboratories provide some of the same tests performed by TAS;

Table of Contents

however, these laboratory tests generally require the use of skilled technicians and complex, expensive equipment. We believe that TAS offers several advantages over these laboratory-based instruments, including faster results, ease-of-use, reduced opportunity for error and cost-effectiveness.

Prior to ceasing operations in March 2004, we formerly competed with several companies, including Roche Diagnostics, International Technidyne Corporation and Medtronic, that manufacture and market point-of-care coagulation and hematology test systems. International Technidyne Corporation, in particular, has a large installed base of systems, which it has been selling for over 20 years. Despite the fact that we believe that TAS competed favorably with these systems, International Technidyne Corporation s installed base could give it a competitive advantage. Other manufacturers and academic institutions may be conducting research and development with respect to blood testing technologies and other companies may in the future engage in research and development activities regarding products that compete with those of the Company. Many of the companies in the medical technology industry, including those listed above, have substantially greater capital resources, research and development staffs, sales and manufacturing capabilities and manufacturing facilities than us. Such entities may be developing or could in the future attempt to develop additional products competitive with TAS. Many of these companies also have substantially greater experience than we do in research and development, obtaining regulatory clearances, manufacturing and marketing, and may therefore represent significant competition for our products. There can be no assurance that our competitors will not succeed in developing or marketing technologies and products that will be more effective or less expensive than ours or that would render our technology and products obsolete or noncompetitive.

Patents and Other Intellectual Property

We historically pursued patent applications to provide protection from competitors. A number of U.S. and corresponding international patents have been issued to us covering various aspects of the TAS technology. These patents expire between 2004 and 2013. The value of our technology will depend in part on our ability to enforce our patents, to preserve our trade secrets and for such technology to be put to use without infringing the proprietary rights of third parties. Our ability to protect our proprietary position could be jeopardized by our current lack of resources and our inability to pursue additional patents or monitor and enforce our rights under existing patents. No assurance can be given that any patent applications will be issued, that the scope of any patent protection will exclude competitors or provide competitive advantages to us, that any of our patents will be held valid if subsequently challenged or that others will not claim rights in or ownership to the patents and other proprietary rights we hold. Furthermore, others might have developed or will develop similar products, duplicate our products or design around our patents. If any relevant claims of third-party patents are upheld as valid and enforceable, we, or an acquiror of our business, could be prevented from practicing the subject matter claimed in such patents or could be required to obtain licenses from the patent owners of each of such patents or to redesign our products or processes to avoid infringement. Such licenses might not be available or, if available, could be on terms unacceptable to us or an acquiror of our business.

We also historically relied upon unpatented trade secrets to protect our proprietary technology. In particular, we believe that our custom-designed automated test card production line embodies proprietary process technology. Others may independently develop or otherwise

Table of Contents

acquire equivalent technology or otherwise gain access to our proprietary technology and we might not ultimately be able to protect meaningful rights to such unpatented proprietary technology. There has been substantial litigation regarding patent and other intellectual property rights in the medical device industry.

Tokuyama Soda License

We are a party to a License Agreement with Tokuyama Soda Company, Ltd. pursuant to which we granted Tokuyama exclusive rights to manufacture and sell PT and aPTT tests and analyzers in Myanmar, Brunei, Hong Kong, Indonesia, Japan, Malaysia, China, Philippines, Taiwan, South Korea, Singapore and Thailand. The Tokuyama License requires that we negotiate in good faith with Tokuyama for 90 days prior to marketing or licensing in these Asian nations any new products that we develop related to the licensed tests or analyzer technology.

Until the earlier of October 2004 or the expiration of the last Japanese patent covering the licensed technology, Tokuyama must pay us royalties based on Tokuyama s net sales of licensed products. We can terminate the Tokuyama License if Tokuyama fails to make a required payment or report (or makes a false report), or if Tokuyama voluntarily ceases the manufacture and sale of licensed products for 12 months, and if, in any such case, Tokuyama fails to remedy such default within 60 days after we provided notice thereof.

In December 1995, we amended the Tokuyama license to, among other things, provide us with the right to market PT and aPTT tests and analyzers in an Asian country (other than Japan, Taiwan and South Korea) if Tokuyama has not attained annual net sales of $250,000 in the country by June 30, 1996 or within 12 months of the time when export to such country becomes authorized. In the event we exercise this right, we and Tokuyama may both market in the country and must each pay royalties to the other. To date, we have not exercised this right. The amendment also provides that we own all rights outside Asia to improvements made by Tokuyama to our technology, and must pay royalties to Tokuyama based on our net sales of products incorporating such improvements.

We received royalty payments under this agreement of $38,366, $43,705 and $24,000 during the years ended December 31, 2003, 2002, and 2001, respectively.

Manufacturing

Before ceasing production of products in March 2004, we operated our manufacturing facility to assemble TAS analyzers. Vendors provided all molded parts, mechanical components and printed circuit boards. We assembled the components and provided final mechanical, electrical and chemistry testing of each analyzer. In addition, we operated proprietary automated test card production equipment. This automated production equipment was custom designed by us and built to our specifications. We believe that this production machinery embodies proprietary process technology.

The FDC Act requires us to manufacture our products in registered establishments and in accordance with Good Manufacturing Practice, or GMP, now known as Quality System Regulations, or QSR. We are registered as a medical device manufacturer and are subject to periodic inspections by the FDA. In addition, we have maintained ISO 9001 certification since 1997.

41

Table of Contents

Most of the raw materials and components used to manufacture our TAS products are readily available. However, some of these materials are obtained from a sole supplier or a limited group of suppliers. PIOP and some reagents used in the TAS test cards are obtained from single sources. The reliance on sole or limited suppliers and the inability to maintain long-term agreements with suppliers involves several risks, including the inability to obtain an adequate supply of required raw materials and components and reduced control over pricing, quality and timely delivery. Any interruption in supply could have a material adverse effect on any future production of these products, whether by us or any other party acquiring our assets.

Government Regulation

FDA

The medical devices previously marketed and manufactured by us are subject to extensive regulation by the FDA. Pursuant to the FDC Act, the FDA regulates the clinical testing, manufacture, design control, labeling, distribution and promotion of medical devices. Noncompliance with applicable requirements can result in, among other things:

- Fines,
- Injunction,
- civil penalties,
- recall or seizure of products,
- total or partial suspension of production,
- failure of the government to grant premarket clearance or premarket approval for devices,
- withdrawal of marketing approvals, or
- criminal prosecution.

The FDA also has the authority to request repair, replacement or refund of the cost of any device manufactured or distributed by us.

Before a new device can be introduced into the market, the manufacturer must generally obtain marketing clearance through either a 510(k) notification, the HDE process or the more time-consuming premarket approval process. All of our currently FDA-cleared products have qualified for either the 510(k) process or the accelerated HDE process. Commercial distribution of a device for which a 510(k) is required can begin only after the FDA issues an order finding the device to be substantially equivalent to a predicate legally marketed medical device. The FDA has recently been requiring a more rigorous demonstration of substantial equivalence than in the past. It generally takes from four to twelve

months from submission of a 510(k)

Table of Contents

application to obtain a 510(k) clearance, but it might take longer. The FDA might determine that a proposed device is not substantially equivalent to a legally marketed device, or that additional information is needed before a substantial equivalence determination can be made. A request for additional data might require that additional clinical studies of the device s safety and efficacy be performed. A not substantially equivalent determination or a request for additional information could delay the market introduction of new products that fall into this category. For any of our products that were cleared through the 510(k) process, modifications or enhancements that could significantly affect the safety or efficacy of the device or that constitute a major change to the intended use of the device would require a new 510(k). If the FDA requires us, or an acquiror, to submit a new 510(k) for any modification to the device, we, or any acquiror, might be prohibited from marketing the modified device until the 510(k) is cleared by the FDA.

Pursuant to FDA policy, manufacturers of devices labeled for investigational use only must establish a controlled program under which investigational devices are distributed to or utilized only by individuals, laboratories or healthcare facilities that have provided the manufacturer with a written certification of compliance indicating that:

- the device will be used for investigational purposes only;
- results will not be used for diagnostic purposes without confirmation of the diagnosis under another medically established diagnostic device or procedure;
- all investigations will be conducted with approval from an institutional review board, or IRB, using an IRB-approved study protocol, and patient informed consent; and
- the device will be labeled, and labeling will be maintained, in accordance with the applicable labeling regulations.

The failure of us or recipients of our investigational use only products to comply with these requirements could result in enforcement action by the FDA.

Any products formerly manufactured or distributed by us pursuant to FDA clearances or approvals are subject to pervasive and continuing regulation by the FDA, including recordkeeping requirements and reporting of adverse experiences with the use of the device. Device manufacturers are required to register their facilities and list their devices with the FDA, and are subject to periodic inspections by the FDA and certain state agencies. The FDC Act requires devices to be designed and manufactured in accordance with QSR regulations which, when we were still conducting operations, imposed certain procedural and documentation requirements upon us with respect to design, manufacturing and quality assurance activities. The FDA has approved changes to the regulations which will increase and have increased the cost of complying with QSR requirements.

Regulations on Export

Export of products that have market clearance from the FDA in the United States does not require FDA authorization. However, foreign countries often require an FDA certificate for products for export, or CPE. To obtain a CPE, the device manufacturer must certify to the FDA

Table of Contents

that the product has been granted clearance in the United States and that the manufacturing facilities appeared to be in compliance with QSRs at the time of the last FDA inspection. The FDA will refuse to issue a CPE if significant outstanding QSR violations exist.

Export of products subject to the 510(k) requirements, but not yet cleared to market, are ps New Roman" SIZE="2">*Florida law*. Without limiting the provisions described above, under Florida law, holders of our preferred stock, including the Series 6 Preferred Shares, will be entitled to vote as a single class on any amendment to our articles of incorporation, whether or not they are entitled to vote thereon by our articles of incorporation, if the amendment would:

(1) effect an exchange or reclassification of all or part of the shares of such class into shares of another class;

(2) effect an exchange or reclassification, or create a right of exchange, of all or part of the shares of another class into shares of such class;

(3) change the designation, rights, preferences or limitations of all or part of the shares of such class;

(4) change the shares of all or part of such class into a different number of shares of the same class;

(5) create a new class of shares having rights or preferences with respect to distributions or to dissolution that are prior or superior to the shares of such class;

(6) increase the rights, preferences, or number of authorized shares of any class that, after giving effect to the amendment, have rights or preferences with respect to distributions or to dissolution that are prior or superior to the shares of such class;

(7) limit or deny an existing preemptive right of all or part of the shares of such class; or

(8) cancel or otherwise affect rights to distributions or dividends that have accrued but not yet been declared on all or part of the shares of such class.

Any such amendment requires the affirmative vote of a majority of the votes cast by the holders of preferred stock with respect to the amendment. However, if the amendment would create dissenters rights of appraisal, adoption of the amendment requires the affirmative vote of a majority of the votes entitled to be cast by the holders of preferred stock.

Table of Contents

Description of Series 7 Preferred Stock

The Series 7 Preferred Shares have the same terms as the Series 6 Preferred Shares except for the following:

1. Holders of the Series 7 Preferred Shares will be entitled to receive, when and as declared by our Board of Directors, out of funds legally available for payment of dividends, cumulative preferential cash dividends at the rate of 6.000% per annum of the $25.00 per share liquidation preference (equivalent to $1.50 per annum per Series 7 Preferred Share).

2. We may not redeem the Series 7 Preferred Shares prior to August 23, 2017, except as described under -Special Optional Redemption and -Restrictions on Ownership of Capital Stock.

3. The Share Cap for conversion rights for the Series 7 Preferred Shares is 1.0419. The aggregate number of our common shares issuable in connection with the exercise of the Change of Control Conversion Right and in respect of the Series 7 Preferred Shares initially offered will not exceed 3,125,700 common shares (or equivalent Alternative Conversion Consideration, as applicable) and subject to the provisions for the receipt of Alternative Conversion Consideration.

Description of Common Stock of Regency Centers Corporation

Holders of our common stock are entitled to one vote per share on all matters submitted to a vote of shareholders. All actions submitted to a vote of shareholders are voted on by holders of common stock voting together as a single class. Holders of common stock are not entitled to cumulative voting in the election of directors.

Holders of common stock are entitled to receive dividends in cash or in property on an equal share-for-share basis, if and when dividends are declared on the common stock by our board of directors, subject to any preference in favor of outstanding shares of preferred stock.

In the event of the liquidation of our company, all holders of common stock will participate on an equal share-for-share basis with each other in our net assets available for distribution after payment of our liabilities and payment of any liquidation preferences in favor of outstanding shares of preferred stock.

Holders of common stock are not entitled to preemptive rights, and the common stock is not subject to redemption.

The rights of holders of common stock are subject to the rights of holders of any preferred stock that we have designated or may designate in the future. The rights of preferred shareholders may adversely affect the rights of the common shareholders.

Special Common Stock

Under our articles of incorporation, our board of directors is authorized, without further shareholder action, to provide for the issuance of up to 10,000,000 shares of special common stock from time to time in one or more classes or series. As of February 18, 2014, no shares of special common stock were outstanding.

The following is a description of the general terms and provisions of our special common stock. We will describe the particular terms of any class or series of special common stock we offer in the applicable prospectus supplement. You should review our articles of incorporation and the applicable amendment to our articles creating any special common stock we offer (which will be described in more detail in the applicable prospectus supplement).

Table of Contents

The special common stock will bear dividends in such amounts as our board may determine with respect to each class or series. Dividends on any class or series of special common stock must be pari passu with dividends on our common stock. This means that we cannot pay dividends on the special common stock without also paying dividends on an equal basis on our common stock. Upon the liquidation, dissolution or winding up of the company, the special common stock will participate on an equal basis with the common stock in liquidating distributions.

Shares of special common stock will have one vote per share and vote together with the holders of common stock (and not separately as a class except where otherwise required by law), unless the board of directors creates classes or series with more limited voting rights or without voting rights. The board will have the right to determine whether shares of special common stock may be converted into shares of any other class or series or be redeemed, and, if so, the redemption price and the other terms and conditions of redemption, and to determine such other rights as may be allowed by law. Holders of special common stock will not be entitled, as a matter of right, to preemptive rights.

Because we expect special common stock to be closely held as a general rule, we anticipate that most classes or series would be convertible into common stock for liquidity purposes.

The special common stock offered hereby will be issued in one or more classes or series. The applicable prospectus supplement will describe the following terms of the class or series of special stock offered thereby:

1. the designation of the class or series and the number of shares offered;

2. the initial public offering price at which the class or series will be issued;

3. the dividend rate (or method of calculation);

4. any redemption or sinking fund provisions;

5. any conversion or exchange rights;

6. any voting rights;

7. any listing of the special common stock on any securities exchange;

8. a discussion of federal income tax considerations applicable to the class or series;

9. any limitations on issuance of any class or series of stock ranking senior to or on a parity with the class or series as to dividend rights and rights upon liquidation, dissolution or winding up of our affairs;

10. any limitations on direct or beneficial ownership and restrictions on transfer, in each case as may be appropriate to preserve our status as a REIT for federal tax purposes; and

11. any other specific terms, preferences, rights, limitations or restrictions of the class or series.

Transfer Agent

The transfer agent for our common stock is Wells Fargo Bank, N.A., South St. Paul, MN.

Table of Contents

Description of Preferred Stock of Regency Centers Corporation

General

The following is a description of the general terms and provisions of our preferred stock. We will describe the particular terms of any class or series of preferred stock we offer in the applicable prospectus supplement. You should review our articles of incorporation and the applicable amendment to our articles creating any preferred stock we offer (which will be described in more detail in the applicable prospectus supplement).

Our board of directors has the ability to issue from time to time up to 30,000,000 shares of preferred stock in one or more classes or series, without shareholder approval. The board of directors may, by adopting an amendment to our articles of incorporation, designate for the class or series:

- the number of shares and name of the class or series;
- the dividend rights and preferences, if any;
- liquidation preferences and the amounts payable on liquidation or dissolution;
- redemption terms, if any;
- the voting powers of the series, including the right to elect directors, if any;
- the terms upon which the class or series may be converted into any other class or series of our stock, including our common stock; and
- any other terms that are not prohibited by law.

It is impossible for us to state the actual effect on existing shareholders if the board of directors designates any class or new series of preferred stock. The effects of such a designation will not be determinable until the rights accompanying the class or series have been designated. The issuance of preferred stock could adversely affect the voting power, cash available for dividends, liquidation rights or other rights held by owners of common stock or other series of preferred stock. The board of directors authority to issue preferred stock without shareholder approval could make it more difficult for a third party to acquire control of our company, and could discourage any such attempt.

Preferred Stock Offered

The preferred stock that may be offered will be issued in one or more classes or series. The preferred stock will have the dividend, liquidation, redemption, voting and other rights described below. The applicable prospectus supplement will describe the following terms of the class or series of preferred stock offered thereby:

1. the designation of the class or series and the number of shares offered;
2. the liquidation preference of the class or series;

3. the initial public offering price at which the class or series will be issued;

4. the dividend rate (or method of calculation), the dates on which dividends will be payable and the dates from which dividends will begin to accumulate, if any;

5. any redemption or sinking fund provisions;

6. any conversion or exchange rights;

Table of Contents

7. any voting rights;

8. any listing of the preferred stock on any securities exchange;

9. a discussion of federal income tax considerations applicable to the class or series;

10. the relative ranking and preferences of the class or series as to dividend rights and rights upon liquidation, dissolution or winding up of our affairs;

11. any limitations on issuance of any class or series of preferred stock ranking senior to or on a parity with the class or series as to dividend rights and rights upon liquidation, dissolution or winding up of our affairs; and

12. any limitations on direct or beneficial ownership and restrictions on transfer, in each case as may be appropriate to preserve our status as a REIT for federal tax purposes.

Rank

The preferred stock will, with respect to dividend rights and rights upon our liquidation, dissolution and winding up, rank prior to the common stock (including any special common stock) and all other classes and series of our equity securities hereafter authorized, issued or outstanding, other than any classes or series of our equity securities which by their terms specifically provide for a ranking on a parity with (the parity stock) or senior to (the senior stock) the preferred stock as to dividend rights and rights upon our liquidation, dissolution or winding up. We sometimes refer collectively to the common stock and the other classes and series of equity securities that are not senior stock or parity stock as the junior stock. The preferred stock will be on a parity with our Series 6 and Series 7 preferred stock if our board of directors specifically makes it on a parity with these series of preferred stock. Otherwise, the preferred stock will be junior to these series of preferred stock. The preferred stock will be junior to all our outstanding debt. The preferred stock will be subject to future creation of senior stock, parity stock and junior stock to the extent not expressly prohibited by the amendment to our articles of incorporation that designates the class or series of preferred stock.

Dividends

Holders of preferred stock will be entitled to receive, when, as and if declared by our board of directors, out of our assets legally available therefor, dividends or distributions in cash, property or our other assets or securities or from any other source as our board of directors determines, in its discretion, and at such dates and at such rates per share per year as described in the applicable prospectus supplement. The dividend rate may be fixed or variable, or both. Each declared dividend will be payable to holders of record as they appear at the close of business on our books on record dates determined by our board of directors.

Dividends on a class or series of preferred stock may be cumulative or non-cumulative. If dividends on a class or series of preferred stock are non-cumulative and if our board of directors fails to declare a dividend for a dividend period with respect to the class or series, then holders of the class or series will have no right to receive a dividend for that dividend period, and we will have no obligation to pay the dividend for that period, whether or not dividends are declared payable on any future dividend payment dates. If dividends on a class or series of preferred stock are cumulative, the dividends on the shares will accrue from and after the date set forth in the applicable prospectus supplement.

No full dividends will be declared or paid or set apart for payment on any class or series of preferred stock ranking, as to dividends, on a parity with or junior to the class or series of preferred stock offered by the applicable prospectus supplement for any period unless full dividends for the immediately preceding dividend period on such preferred stock (including any accumulation of unpaid dividends for prior dividend periods, if dividends on such preferred stock are cumulative) have been or are contemporaneously declared and paid or are declared and a sum

Table of Contents

sufficient for the payment thereof is set apart for such payment. When dividends are not so paid in full (or a sum sufficient for such full payment is not so set apart) on such preferred stock and any of our parity stock ranking on a parity as to dividends with such preferred stock, dividends on such preferred stock and dividends on such parity stock will be declared pro rata so that the amount of dividends declared per share on such preferred stock and such parity stock will in all cases bear to each other the same ratio that accrued dividends for the then-current dividend period per share on such preferred stock (including any accumulation of unpaid dividends for prior dividend periods, if dividends on such preferred stock are cumulative) and accrued dividends, including required or permitted accumulations, if any, on shares of such parity stock, bear to each other. No interest, or sum of money in lieu of interest, will be payable with respect to any dividend payment(s) on preferred stock that may be in arrears.

Unless full dividends on the class or series of preferred stock offered by the applicable prospectus supplement have been declared and paid or set apart for payment for the immediately preceding dividend period (including any accumulation of unpaid dividends for prior dividend periods, if dividends on such preferred stock are cumulative):

- we may not declare, set aside or pay any cash dividend or distribution (other than in shares of junior stock) on the junior stock;
- we may not, directly or indirectly, repurchase, redeem or otherwise acquire any shares of our junior stock (or pay any amounts into a sinking fund for the redemption of any shares of our junior stock) except by conversion into or exchange for junior stock; and
- we may not, directly or indirectly, repurchase, redeem or otherwise acquire any such preferred stock or any stock ranking on parity with such preferred stock (or pay any amounts into a sinking fund for the redemption of any shares of any such stock) otherwise than pursuant to pro rata offers to purchase or a concurrent redemption of all, or a pro rata portion, of such preferred stock and such parity stock (except by conversion into or exchange for junior stock).

The limitations described above will not apply to:

- payments in lieu of fractional shares in connection with a merger, stock dividend or similar event; or
- any redemption necessary in order to preserve our status as a REIT.

Any dividend payment made on a class or series of preferred stock will first be credited against the earliest accrued but unpaid dividend due with respect to shares of the class or series.

Liquidation

In the event of a voluntary or involuntary liquidation, dissolution or winding up of our affairs, the holders of a class or series of preferred stock will be entitled, subject to the rights of creditors, but before any distribution or payment to the holders of

- any preferred stock junior on our liquidation, dissolution or winding up, or
- our common stock (including any special common stock),

to receive a liquidating distribution in the amount of the liquidation preference per share as set forth in the applicable prospectus supplement, plus accrued and unpaid dividends for the then-current dividend period (including any accumulation of unpaid dividends for prior dividend periods, if dividends on the class or series of preferred stock are cumulative). The liquidation preference is not indicative of the price at which the preferred stock will actually trade on or after the date of issuance.

41

Table of Contents

If the amounts available for distribution with respect to a class or series of preferred stock and all other outstanding parity stock are not sufficient to satisfy the full liquidation rights of all such parity stock outstanding, then the holders of each class or series will share ratably in any such distribution of assets in proportion to the full respective preferential amounts (which may include accumulated dividends) to which they are entitled. Unless otherwise provided in the applicable prospectus supplement, after payment of the full amount of the liquidating distribution, the holders of preferred stock will not be entitled to any further participation in any distribution of our assets.

Redemption

The terms, if any, on which preferred stock of any class or series may be redeemed will be set forth in the applicable prospectus supplement. These terms will include:

- whether the shares are redeemable at our election or the election of the holder or are mandatorily redeemable on a specified date or the occurrence of a specified event;
- the redemption price (or the manner of calculating the redemption price), including any premium over the liquidation preference per share;
- whether the redemption price will be payable in cash or other consideration;
- the redemption date or dates;
- redemption notice requirements;
- other procedures for redemption, including the manner for selecting shares to be redeemed if fewer than all shares of the class or series are to be redeemed; and
- when, where and how we must make a deposit of the redemption price in order for the shares called for redemption to be deemed no longer outstanding and the date as of which they will cease to be deemed outstanding if we comply with these provisions.

Conversion Rights

The terms and conditions, if any, upon which shares of any class or series of preferred stock will be convertible into our common stock will be set forth in the applicable prospectus supplement. These terms will include:

- the number of shares of common stock into which the preferred stock is convertible;
- the conversion price (or manner of calculating the conversion price);
- the conversion period;

provisions as to whether conversion will be at the option of the holders of the preferred stock or at our option;

the events requiring an adjustment of the conversion price; and

provisions affecting conversion in the event of the redemption of such preferred stock.

Table of Contents

Voting

The preferred stock of a class or series will not be entitled to vote, except (1) as described in the applicable prospectus supplement or (2) as required by Florida law.

If we apply to list a class or series of preferred stock on the New York Stock Exchange, the class or series will have the voting rights then required as a condition of listing. Voting rights required by the New York Stock Exchange as of the date of this prospectus include the following rights:

- The affirmative vote of the holders of at least two-thirds of the voting power entitled to be cast by the holders of the listed class or series of preferred stock and all other preferred shares upon which like voting rights have been conferred and are exercisable, voting together as a single class, will be necessary to effect either of the following:
  - designate, create or increase the authorized amount of any class or series of shares ranking senior to the listed class or series; but no such vote will be required if:
    - at or prior to the time of the action with respect to which such vote would be required, provision is made for the redemption of all outstanding shares of the listed class or series and no portion of the redemption price will be paid from the proceeds of such senior stock; or
    - the holders of the listed class or series have previously voted to grant authority to the board of directors to create such senior shares in accordance with Florida law; or
  - amend, alter or repeal the articles of incorporation in a manner that would materially and adversely affect existing terms of the preferred stock.
- The affirmative vote of the holders of at least a majority of the voting power entitled to be cast by the holders of the listed class or series preferred stock and the parity voting securities, voting together as a single class, will be required to amend the articles of incorporation to increase the authorized amount of preferred stock (unless junior to the listed class or series).
- If and when dividends on the listed class or series of preferred stock have not been declared or paid for at least six dividend payment periods, whether or not consecutive, all holders of the class or series, together with all holders of the other parity voting securities, voting together as a single class without regard to class or series, must be entitled to elect a total of two members of the board of directors. This voting right must vest and any directors so elected must have the right to serve until all accumulated and unpaid dividends on the outstanding shares of the listed class or series and other parity voting securities have been paid or a sufficient sum set aside for payment thereof.

Under Florida law in effect on this date of this prospectus, holders of our preferred stock will be entitled to vote as a single class on any amendment to our articles of incorporation, whether or not our articles expressly give them voting rights, if the amendment would:

- effect an exchange or reclassification of all or part of the shares of the class into shares of another class;

effect an exchange or reclassification, or create a right of exchange, of all or part of the shares of another class into shares of the class;

Table of Contents

change the designation, rights, preferences or limitations of all or part of the shares of the class;

change the shares of all or part of the class into a different number of shares of the same class;

create a new class of shares having rights or preferences with respect to distributions or to dissolution that are prior or superior to the shares of the class;

increase the rights, preferences, or number of authorized shares of any class that, after giving effect to the amendment, have rights or preferences with respect to distributions or to dissolution that are prior or superior to the shares of the class;

limit or deny an existing preemptive right of all or part of the shares of the class; or

cancel or otherwise affect rights to distributions or dividends that have accumulated but not yet been declared on all or part of the shares of the class.

Any such amendment would require the affirmative vote of a majority of the votes cast by the holders of preferred stock with respect to the amendment. However, if the amendment would create dissenters rights of appraisal, adoption of the amendment would require the affirmative vote of a majority of the votes entitled to be cast by the holders of preferred stock. If the amendment would affect a series of preferred stock in one or more of the ways described above in a substantially different way than any other series, the series so affected will be entitled to vote as a separate class on the amendment.

No Other Rights

The shares of a class or series of preferred stock will not have any preferences, voting powers or relative, participating, optional or other special rights except as set forth above or described in the applicable prospectus supplement, set forth in the applicable amendment to our articles designating the class or series or as otherwise required by law.

Transfer Agent

The transfer agent for each series of preferred shares will be Wells Fargo Bank, N.A., South St. Paul, MN, unless a different transfer agent is named in the applicable prospectus supplement.

Description of Depositary Shares of Regency Centers Corporation

We may, at our option, elect to offer fractional interests in shares of preferred stock rather than a full share of preferred stock. In that event, receipts (depositary receipts) will be issued for depositary shares, each of which will represent a fraction of a share of a particular class or series of preferred stock, as described in the applicable prospectus supplement.

Any class or series of preferred stock represented by depositary shares will be deposited under a deposit agreement between us and the depositary. The prospectus supplement relating to a series of depositary shares will set forth the name and address of the depositary for the depositary shares and summarize the material provisions of the deposit agreement. Subject to the terms of the deposit agreement, each owner of a depositary share will be entitled, in proportion to the applicable fraction of a share of preferred stock represented by such depositary share, to all the rights and preferences of the preferred stock represented thereby, including dividend and liquidation rights and any right to convert the preferred stock into shares of our capital stock of a different class or series.

We will describe the particular terms of any depositary shares we offer in the applicable prospectus supplement. You should review the documents pursuant to which the depositary shares will be issued, which will be described in more detail in the applicable prospectus supplement.

44

Table of Contents

Description of Warrants of Regency Centers Corporation

We may issue warrants, in one or more series, for the purchase of our common stock, preferred stock or depositary shares. Warrants may be issued independently or together with our common stock, preferred stock or depositary shares and may be attached to or separate from any offered securities.

A prospectus supplement accompanying this prospectus relating to a particular series of warrants to issue shares of stock will describe the terms of those warrants, including:

- the title and the aggregate number of warrants,
- the stock for which each warrant is exercisable,
- the date or dates on which the right to exercise such warrants commence and expire,
- the price or prices at which such warrants are exercisable,
- the currency or currencies in which such warrants are exercisable,
- the periods during which and places at which such warrants are exercisable,
- the terms of any mandatory or optional call provisions,
- the price or prices, if any, at which the warrants may be redeemed at the option of the holder or will be redeemed upon expiration,
- the identity of the warrant agent, and
- the exchanges, if any, on which such warrants may be listed.

You should read the particular terms of the documents pursuant to which the warrants will be issued, which will be described in more detail in the applicable prospectus supplement.

Description of Purchase Contracts of Regency Centers Corporation

We may issue purchase contracts obligating holders to purchase from us, and us to sell to the holders, debt or equity securities issued by us, Regency Centers, L.P. or securities of third parties or any combination of such securities at a future date or dates. The purchase contracts may require us to make periodic payments to the holders of purchase contracts. These payments may be unsecured or prefunded on a basis to be specified in the prospectus supplement relating to the purchase contracts.

The applicable prospectus supplement will describe the terms of any purchase contract. The purchase contracts will be issued pursuant to documents to be issued by us. You should read the particular terms of the documents, which will be described in more detail in the applicable prospectus supplement.

Description of Units of Regency Centers Corporation

We may issue units consisting of one or more purchase contracts, warrants, shares of preferred stock, depositary shares, shares of common stock, debt securities of Regency Centers, L.P. or any combination of such securities. The applicable prospectus supplement will describe the terms of the units and of the securities comprising the units, including whether and under what circumstances the securities comprising the units may be traded separately. You should read the particular terms of the documents pursuant to which the units will be issued, which will be described in more detail in the applicable prospectus supplement.

Table of Contents

SELLING SECURITY HOLDERS

Information about selling security holders, where applicable, will be set forth in a prospectus supplement, in a post-effective amendment, or in filings we make with the SEC under the Securities Exchange Act of 1934 which are incorporated by reference.

PLAN OF DISTRIBUTION

We may sell the securities on a delayed or continuous basis through one or more agents, underwriters or dealers, directly to one or more purchasers, through a combination of any of these methods of sale, or in any other manner, as provided in the applicable prospectus supplement. We will identify the specific plan of distribution, including any underwriters, dealers, agents or direct purchasers and their compensation in a prospectus supplement.

We may distribute the securities from time to time in one or more transactions:

- at a fixed price or prices, which may be changed;
- at market prices prevailing at the time of sale;
- at prices related to prevailing market prices; or
- at negotiated prices.

In connection with the sale of the securities, underwriters may be deemed to have received compensation from us in the form of underwriting discounts or commissions and may also receive commissions from purchasers of the securities for whom they may act as agent. Underwriters may sell the securities to or through dealers, and dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or commissions from the purchasers for whom they may act as agent.

If we use an underwriter in the sale of the securities being offered by this prospectus, we will execute an underwriting agreement with the underwriter at the time of sale and we will provide the name of any underwriter in the applicable prospectus supplement. We will describe in the applicable prospectus supplement any underwriting compensation we pay to underwriters or agents in connection with the offering of the securities, and any discounts, concessions or commissions allowed by underwriters to participating dealers. Dealers and agents participating in the distribution of the securities may be deemed to be underwriters, and any discounts and commissions received by them and any profit realized by them on resale of the securities may be deemed to be underwriting discounts and commissions. We may enter into agreements with any underwriters, dealers and agents which may entitle them to indemnification against and contribution toward certain civil liabilities, including liabilities under the Securities Act, and to reimbursement for certain expenses.

Unless we specify otherwise in the related prospectus supplement, each series of securities offered will be a new issue with no established trading market. We may elect to list any series of securities on any exchange, but we are not obligated to do so. It is possible that one or more underwriters or agents may make a market in a series of offered securities, but will not be obligated to do so and may discontinue any market making at any time without notice. Therefore, we cannot assure you as to the liquidity of the trading market for the securities.

If indicated in the applicable prospectus supplement, we may authorize underwriters, dealers or other persons acting as our agents to solicit offers by certain institutions or other suitable persons to purchase the securities from us at the public offering price set forth in the prospectus supplement pursuant to delayed delivery contracts providing for payment and delivery on the date or dates stated in the prospectus supplement. We may make delayed delivery with various institutions, including commercial and savings banks, insurance companies, pension funds, investment companies and educational and charitable institutions. Delayed delivery contracts will

Table of Contents

be subject to the condition that the purchase of the securities covered by the delayed delivery contracts will not at the time of delivery be prohibited under the laws of any jurisdiction in the United States to which the purchaser is subject. The underwriters and agents will not have any responsibility with respect to the validity or performance of these contracts.

To facilitate an offering of a series of the securities, certain persons participating in the offering may engage in transactions that stabilize, maintain, or otherwise affect the price of the securities. This may include over-allotments or short sales of the securities, which involves the sale by persons participating in the offering of more securities than we sold to them. In these circumstances, these persons would cover the over-allotments or short positions by making purchases in the open market or by exercising their over-allotment option. In addition, these persons may stabilize or maintain the price of the securities by bidding for or purchasing securities in the open market or by imposing penalty bids, whereby selling concessions allowed to dealers participating in the offering may be reclaimed if securities sold by them are repurchased in connection with stabilization transactions. The effect of these transactions may be to stabilize or maintain the market price of the securities at a level above that which might otherwise prevail in the open market. These transactions may be discontinued at any time.

Certain of the underwriters, dealers or agents and their respective associates may be customers of, and/or engage in transactions with and perform services for, us in the ordinary course of business.

CERTAIN MATERIAL FEDERAL INCOME TAX CONSIDERATIONS

The following is a general summary of certain material United States federal income tax considerations that may be relevant to the purchase, ownership and disposition of the securities offered by this prospectus. This summary is for general information only and is not intended to be, nor should it be construed as, tax advice.

The information in this summary is based on:

- the Internal Revenue Code of 1986, as amended (the Code);
- current, temporary and proposed Treasury Regulations promulgated under the Code;
- the legislative history of the Code;
- administrative interpretations and practices of the Internal Revenue Service (IRS) and
- court decisions;

in each case, as of the date of this prospectus. In addition, the administrative interpretations and practices of the IRS include its practices and policies as expressed in private letter rulings that are not binding on the IRS except with respect to the particular taxpayers who requested and received those rulings. Future legislation, Treasury Regulations, administrative interpretations and practices and/or court decisions may adversely affect the tax considerations described in this prospectus. Any such change could apply retroactively to transactions preceding the date of the change. We have not requested and do not intend to request a ruling from the IRS concerning the treatment of the securities, and the statements in this prospectus are not binding on the IRS or any court. Thus, we can provide no assurance that the tax considerations contained in this summary will not be challenged by the IRS or will be sustained by a court if so challenged.

Prospective investors are urged to consult their tax advisors regarding the tax consequences to them of:

- the acquisition, ownership and sale or other disposition of the securities offered under this prospectus, including the federal, state, local, foreign and other tax consequences; and

potential changes in the tax laws.

Table of Contents

This general discussion of certain United States federal income tax considerations may be relevant to prospective investors who acquire the securities upon their initial issuance at the issue price (which will be set forth on the cover of the related prospectus supplement) for cash and hold the securities as a capital asset, which generally consists of property held for investment, as defined in Code Section 1221. This discussion does not address any state, local or foreign tax consequences associated with the ownership of the securities or any federal tax consequences arising out of any tax other than income tax. In addition, this summary does not consider all of the rules which may be relevant in determining the United States federal income tax treatment of an investment in the securities based on a prospective investor s particular circumstances. For example, this general discussion does not address tax considerations which may be applicable to prospective investors receiving special treatment under the United States federal income tax laws, including:

broker-dealers or dealers in securities or currencies;

S corporations;

banks, thrifts or other financial institutions;

regulated investment companies or REITs;

insurance companies;

tax-exempt organizations;

persons subject to the alternative minimum tax provisions of the Code.

persons who hold the securities as part of a hedge, straddle, conversion, integrated or other risk reduction or constructive sale transaction;

persons who hold the securities through a partnership or other pass-through entity;

traders in securities that elect to use a mark-to-market method of accounting for their securities holdings;

persons deemed to sell the securities under the constructive sale provisions of the Code;

persons whose functional currency is not the U.S. dollar;

except to the extent specifically discussed below, non-United States holders (as defined below);

United States expatriates; or

holders who receive our securities through the exercise of employee stock options or otherwise as compensation.

General REIT Discussion

Regency Centers Corporation made an election to be taxed as a REIT under Sections 856 through 860 of the Code commencing with its taxable year ended December 31, 1993. Regency Centers Corporation believes that it has been organized and operated in such a manner as to qualify for taxation as a REIT under the Code for such taxable year and all subsequent taxable years to date, and it intends to continue to operate in such a manner in the future. However, no assurance can be given that Regency Centers Corporation will operate in a manner so as to qualify or remain qualified as a REIT.

The following sets forth only a summary of the material aspects of the Code sections that govern the federal income tax treatment of a REIT and its shareholders.

Table of Contents

It is the opinion of Foley & Lardner LLP that Regency Centers Corporation has been organized in conformity with the requirements for qualification and taxation as a REIT commencing with Regency Centers Corporation s taxable year that ended December 31, 1993 and for all subsequent taxable years to date, and its method of operation will enable it to continue to be taxed as a REIT. It must be emphasized that this opinion is based on various assumptions and is conditioned upon certain representations made by Regency Centers Corporation as to factual matters including, but not limited to, those set forth below in this discussion of Certain Material Federal Income Tax Considerations, those concerning its business and properties, and certain matters relating to the Regency Centers Corporation s manner of operation, is not binding on the IRS and speaks as of the date issued. Foley & Lardner LLP is not aware of any facts or circumstances that are inconsistent with these representations and assumptions. The qualification and taxation as a REIT depends upon Regency Centers Corporation s ability to meet, through actual annual (and in some cases quarterly) operating results, the various income, asset, distribution, stock ownership and other tests discussed below, the results of which will not be reviewed by nor be under the control of Foley & Lardner LLP. Accordingly, no assurance can be given that the actual results of Regency Centers Corporation s operation for any particular taxable year will satisfy such requirements. For a discussion of the tax consequences of failure to qualify as a real estate investment trust, see Failure to Qualify.

Taxation of Regency Centers Corporation

As a REIT, Regency Centers Corporation generally is not subject to federal corporate income tax on its net income that is currently distributed to shareholders. This treatment substantially eliminates the double taxation (at the corporate and shareholder levels) that generally results from an investment in a corporation. Accordingly, income generated by us generally will be subject to taxation solely at the shareholder level upon distribution. However, Regency Centers Corporation will be subject to federal income tax in the following circumstances.

First, Regency Centers Corporation will be taxed at regular corporate rates on any REIT taxable income, including net capital gains that we do not distribute to shareholders during, or within the applicable time period after, the calendar year in which it is earned.

Second, under certain circumstances, Regency Centers Corporation may be subject to the corporate alternative minimum tax on its items of tax preference which it does not distribute or allocate to its shareholders.

Third, if Regency Centers Corporation has (i) net income from the sale or other disposition of foreclosure property (which is, in general, property acquired by Regency Centers Corporation by foreclosure or otherwise on default of a loan secured by the property) which is held primarily for sale to customers in the ordinary course of business or (ii) other non-qualifying net income from foreclosure property, it will be subject to tax on such income at the highest corporate rate.

Fourth, if Regency Centers Corporation has net income from prohibited transactions (which are, in general, certain sales or other dispositions of property held primarily for sale to customers in the ordinary course of business other than foreclosure property), such income will be subject to a 100% tax.

Fifth, if Regency Centers Corporation fails to satisfy either the 75% gross income test or the 95% gross income test discussed below, but still maintains its qualification as a REIT because other requirements are met, Regency Centers Corporation will pay a 100% tax on (1) the gross income attributable to the greater of the amount by which Regency Centers Corporation fails, respectively, the 75% or 95% gross income test, multiplied, in either case, by (2) a fraction intended to reflect Regency Centers Corporation s profitability.

Sixth, if Regency Centers Corporation fails, in more than a de minimis fashion, to satisfy one or more of the asset tests for any quarter of a taxable year, but nonetheless continues to qualify as a REIT because Regency Centers Corporation qualifies under certain relief provisions, it may be required to pay a tax of the greater of $50,000 or a tax computed at the highest corporate rate on the amount of net income generated by the assets causing the failure from the date of failure until the assets are disposed of or it otherwise returns to compliance with the asset test.

Table of Contents

Seventh, if Regency Centers Corporation fails to satisfy one or more of the requirements for REIT qualification (other than the income tests or the asset tests), it nevertheless may avoid termination of its REIT s election in such year if the failure is due to reasonable cause and not due to willful neglect, but it would also be required to pay a penalty of $50,000 for each failure to satisfy the REIT qualification requirements.

Eighth, if Regency Centers Corporation should fail to distribute during each calendar year at least the sum of (i) 85% of its REIT ordinary income for such year, (ii) 95% of its REIT capital gain net income for such year, and (iii) any undistributed taxable income from prior years, it will be subject to a 4% non-deductible excise tax on the excess of such required distribution over the amounts actually distributed.

Ninth, Regency Centers Corporation will be subject to a 100% penalty tax on some payments it receives (or on certain expenses deducted by a taxable REIT subsidiary) if arrangements among Regency Centers Corporation, its tenants, and its taxable REIT subsidiaries are not comparable to similar arrangements among unrelated parties.

Tenth, if Regency Centers Corporation acquires any asset from a C corporation (that is, a corporation generally subject to full corporate level tax) in a transaction in which the basis of the asset in Regency Centers Corporation s hands is determined by reference to the basis of the asset (or any other property) in the hands of the C corporation, and it recognizes gain on the disposition of such asset during the 10-year period (or such other period as may be provided from time to time in the Code) beginning on the date on which such asset was acquired by it, then, to the extent of such property s built-in gain (the excess of the fair market value of such property at the time of acquisition by it over the adjusted basis in the property at such time), such gain will be subject to tax at the highest regular corporate rate applicable. The rule described above with respect to the recognition of built-in gain will apply assuming that an election is not made pursuant to Section 1.337(d)-7 of the Treasury Regulations to treat the asset as having been sold by the C corporation for fair market value immediately before the acquisition by it.

Eleventh, Regency Centers Corporation may elect to retain and pay income tax on our net long-term capital gain. In that case, a U.S. shareholder would be taxed on its proportionate share of our undistributed long-term capital gain (to the extent that we made a timely designation of such gain to the shareholders) and would receive a credit or refund for its proportionate share of the tax we paid. A non-U.S. shareholder would be taxed in the manner described below in U.S. Taxation of Non-U.S. Shareholders.

Twelfth, Regency Centers Corporation may be required to pay monetary penalties to the IRS in certain circumstances, including if we fail to meet record-keeping requirements intended to monitor our compliance with rules relating to the composition of a REIT s shareholders.

In addition, Regency Realty Group, Inc. and its subsidiaries (collectively, the Management Company) (which is treated as a separate entity for federal income tax purposes, although its results are consolidated with those of the Company for financial reporting purposes) is taxed on its income at regular corporate rates. Moreover, notwithstanding our status as a REIT, we may also have to pay certain state and local income taxes, because not all states and localities treat REITs in the same manner that they are treated for U.S. federal income tax purposes.

Requirements for Qualification as a REIT

A REIT is defined in the Code as a corporation, trust or association:

1. which is managed by one or more trustees or directors;

2. the beneficial ownership of which is evidenced by transferable shares or by transferable certificates of beneficial interest;

3. which would be taxable as a domestic corporation, but for Sections 856 through 859 of the Code;

Table of Contents

4. which is neither a financial institution nor an insurance company subject to certain provisions of the Code;

5. the beneficial ownership of which is held by 100 or more persons (determined without reference to any rules of attribution);

6. not more than 50% in value of the outstanding stock of which is owned during the last half of each taxable year, directly or indirectly, by or for five or fewer individuals (as defined in the Code to include certain entities);

7. which meets certain income and asset tests described below and

8. which makes an election to be a REIT for the current taxable year or has made such an election for a previous taxable year which has not been terminated or revoked.

Conditions (1) to (4), inclusive, must be met during the entire taxable year and condition (5) must be met during at least 335 days of a taxable year of 12 months, or during a proportionate part of a taxable year of less than 12 months. Regency Centers Corporation has previously issued sufficient shares to allow it to satisfy conditions (5) and (6). Regency Centers Corporation s articles of incorporation provide restrictions regarding the transfer of its shares which are intended to assist the Company in continuing to satisfy the stock ownership requirements described in (5) and (6) above. Moreover, if Regency Centers Corporation complies with regulatory rules pursuant to which it is required to send annual letters to certain of its shareholders requesting information regarding the actual ownership of its stock, but does not know, or exercising reasonable diligence would not have known, whether it failed to meet the requirement that it not be closely held, it will be treated as having met the five or fewer requirement. If Regency Centers Corporation were to fail to comply with these regulatory rules for any year, it would be subject to a $25,000 penalty. If Regency Centers Corporation s failure to comply was due to intentional disregard of the requirements, the penalty would be increased to $50,000. However, if Regency Centers Corporation s failure to comply was due to reasonable cause and not willful neglect, no penalty would be imposed.

In addition, Regency Centers Corporation must satisfy all relevant filing and other administrative requirements established by the IRS that must be met to elect and maintain REIT status, use a calendar year for federal income tax purposes, and comply with the recordkeeping requirements of the Code and regulations promulgated thereunder.

Regency Centers Corporation owns, and intends to continue to own, its properties through its operating partnership, Regency Centers, L.P. (the Partnership), of which Regency Centers Corporation is the general partner and the principal limited partner. The former owners of certain Partnership properties and certain investment funds also are limited partners. The Partnership presently owns certain of its properties indirectly through other partnerships and limited liability companies (collectively with the Partnership, the Property Partnerships), of which the partners are the Partnership and certain third parties. In the case of a REIT which is a partner in a partnership either directly or indirectly through a qualified REIT subsidiary, Treasury Regulations provide that the REIT will be deemed to own its proportionate share of the assets of the partnership and will be deemed to be entitled to the income of the partnership attributable to such share. In addition, the character of the assets and gross income of the partnership will retain the same character in the hands of the REIT for purposes of Section 856 of the Code, including satisfying the gross income tests and asset tests. Thus, Regency Centers Corporation s proportionate share of the assets, liabilities and items of income of the Property Partnerships (other than certain properties held by the Management Company), is treated as assets, liabilities and items of income of Regency Centers Corporation for purposes of applying the requirements described below.

Regency Centers Corporation believes that each of the Property Partnerships in which it owns an interest, directly or through another partnership or limited liability company, will be treated as partnerships or disregarded for federal income tax purposes and will not be taxable as corporations. If any of these entities were

Table of Contents

treated as a corporation, it would be subject to an entity level tax on its income and Regency Centers Corporation could fail to meet the REIT income and asset tests. For a discussion of the tax consequences of failure to qualify as a real estate investment trust, see Failure to Qualify.

If a REIT owns a corporate subsidiary that is a qualified REIT subsidiary, the separate existence of that subsidiary will be disregarded for federal income tax purposes. Generally, a qualified REIT subsidiary is a corporation, other than a taxable REIT subsidiary (discussed below), all of the capital stock of which is owned by the REIT. All assets, liabilities and items of income, deduction and credit of the qualified REIT subsidiary will be treated as assets, liabilities and items of income, deduction and credit of the REIT itself. A qualified REIT subsidiary of Regency Centers Corporation will not be subject to federal corporate income taxation, although it may be subject to state and local taxation in some states. Although in the past Regency Centers Corporation owned some of its properties indirectly through qualified REIT subsidiaries, at the present time, Regency Centers Corporation does not utilize any qualified REIT subsidiaries.

A taxable REIT subsidiary of Regency Centers Corporation is a corporation in which it directly or indirectly owns stock and that elects, together with Regency Centers Corporation, to be treated as a taxable REIT subsidiary under Section 856(l) of the Code. In addition, if a taxable REIT subsidiary of Regency Centers Corporation owns, directly or indirectly, securities representing 35% or more of the vote or value of a subsidiary corporation, that subsidiary will also be treated as a taxable REIT subsidiary of Regency Centers Corporation. A taxable REIT subsidiary is a corporation subject to federal income tax, and state and local income tax where applicable, as a regular C corporation.

Generally, a taxable REIT subsidiary can perform some impermissible tenant services without causing Regency Centers Corporation to receive impermissible tenant services income under the REIT income tests. However, several provisions regarding the arrangements between a REIT and its taxable REIT subsidiaries are intended to ensure that a taxable REIT subsidiary will be subject to an appropriate level of federal income taxation. For example, a taxable REIT subsidiary is limited in its ability to deduct interest payments made to Regency Centers Corporation. In addition, a REIT will be obligated to pay a 100% penalty tax on some payments that it receives or on certain expenses deducted by the taxable REIT subsidiary if the economic arrangements between the REIT, the REIT s tenants and the taxable REIT subsidiary are not comparable to similar arrangements among unrelated parties.

The Management Company has made an election to be treated as a taxable REIT subsidiary of Regency Centers Corporation.

Income Tests

In order for Regency Centers Corporation to maintain its qualification as a REIT, it must satisfy two gross income requirements annually. First, at least 75% of Regency Centers Corporation s gross income (excluding gross income from prohibited transactions) for each taxable year must be derived directly or indirectly from investments relating to real property or mortgages on real property, including rents from real property , gains on the disposition of real estate, dividends paid by another REIT and interest on obligations secured by mortgages on real property or on interests in real property or from certain types of temporary investments.

Second, at least 95% of Regency Centers Corporation s gross income (excluding gross income from prohibited transactions and certain real estate liability hedges) for each taxable year must be derived from any combination of income qualifying under the 75% test, dividends, and from interest, and gain from the sale or disposition of stock or securities.

Rents received by Regency Centers Corporation qualify as rents from real property in satisfying the gross income requirements for a REIT described above only if the following conditions are met.

Table of Contents

First, the amount of rent must not be based in whole or in part on the income or profits derived by any person from such property, although an amount received or accrued generally will not be excluded from the term rents from real property solely by reason of being based on a fixed percentage or percentages of receipts or sales. Regency Centers Corporation does not anticipate charging rent for any portion of any property that is based in whole or in part on the income or profits of any person (except by reason of being based on a percentage of receipts for sales, which is permitted by the Code).

Second, rents received from a related party tenant will not qualify as rents from real property in satisfying the gross income tests unless the tenant is a taxable REIT subsidiary and at least 90% of the property is leased to unrelated tenants and the rent paid by the taxable REIT subsidiary is substantially comparable to the rent paid by the unrelated tenants for comparable space. A tenant is a related party tenant if the REIT, or an actual or constructive owner of 10% or more of the REIT, actually or constructively owns 10% or more of the tenant. Regency Centers Corporation does not anticipate receiving rents from such a tenant. Additionally, pursuant to the articles of incorporation, Related Tenant Owners are prohibited from acquiring constructive ownership of more than 9.8% by value of Regency Centers Corporation.

Third, rent attributable to personal property leased in connection with a lease of real property will not qualify if it is greater than 15% of the total rent received under the lease.

Fourth, for rents to qualify as rents from real property for the purpose of satisfying the gross income tests, Regency Centers Corporation is generally only allowed directly to provide services that are usually or customarily rendered in connection with the rental of real property and not otherwise considered rendered to the occupant. Accordingly, the Company may not provide impermissible services to tenants (except through a taxable REIT subsidiary, or through an independent contractor that bears the expenses of providing the services and from whom Regency Centers Corporation derives no revenue) without giving rise to impermissible tenant service income, which is nonqualifying income for purposes of the income tests. For this purpose, the amount that Regency Centers Corporation would be deemed to have received for performing any impermissible services will be the greater of the actual amount so received or 150% of the direct cost to Regency Centers Corporation of providing those services. If impermissible tenant service income exceeds 1% of Regency Centers Corporation s total income from a property, all of the income from that property will fail to qualify as rents from real property. If the total amount of impermissible tenant service income from a property does not exceed 1% of Regency Centers Corporation s total income from the property, the services will not taint the other income from the property (that is, they will not cause the rent paid by tenants of that property to fail to qualify itself as rents from real property), but the impermissible tenant service income will not qualify as rents from real property. Regency Centers Corporation provides certain services with respect to the properties that it believes complies with the usually or customarily rendered requirement. Regency Centers Corporation will hire independent contractors from whom it derives no income to perform such services or utilize the Management Company to perform such services, to the extent that the performance of such services by Regency Centers Corporation would cause amounts received from its tenants to be excluded from rents from real property.

The term interest generally does not include any amount received or accrued (directly or indirectly) if the determination of such amount depends in whole or in part on the income or profits of any person. However, an amount received or accrued generally will not be excluded from the term interest solely by reason of being based on a fixed percentage or percentages of receipts or sales. Regency Centers Corporation does not expect to derive significant amounts of interest that would fail to qualify under the 75% and 95% gross income tests.

Regency Centers Corporation s share of any dividends received from corporate subsidiaries (and from other corporations in which it owns an interest) will qualify for purposes of the 95% gross income test but not for purposes of the 75% gross income test. Regency Centers Corporation does not anticipate that it will receive sufficient dividends to cause it to exceed the limit on nonqualifying income under the 75% gross income test.

From time to time, Regency Centers Corporation or the Partnership have entered, and in the future may enter, into hedging transactions with respect to one or more of its assets or liabilities. These hedging activities may include

Table of Contents

entering into interest rate swaps, caps, and floors, options to purchase such items, and futures and forward contracts. Income and gain from hedging transactions are excluded from gross income for purposes of both the 75% and 95% gross income tests. A hedging transaction means either (1) any transaction entered into in the normal course of our trade or business primarily to manage the risk of interest rate changes, price changes, or currency fluctuations with respect to borrowings made or to be made, or ordinary obligations incurred or to be incurred, to acquire or carry real estate assets and (2) any transaction entered into primarily to manage the risk of currency fluctuations with respect to any item of income or gain that would be qualifying income under the 75% or 95% gross income test (or any property which generates such income or gain). We are required to clearly identify any such hedging transaction before the close of the day on which it was acquired or entered into and to satisfy other identification requirements. Regency Centers Corporation and the Partnership intend to structure any hedging transactions in a manner that does not jeopardize Regency Centers Corporation s qualification as a REIT.

The Management Company receives fees in consideration of the performance of management and administrative services with respect to properties that are not owned by Regency Centers Corporation and earns income from the acquisition, development and resale of real estate. Distributions received by Regency Centers Corporation from the Management Company of its earnings do not qualify under the 75% gross income test. Regency Centers Corporation believes that the aggregate amount of the distributions from the Management Company together with all other non-qualifying income in any taxable year will not cause it to exceed the limits on non-qualifying income under the 75% and 95% gross income tests.

Regency Centers Corporation believes that it has satisfied the 75% and 95% gross income tests for taxable years ended prior to the date of this prospectus and intends to operate in such a manner so as to satisfy such tests in the future. If Regency Centers Corporation fails to satisfy one or both of the 75% or 95% gross income tests for any taxable year, it may nevertheless qualify as a REIT for such year if it is entitled to relief under certain provisions of the Code. These relief provisions generally will be available if Regency Centers Corporation s failure to meet those tests is due to reasonable cause and not willful neglect; and following its identification of such failure for any taxable year, a schedule of the sources of Regency Centers Corporation s income is filed in accordance with regulations prescribed by the Secretary of the Treasury. It is not possible to state whether in all circumstances Regency Centers Corporation would be entitled to the benefit of those relief provisions. Even if the relief provisions apply, Regency Centers Corporation would pay a 100% tax on (1) the gross income attributable to the greater of the amount by which it fails, respectively, the 75% or 95% gross income test, multiplied, in either case, by (2) a fraction intended to reflect its profitability.

If Regency Centers Corporation has net income from prohibited transactions, that income will be subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property, held primarily for sale to customers in the ordinary course of business. The determination as to whether a particular sale is a prohibited transaction depends on the facts and circumstances related to that sale. While Regency Centers Corporation has undertaken a significant number of asset sales in recent years, it does not believe that those sales should be considered prohibited transactions, but there can be no assurance that the IRS would not contend otherwise.

Asset Tests

To maintain its qualification as a REIT, Regency Centers Corporation, at the close of each quarter of its taxable year, must also satisfy four tests relating to the nature of its assets. First, at least 75% of the value of Regency Centers Corporation s total assets must be represented by real estate assets (including (i) its allocable share of real estate assets which are held by the Partnership or other Property Partnerships or which are held by qualified REIT subsidiaries of Regency Centers Corporation and (ii) stock or debt instruments held for not more than one year purchased with the proceeds of a stock offering or long-term (at least five years) debt offering of Regency Centers Corporation), cash, cash items and government securities. Second, not more than 25% of the value of Regency Centers Corporation s total assets may be represented by securities other than those in the 75% asset class. Third, except for equity investments in REITs, qualified REIT subsidiaries, or taxable

Table of Contents

REIT subsidiaries or other securities that qualify as real estate assets for purposes of the 75% test described above, (a) the value of any one issuer s securities that Regency Centers Corporation owns may not exceed 5% of the value of Regency Centers Corporation s total assets; (b) Regency Centers Corporation may not own more than 10% of any one issuer s outstanding voting securities; and (c) Regency Centers Corporation may not own more than 10% of the value of the outstanding securities of any one issuer. Fourth, no more than 20% of Regency Centers Corporation s total value (for taxable years beginning after July 30, 2008, 25% of Regency Centers Corporation s total value) may be comprised of securities of one or more taxable REIT subsidiaries.

For purposes of the 10% value test, the term securities does not include:

Straight debt securities, which is defined as a written unconditional promise to pay on demand or on a specified date a sum certain in money if (i) the debt is not convertible, directly or indirectly, into stock, and (ii) the interest rate and interest payment dates are not contingent on profits, the borrower s discretion, or similar factors. Straight debt securities do not include any securities issued by a partnership or a corporation in which the Company or any controlled taxable REIT subsidiary hold non- straight debt securities that have an aggregate value of more than 1% of the issuer s outstanding securities. However, straight debt securities include debt subject to the following contingencies:

- a contingency relating to the time of payment of interest or principal, as long as either (i) there is no change to the effective yield of the debt obligation, other than a change to the annual yield that does not exceed the greater of 0.25% or 5% of the annual yield, or (ii) neither the aggregate issue price nor the aggregate face amount of the issuer s debt obligations held by us exceeds $1 million and no more than 12 months of unaccrued interest on the debt obligations can be required to be prepaid; and

- a contingency relating to the time or amount of payment upon a default or prepayment of a debt obligation, as long as the contingency is consistent with customary commercial practice.

Any loan to an individual or an estate.

Any section 467 rental agreement, other than an agreement with a related party tenant.

Any obligation to pay rents from real property.

Certain securities issued by governmental entities.

Any security issued by a REIT.

Any debt instrument issued by an entity treated as a partnership for federal income tax purposes to the extent of Regency Centers Corporation s interest as a partner in the partnership.

Any debt instrument issued by an entity treated as a partnership for federal income tax purposes not described in the preceding bullet points if at least 75% of the partnership s gross income, excluding income from prohibited transactions, is qualifying income for purposes of the 75% gross income test.

The Partnership owns 100% of the outstanding capital stock of the Management Company. Regency Centers Corporation believes that the aggregate value of the Management Company does not presently exceed 25% (or for taxable years before 2009, did not exceed 20%) of the aggregate value of Regency Centers Corporation s gross assets. As of each relevant testing date prior to the election to treat the Management Company as a taxable REIT subsidiary, which election first became available as of January 1, 2001, Regency Centers Corporation believes it did not own more than 10% of the voting securities of the Management Company. In addition, Regency Centers Corporation believes that as of each relevant testing date prior to the

Table of Contents

election to treat the Management Company as a taxable REIT subsidiary of Regency Centers Corporation, its pro rata share of the value of the securities, including debt, of the Management Company did not exceed 5% of the total value of its assets. No independent appraisals have been obtained to support Regency Centers Corporation s estimate of value, however, and Foley & Lardner LLP, in issuing its opinion on Regency Centers Corporation s qualification as a REIT, is relying on the Regency Centers Corporation s representation as to the limited value of the stock interests in the Management Company.

After initially meeting the asset tests at the close of any quarter, Regency Centers Corporation will not lose its status as a REIT if it fails to satisfy the 25%, 20%, and 5% asset tests and the 10% value limitation at the end of a later quarter solely by reason of changes in the relative values of its assets. If the failure to satisfy the 25%, 20%, or 5% asset tests or the 10% value limitation results from an acquisition of securities or other property during a quarter, the failure can be cured by disposition of sufficient nonqualifying assets within 30 days after the close of that quarter. Regency Centers Corporation intends to maintain adequate records of the value of its assets to maintain compliance with the asset tests and would attempt to take any available actions within 30 days after the close of any quarter in an effort to cure any noncompliance with the 25%, 20%, or 5% asset tests or 10% value limitation of which it becomes aware within that period. If Regency Centers Corporation failed to cure noncompliance with the asset tests within this time period, it would cease to qualify as a REIT. See Failure to Qualify.

If Regency Centers Corporation fails to satisfy one or more of the asset tests for any quarter of a taxable year, it nevertheless may qualify as a REIT for such year if it qualifies for relief under certain provisions of the Code. Those relief provisions generally are available for failures of the 5% asset test and the 10% asset test if (i) the failure is due to the ownership of assets that do not exceed the lesser of 1% of Regency Centers Corporation s total assets or $10 million, and the failure is corrected within six months following the quarter in which it was discovered, or (ii) the failure is due to ownership of assets that exceed the amount in (i) above, the failure is due to reasonable cause and not due to willful neglect, Regency Centers Corporation files a schedule with a description of each asset causing the failure in accordance with regulations prescribed by the Secretary of the Treasury, the failure is corrected within six months following the quarter in which it was discovered, and Regency Centers Corporation pays a tax consisting of the greater of $50,000 or a tax computed at the highest corporate rate on the amount of net income generated by the assets causing the failure from the date of failure until the assets are disposed of or the Company otherwise returns to compliance with the asset test. Regency Centers Corporation may not qualify for the relief provisions in all circumstances.

Annual Distribution Requirements

Regency Centers Corporation, in order to qualify as a REIT, is required to distribute dividends (other than capital gains dividends) to its shareholders in an amount at least equal to: (a) the sum of (i) 90% of its REIT taxable income (computed without regard to the dividends paid deduction and its net capital gain) and (ii) 90% of the net income (after tax), if any, from foreclosure property; minus (b) the sum of certain items of non-cash income. Such distribution must be paid in the taxable year to which it relates, or in the following taxable year if declared before Regency Centers Corporation timely files its tax return for such prior year and if paid on or before the first regular dividend payment date after such declaration. To the extent that Regency Centers Corporation does not distribute (or is not treated as having distributed) all of its net capital gain or distributes (or is treated as having distributed) at least 90%, but less than 100%, of its REIT taxable income, as adjusted, it will be subject to tax thereon at regular ordinary and capital gains corporate tax rates. Regency Centers Corporation may elect to retain, rather than distribute as a capital gain dividend, its net long-term capital gains. If Regency Centers Corporation makes this election, a Capital Gains Designation, it would pay tax on its retained net long-term capital gains. In addition, to the extent Regency Centers Corporation makes a Capital Gains Designation, a U.S. Shareholder generally would: (i) include its proportionate share of its undistributed long-term capital gains in computing its long-term capital gains in its return for its taxable year in which the last day of its taxable year falls (subject to certain limitations as to the amount that is includable); (ii) be deemed to have paid the capital gains tax imposed on Regency Centers Corporation on the designated amounts included in

Table of Contents

the U.S. Shareholder s long-term capital gains; (iii) receive a credit or refund for the amount of tax deemed paid by it; (iv) increase the adjusted basis of its shares by the difference between the amount of includable gains and the tax deemed to have been paid by it; and (v) in the case of a U.S. Shareholder that is a corporation, appropriately adjust its earnings and profits for the retained capital gains in accordance with Treasury Regulations to be prescribed by the IRS. If Regency Centers Corporation should fail to distribute during each calendar year at least the sum of (i) 85% of its REIT ordinary income for such year, (ii) 95% of its REIT capital gain income for such year (other than capital gain income that it elects to retain and pay tax on) and (iii) any undistributed taxable income from prior periods (other than capital gains from such years it elected to retain and pay tax on), Regency Centers Corporation will be subject to a 4% excise tax on the excess of such required distribution over the amounts actually distributed.

Regency Centers Corporation intends to make timely distributions sufficient to satisfy this annual distribution requirement in the future. It is possible that Regency Centers Corporation, from time to time, may not have sufficient cash or other liquid assets to meet the 90% distribution requirement due to timing differences between the actual receipt of income and the actual payment of deductible expenses and the inclusion of such income and deduction of such expenses in arriving at the taxable income of Regency Centers Corporation, or if the amount of nondeductible expenses such as principal amortization or capital expenditures exceeds the amount of noncash deductions. In the event that such timing differences occur, in order to meet the 90% distribution requirement, Regency Centers Corporation may find it necessary to arrange for short-term, or possibly long-term, borrowings to permit the payment of required dividends or to pay dividends in the form of taxable stock dividends.

Under certain circumstances, Regency Centers Corporation may be able to rectify a failure to meet the distribution requirement for a certain year by paying deficiency dividends to shareholders in a later year, which may be included in its deduction for dividends paid for the earlier year. Thus, Regency Centers Corporation may be able to avoid being taxed on amounts distributed as deficiency dividends; however, it will be required to pay to the IRS interest based upon the amount of any deduction taken for deficiency dividends.

Relief from Other Failures of the REIT Qualification Provisions

If Regency Centers Corporation fails to satisfy one or more of the requirements for REIT qualification (other than the income tests or the asset tests), it nevertheless may avoid termination of its REIT election in such year if the failure is due to reasonable cause and not due to willful neglect and it pays a penalty of $50,000 for each failure to satisfy the REIT qualification requirements. Regency Centers Corporation may not qualify for this relief provision in all circumstances.

Failure to Qualify

If Regency Centers Corporation fails to qualify for taxation as a REIT in any taxable year, and the relief provisions do not apply, Regency Centers Corporation will be subject to tax (including any applicable corporate alternative minimum tax) on its taxable income at regular corporate rates. Such a failure could have an adverse effect on the market value and marketability of the common stock. Distributions to shareholders in any year in which Regency Centers Corporation fails to qualify will not be deductible by it nor will they be required to be made. In such event, to the extent of current and accumulated earnings and profits, all distributions to shareholders will be taxable as dividends. Shareholders taxed as individuals may be eligible for the reduced U.S. federal income tax rate of up to 20% on such dividends. Subject to certain limitations of the Code, corporate distributees may be eligible for the dividends received deduction. Unless entitled to relief under specific statutory provisions, Regency Centers Corporation will also be disqualified from taxation as a REIT for the four taxable years following the year during which qualification was lost. It is not possible to state whether Regency Centers Corporation would be entitled to such statutory relief.

Table of Contents

Taxation of Taxable Domestic Shareholders

As used in this section, the term U.S. shareholder means a holder of shares who is (i) a citizen or resident of the United States, (ii) a domestic corporation or other entity treated as a corporation for federal income tax purposes, (iii) an estate whose income is subject to U.S. federal income tax regardless of its source; or (iv) a trust if a U.S. court can exercise primary supervision over the trust s administration and one or more U.S. persons have authority to control all substantial decisions of the trust. If a partnership, entity or arrangement treated as a partnership for U.S. federal income tax purposes holds our shares, the U.S. federal income tax treatment of a partner in the partnership will generally depend on the status of the partner and the activities of the partnership. If you are a partner in a partnership holding our shares, you are urged to consult your tax advisor regarding the consequences of the ownership and disposition of our shares by the partnership.

So long as Regency Centers Corporation qualifies as a REIT, distributions to U.S. shareholders out of its current or accumulated earnings and profits that are not designated as capital gain dividends generally will be taxable as ordinary income and will not be eligible for the dividends received deduction generally available for corporations. In addition, dividends paid to a U.S. shareholder will generally not qualify for the 20% tax rate for qualified dividend income. The maximum tax rate for qualified dividend income received by U.S. shareholders taxed at individual rates is 20%. The maximum tax rate on qualified dividend income is lower than the maximum tax rate on ordinary income, which is 39.6%. However, dividends, other than capital gain dividends, that are (i) attributable to income on which Regency Centers Corporation was subject to tax in the previous taxable year at the corporate level, either because it did not distribute such income or such income consists of gains from certain assets acquired from C corporations, including as a result of the conversion of a C corporation to a REIT, or (ii) attributable to dividends received by Regency Centers Corporation from non-REIT corporations, such as taxable REIT subsidiaries, during the current taxable year will be taxable, to the extent designated by Regency Centers Corporation, to individual stockholders at the current maximum rate of 20% applicable to qualified dividend income. Distributions in excess of Regency Centers Corporation s current and accumulated earnings and profits will not be taxable to a U.S. shareholder to the extent that the distributions do not exceed the adjusted tax basis of the shareholder s shares. Rather, the distributions will reduce the adjusted tax basis of the shares. Distributions that exceed the U.S. shareholder s adjusted tax basis in Regency Centers Corporation s shares will be taxable as capital gains. If Regency Centers Corporation declares a dividend in October, November, or December of any year with a record date in one of these months and pays the dividend on or before January 31 of the following year, Regency Centers Corporation will be treated as having paid the dividend, and the shareholder will be treated as having received the dividend, on December 31 of the year in which the dividend was declared. Shareholders may not include in their own income tax returns any of our net operating losses or capital losses.

Regency Centers Corporation may elect to designate distributions of its net capital gain as capital gain dividends. Capital gain dividends are taxed to shareholders as gain from the sale or exchange of a capital asset held for more than one year, without regard to how long the U.S. shareholder has held Regency Centers Corporation s shares. Designations that Regency Centers Corporation makes only will be effective to the extent that they comply with Revenue Ruling 89-81, which requires that distributions made to different classes of shares be composed proportionately of dividends of a particular type. If Regency Centers Corporation designates any portion of a dividend as a capital gain dividend, a U.S. shareholder will receive an Internal Revenue Service Form 1099 DIV indicating the amount that will be taxable to the shareholder as capital gain. Corporate shareholders, however, may be required to treat up to 20% of capital gain dividends as ordinary income.

Instead of paying capital gain dividends, Regency Centers Corporation may designate all or part of its net capital gain as undistributed capital gain. Regency Centers Corporation will be subject to tax at regular corporate rates on any undistributed capital gain. A U.S. shareholder (1) will include in its income as long-term capital gains its proportionate share of such undistributed capital gains; (2) will be deemed to have paid its proportionate share of the tax paid by Regency Centers Corporation on such undistributed capital gains and receive a credit or refund to the extent that the tax the Company paid exceeds the U.S. shareholder s tax liability on the undistributed capital gain; and (3) in the case of a U.S. shareholder that is a corporation, appropriately

Table of Contents

adjust its earnings and profits for the retained capital gains in accordance with Treasury Regulations to be prescribed by the IRS. A U.S. shareholder will increase the basis in its common shares by the difference between the amount of capital gain included in its income and the amount of tax it is deemed to have paid. Regency Centers Corporation s earnings and profits will be adjusted appropriately.

Regency Centers Corporation will classify portions of any designated capital gain dividend or undistributed capital gain as either: (1) a 20% rate gain distribution, which would be taxable to non-corporate U.S. shareholders at a maximum rate of 20%; or (2) an unrecaptured Section 1250 gain distribution, which would be taxable to non-corporate U.S. shareholders at a maximum rate of 25%.

In addition, dividends paid to, and capital gains recognized by, certain U.S. shareholders that are individuals, estates or trusts may be subject to a 3.8% Medicare tax.

Distributions that Regency Centers Corporation makes and gain arising from the sale or exchange by a U.S. shareholder of its shares will not be treated as passive activity income, and as a result, U.S. shareholders generally will not be able to apply any passive losses against this income or gain. In addition, taxable distributions from Regency Centers Corporation generally will be treated as investment income for purposes of the investment interest limitations. A U.S. shareholder may elect to treat capital gain dividends and capital gains from the disposition of shares as investment income for purposes of the investment interest limitation, in which case the applicable capital gains will be taxed at ordinary income rates. Regency Centers Corporation will notify shareholders regarding the portions of distributions for each year that constitute ordinary income, return of capital, capital gain or represent tax preference items to be taken into account for purposes of computing the alternative minimum tax liability of the shareholders. U.S. shareholders may not include in their individual income tax returns any of Regency Centers Corporation s net operating losses or capital losses. Regency Centers Corporation s operating or capital losses would be carried over by Regency Centers Corporation for potential offset against future income, subject to applicable limitations.

Upon any taxable sale or other disposition of shares, a U.S. shareholder will recognize gain or loss for federal income tax purposes in an amount equal to the difference between: (1) the amount of cash and the fair market value of any property received on the sale or other disposition and (2) the holder s adjusted tax basis in the shares for tax purposes.

This gain or loss will be a capital gain or loss. The applicable tax rate will depend on the shareholder s holding period for the asset (generally, if an asset has been held for more than one year it will produce long-term capital gain) and the shareholder s tax bracket. The maximum tax rate on long-term capital gain applicable to taxpayers taxed at individual rates is 20% for sales and exchanges of assets held for more than one year. The Internal Revenue Service has the authority to prescribe, but has not yet prescribed, regulations that would apply a capital gain tax rate of 25% (which is generally higher than the long-term capital gain tax rates for noncorporate shareholders) to a portion of capital gain realized by a noncorporate shareholder on the sale of REIT shares that would correspond to the REIT s unrecaptured Section 1250 gain. Shareholders are urged to consult with their tax advisors with respect to their capital gain tax liability. A corporate U.S. shareholder will be subject to tax at a maximum rate of 35% on capital gain from the sale of the Company s shares. In general, any loss recognized by a U.S. shareholder upon the sale or other disposition of shares that have been held for six months or less, after applying the holding period rules, will be treated as a long-term capital loss, to the extent of distributions received by the U.S. shareholder from Regency Centers Corporation that were required to be treated as long-term capital gains. In addition, individuals, estates or trusts whose income exceeds certain thresholds are also subject to a 3.8% Medicare tax on gain from the sale of our shares.

Table of Contents

Taxation of Tax-Exempt Shareholders

Provided that a tax-exempt shareholder has not held its common shares as debt financed property within the meaning of the Code, distributions from Regency Centers Corporation will not be unrelated business taxable income, referred to as UBTI, to a tax-exempt shareholder. Similarly, income from the sale of shares will not constitute UBTI unless the tax-exempt shareholder has held its shares as debt financed property within the meaning of the Code or has used the shares in a trade or business.

However, for tax-exempt shareholders that are social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts and qualified group legal services plans exempt from federal income taxation under Sections 501(c)(7), (c)(9), (c)(17) and (c)(20) of the Code, respectively, or a single parent title-holding corporation exempt under Section 501(c)(2) the income of which is payable to any of the aforementioned tax-exempt organizations, income from an investment in Regency Centers Corporation will constitute UBTI unless the organization properly sets aside or reserves such amounts for purposes specified in the Code. These tax-exempt shareholders should consult their tax advisors concerning these set aside and reserve requirements.

Notwithstanding the above, however, a portion of the dividends paid by a pension held REIT are treated as UBTI if received by any trust which is described in Section 401(a) of the Code, is tax-exempt under Code Section 501(a), and holds more than 10%, by value, of the interests in the REIT. Tax-exempt pension funds that are described in Code Section 401(a) are referred to below as pension trusts.

A REIT is a pension held REIT if it meets the following two tests: (1) it qualified as a REIT only by reason of Section 856(h)(3) of the Code, which provides that stock owned by pension trusts will be treated, for purposes of determining if the REIT is closely held, as owned by the beneficiaries of the trust rather than by the trust itself; and (2) either (a) at least one pension trust holds more than 25% of the value of the REIT s stock, or (b) a group of pension trusts each individually holding more than 10% of the value of the REIT s shares, collectively owns more than 50% of the value of the REIT s shares.

The percentage of any REIT dividend from a pension held REIT treated as UBTI is equal to the ratio of UBTI earned by the REIT, treating the REIT as if it were a pension trust and therefore subject to tax on UBTI, to the total gross income of the REIT. An exception applies where the percentage is less than 5% for any year. The provisions requiring pension trusts to treat a portion of REIT distributions as UBTI will not apply if the REIT is able to satisfy the not closely held requirement without relying upon the look-through exception for pension trusts. Based on both Regency Centers Corporation s current share ownership and the limitations on transfer and ownership of shares contained in Regency Centers Corporation s organizational documents, we do not expect to be classified as a pension held REIT.

U.S. Taxation of Non-U.S. Shareholders

As used in this section, the terms non-U.S. shareholder means a holder of shares that is not a U.S. person for U.S. federal income tax purposes. Regency Centers Corporation s distributions to a non-U.S. shareholder that are neither attributable to gain from sales or exchanges by Regency Centers Corporation of U.S. real property interests nor designated by Regency Centers Corporation as capital gains dividends will be treated as dividends of ordinary income to the extent that they are made out of the Company s current or accumulated earnings and profits. These distributions ordinarily will be subject to withholding of U.S. federal income tax on a gross basis at a rate of 30%, or a lower rate as permitted under an applicable income tax treaty, unless the dividends are treated as effectively connected with the conduct by the non-U.S. shareholder of a U.S. trade or business. Under some treaties, however, lower withholding rates generally applicable to dividends do not apply to dividends from REITs. Applicable certification and disclosure requirements must be satisfied to be exempt from withholding under the effectively connected income exemption. Dividends that are effectively connected with a trade or business will be subject to tax on a net basis, that is, after allowance for deductions, at graduated rates, in the same manner as U.S. shareholders are taxed with respect to these dividends, and are

Table of Contents

generally not subject to withholding. Any dividends received by a corporate non-U.S. shareholder that is engaged in a U.S. trade or business also may be subject to an additional branch profits tax at a 30% rate, or lower applicable treaty rate.

Distributions in excess of current and accumulated earnings and profits that exceed the non-U.S. shareholder s basis in Regency Centers Corporation s shares will be taxable to a non-U.S. shareholder as gain from the sale of shares, which is discussed below. Distributions in excess of current or accumulated earnings and profits of the Company that do not exceed the adjusted tax basis of the non-U.S. shareholder in Regency Centers Corporation s shares will reduce the non-U.S. shareholder s adjusted tax basis in the shares and will not be subject to U.S. federal income tax, but will be subject to U.S. withholding tax as described below.

Regency Centers Corporation expects to withhold U.S. income tax at the rate of 30% on any dividend distributions (including distributions that later may be determined to have been in excess of current and accumulated earnings and profits) made to a non-U.S. shareholder unless: (1) a lower treaty rate applies and the non-U.S. shareholder files an Internal Revenue Service Form W-8BEN evidencing eligibility for that reduced treaty rate with Regency Centers Corporation; or (2) the non-U.S. shareholder files an Internal Revenue Service Form W-8ECI with Regency Centers Corporation claiming that the distribution is effectively connected income. In any event, we may be required to withhold 10% of any such distributions in excess of current and accumulated earnings and profits, even if a lower treaty rate applies and the non-U.S. shareholder is not liable for tax on receipt of such distribution. However, a non-U.S. shareholder may claim a refund of amounts that we withhold if we later determine that a distribution in fact exceeded our current and accumulated earnings and profits.

Capital gain distributions to the holders of Regency Centers Corporation s common shares that are attributable to Regency Centers Corporation s sale of real property will be treated as ordinary dividends rather than as gain from the sale of a United States real property interest, as long as (i) Regency Centers Corporation s common shares continue to be regularly traded on an established securities market and (ii) the non-U.S. shareholder did not own more than 5% of Regency Centers Corporation s common shares during the taxable year. As a result, non-U.S. shareholders generally would be subject to withholding tax on such capital gain distributions in the same manner as they are subject to withholding tax on ordinary dividends.

If Regency Centers Corporation s common shares cease to be regularly traded on an established securities market or the non-U.S. shareholder owned more than 5% of Regency Centers Corporation s common shares during the taxable year, capital gain distributions that are attributable to Regency Centers Corporation s sale of real property would be subject to tax under the provisions of the Foreign Investment in Real Property Tax Act of 1980 (FIRPTA).

Under FIRPTA, a non-U.S. shareholder is taxed on distributions attributable to gain from sales of U.S. real property interests as if such gain were effectively connected with a U.S. business of the non-U.S. shareholder. A non-U.S. shareholder thus would be taxed on such a distribution at the normal capital gain rates applicable to U.S. shareholders (subject to applicable alternative minimum tax and a special alternative minimum tax in the case of a nonresident alien individual). A corporate non-U.S. shareholder not entitled to treaty relief or exemption also may be subject to the 30% branch profits tax on distributions subject to FIRPTA. Regency Centers Corporation must withhold and remit to the Internal Revenue Service 35% of any distributions to non-U.S. stockholders that are designated as capital gain dividends, or, if greater, 35% of a distribution that could have been designated as a capital gain dividend. A non-U.S. shareholder may receive a credit against its FIRPTA tax liability for the amount Regency Centers Corporation withholds.

Although the law is not clear on the matter, it appears that amounts Regency Centers Corporation designates as undistributed capital gains in respect of the common shares held by U.S. shareholders generally should be treated for non-U.S. shareholders in the same manner as actual distributions by Regency Centers Corporation of capital gain dividends. Under that approach, the non-U.S. shareholders would be able to offset as a credit against their United States federal income tax liability resulting from reporting the capital gain their proportionate share of the tax paid by Regency Centers Corporation on the undistributed capital gains, and to receive from the Internal Revenue Service a refund to the extent their proportionate share of this tax paid by Regency Centers Corporation were to exceed their actual United States federal income tax liability.

Table of Contents

Gain recognized by a non-U.S. shareholder upon the sale or exchange of Regency Centers Corporation s shares generally would not be subject to United States taxation unless: (1) the investment in Regency Centers Corporation s shares is effectively connected with the conduct of the non-U.S. shareholder s U.S. trade or business, in which case the non-U.S. shareholder will be subject to the same treatment as domestic shareholders as to any gain; (2) the non-U.S. shareholder is a nonresident alien individual who is present in the United States for 183 days or more during the taxable year and has a tax home in the United States, in which case the nonresident alien individual will be subject to a 30% tax on the individual s net capital gains for the taxable year; or (3) Regency Centers Corporation s shares constitute a U.S. real property interest within the meaning of FIRPTA, as described below.

Regency Centers Corporation s shares will not constitute a U.S. real property interest if it is a domestically controlled REIT. Regency Centers Corporation will be a domestically-controlled REIT if, at all times during the 5 year period, preceding a sale or exchange of stock, less than 50% in value of its stock is held directly or indirectly by non-U.S. shareholders. Regency Centers Corporation believes that it currently is a domestically controlled REIT. Because Regency Centers Corporation s shares are publicly traded, however, it cannot guarantee that it is or will remain a domestically controlled REIT. Even if Regency Centers Corporation does not qualify as a domestically controlled REIT at the time a non-U.S. shareholder sells its shares, gain arising from the sale still would not be subject to FIRPTA tax if: (1) the class or series of shares sold is considered regularly traded under applicable treasury regulations on an established securities market, such as the New York Stock Exchange; and (2) the selling non-U.S. shareholder owned, actually or constructively, 5% or less of the outstanding class or series of shares being sold throughout the five-year period ending on the date of the sale or exchange.

If gain on the sale or exchange of Regency Centers Corporation s shares were subject to taxation under FIRPTA, the non-U.S. shareholder would be subject to regular U.S. income tax as to any gain in the same manner as a taxable U.S. shareholder, subject to any applicable alternative minimum tax and special alternative minimum tax in the case of nonresident alien individuals.

For payments after June 30, 2014, a U.S. withholding tax at a 30% rate will be imposed on dividends paid on our shares received by certain non-U.S. shareholders if certain disclosure requirements related to U.S. accounts or ownership are not satisfied. In addition, if those disclosure requirements are not satisfied, a U.S. withholding tax at a 30% rate will be imposed, for payments after December 31, 2016, on proceeds from the sale of our shares received by certain non-U.S. shareholders. If payment of withholding taxes is required, non-U.S. shareholders that are otherwise eligible for an exemption from, or reduction of, U.S. withholding taxes with respect of such dividends and proceeds will be required to seek a refund from the IRS to obtain the benefit or such exemption or reduction. We will not pay any additional amounts in respect of any amounts withheld.

Other Tax Consequences

Regency Centers Corporation and its security holders may be subject to state or local taxation in various state or local jurisdictions, including those in which it or they transact business or reside. The state and local tax treatment of Regency Centers Corporation and its security holders may not conform to the federal income tax consequences discussed above. Consequently, prospective security holders should consult their own tax advisors regarding the effect of state and local tax laws on an investment in the securities.

Backup Withholding

U.S. Shareholders

Regency Centers Corporation will report to its domestic shareholders and to the IRS the amount of dividends paid during each calendar year, and the amount of tax withheld, if any. Under the backup withholding rules, a shareholder may be subject to backup withholding with respect to dividends paid unless such shareholder (a) is a corporation or another form of entity exempt from backup withholding and, when required, demonstrates this fact, or (b) provides a taxpayer identification number, certifies to no loss of exemption from backup

Table of Contents

withholding, and otherwise complies with applicable requirements of the backup withholding rules. A shareholder that does not provide Regency Centers Corporation with a correct taxpayer identification number may also be subject to penalties imposed by the IRS. Any amount paid as backup withholding will be creditable against the shareholder s income tax liability. In addition, Regency Centers Corporation may be required to withhold a portion of capital gain distributions to any shareholders who fail to certify their non-foreign status to it.

Non-U.S. Shareholders

Generally, information reporting will apply to payments of distributions on Regency Centers Corporation s shares, and backup withholding may apply, unless the payee certifies that it is not a U.S. person or otherwise establishes an exemption.

The payment of the proceeds from the disposition of Regency Centers Corporation shares to or through the U.S. office of a U.S. or foreign broker will be subject to information reporting and, possibly, backup withholding unless the non-U.S. shareholder certifies as to its non-U.S. status or otherwise establishes an exemption, provided that the broker does not have actual knowledge that the shareholder is a U.S. person or that the conditions of any other exemption are not, in fact, satisfied. The proceeds of the disposition by a non-U.S. shareholder of Regency Centers Corporation shares to or through a foreign office of a broker generally will not be subject to information reporting or backup withholding. However, if the broker is a U.S. person, a controlled foreign corporation for U.S. tax purposes, or a foreign person 50% or more of whose gross income from all sources for specified periods is from activities that are effectively connected with a U.S. trade or business, information reporting generally will apply unless the broker has documentary evidence as to the non-U.S. shareholder s foreign status and has no actual knowledge to the contrary.

Applicable treasury regulations provide presumptions regarding the status of shareholders when payments to the shareholders cannot be reliably associated with appropriate documentation provided to the payer. Because the application of these treasury regulations varies depending on the shareholder s particular circumstances, you are urged to consult your tax advisor regarding the information reporting requirements applicable to you.

Certain Material Federal Income Tax Consequences of Debt Securities

As the term is used in this section, a United States holder is a beneficial holder of securities and who is:

- an individual citizen or resident of the United States;
- a corporation or other entity treated as a corporation for United States federal income tax purposes, created or organized in the United States or under the laws of the United States, any state thereof or the District of Columbia;
- an estate, the income of which is subject to United States federal income taxation regardless of its source; or
- a trust that (1) is subject to the primary supervision of a United States court and the control of one or more United States persons or (2) has a valid election in effect under applicable Treasury Regulations to be treated as a United States person.

If a partnership, entity or arrangement treated as a partnership for U.S. federal income tax purposes holds our debt securities, the U.S. federal income tax treatment of a partner in the partnership will generally depend on the status of the partner and the activities of the partnership. If you are a partner in a partnership holding our debt securities, you are urged to consult your tax advisor regarding the consequences of the ownership and disposition of our debt securities by the partnership.

Table of Contents

Taxation of Interest. The taxation of interest on a debt security depends on whether the interest constitutes qualified stated interest (as defined below). Interest that constitutes qualified stated interest is includible in a United States holder s income as ordinary interest income when actually or constructively received, if such holder uses the cash method of accounting for federal income tax purposes, or when accrued, if such holder uses an accrual method of accounting for federal income tax purposes. Interest that does not constitute qualified stated interest is included in a United States holder s income under the rules described below under Original Issue Discount, regardless of such holder s method of accounting. Notwithstanding the foregoing, interest that is payable on a debt security with a fixed maturity of one year or less from its issue date (a Short-Term Note) is included in a United States holder s income under the rules described below under Short-Term Notes.

Optional Redemption. Debt securities issued pursuant to this prospectus may or may not be redeemable. If the debt securities are redeemable, we will specify that in the applicable prospectus supplement. If we redeem or otherwise repurchase the debt securities, we may be obligated to pay additional amounts in excess of stated interest and the principal amount (or, if the debt securities are issued with OID, the adjusted issue price). Unless specified otherwise in the applicable prospectus supplement related to any such redeemable debt securities, we intend to take the position that any redeemable debt securities should not be treated as contingent payment debt instruments because of this additional payment. This position is based in part on assumptions regarding the likelihood, as of the date of issuance of the debt securities, that such additional amounts will be paid. Assuming such position is respected, a United States holder would be required to include in income the amount of any such additional payment at the time such payment is received or accrued in accordance with such United States holder s method of accounting for United States federal income tax purposes. If the IRS successfully challenged our position, and any redeemable debt securities were treated as contingent payment debt instruments, United States holders could be required to accrue interest income at a rate higher than the stated interest rate on the debt securities and to treat as ordinary income, rather than capital gain, any gain recognized on a sale, exchange or redemption of a debt security. United States holders are urged to consult their tax advisors regarding the potential application to any redeemable debt securities of the contingent payment debt instrument rules and the consequences thereof.

Fixed Rate Debt Securities. Interest on a fixed rate debt security will generally constitute qualified stated interest if the interest is unconditionally payable, or will be constructively received under Code Section 451, in cash or in property (other than debt instruments issued by us) at least annually at a single fixed rate. If a debt security bears interest for one or more accrual periods at a rate below the rate applicable for the remaining term of such debt security (e.g., debt securities with teaser rates or interest holidays), and if the greater of either the resulting foregone interest on such debt security or any true discount on such debt security (i.e., the excess of the debt security s stated principal amount over its issue price) equals or exceeds a specified de minimis amount, then the excess of the stated interest over any qualified stated interest on the debt security is treated as original issue discount rather than qualified stated interest.

Original Issue Discount. Original issue discount (OID) with respect to a debt security is the excess, if any, of the debt security s stated redemption price at maturity over the debt security s issue price. A debt security s stated redemption price at maturity is the sum of all payments provided by the debt security (whether designated as interest or as principal) other than payments of qualified stated interest. The issue price of a debt security is the first price at which a substantial amount of the debt securities in the issuance that includes such debt security is sold for money (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 debt securities with OID that mature more than one year from their issue date generally will be required to include such 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 debt security is increased by each accrual of OID and decreased by each payment other than a payment of qualified stated interest.

Table of Contents

The amount of OID with respect to a debt security will be treated as zero if the OID is less than an 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 debt security that provides for payment of any amount other than qualified stated interest prior to maturity, the weighted average maturity of the debt security). If the amount of OID with respect to a debt security is less than that amount, the OID that is not included in payments of stated interest is generally included in income as capital gain as principal payments are made. The amount includible with respect to a principal payment equals the product of the total amount of OID and a fraction, the numerator of which is the amount of such principal payment and the denominator of which is the stated principal amount of the debt security.

In the case of OID with respect to a fixed rate debt security, the amount of OID includible in the income of a United States holder for any taxable year is determined under the constant yield method, as follows. First, the yield to maturity of the debt security is computed. The yield to maturity is the discount rate that, when used in computing the present value of all interest and principal payments to be made under the debt security (including payments of qualified stated interest), produces an amount equal to the issue price of the debt security. The yield to maturity is constant over the term of the debt security and, when expressed as a percentage, must be calculated to at least two decimal places.

Second, the term of the debt security is divided into accrual periods. Accrual periods may be of any length and may vary in length over the term of the debt security, 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.

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

Fourth, 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 such holder held the debt securities. In general, under the constant yield method described above, United States holders will be required to include in income increasingly greater amounts of OID in successive accrual periods.

Other Rules. Certain debt securities having OID may be redeemed prior to maturity or may be repayable at the option of the holder. Such debt securities may be subject to rules that differ from the general rules discussed above relating to the tax treatment of OID. Purchasers of such debt securities with a redemption feature are urged to consult their tax advisors with respect to such feature since the tax consequences with respect to OID will depend, in part, on the particular terms and the particular features of the purchased debt security.

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 debt security is issued in connection with the same transaction or related transactions, such debt securities 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

Table of Contents

purposes of calculating and accruing any OID. Unless otherwise provided in the applicable prospectus supplement, we do not expect to treat different types of debt securities as being subject to the aggregation rules for purposes of computing OID.

Market Discount. If a United States holder acquires a debt security having a maturity date of more than one year from the date of its issuance and has a tax basis in the debt security that is, in the case of a debt security that does not have OID, less than its issue price (or, in the case of a subsequent purchase, its stated redemption price at maturity), or, in the case of a debt security that has OID, less than its adjusted issue price (as defined above under Original Issue Discount) as of the date of acquisition, the amount of such difference is treated as market discount for federal income tax purposes, unless such difference is less than .0025 multiplied by the stated redemption price at maturity of the debt security multiplied by 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 debt security that has OID, any payment that does not constitute a payment of qualified stated interest) on, or any gain on the sale, exchange, retirement or other disposition of, a debt security as ordinary income to the extent of the accrued market discount that has not previously been included in income. Thus, partial principal payments are treated as ordinary income to the extent of accrued market discount that has not previously been included in income. If such debt security is disposed of by a United States holder in certain otherwise non-taxable transactions, accrued market discount must be included as ordinary income by the United States holder as if the holder had sold the debt security at its then fair market value.

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 debt security-by-debt security basis and is irrevocable.

With respect to debt securities with market discount, a United States holder may not be allowed to deduct immediately a portion of the interest expense on any indebtedness incurred or continued to purchase or to carry such debt securities. 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 will not apply. This election will apply 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 debt security will be increased by the amount of market discount included in the holder s income under the election.

Premium and Acquisition Premium. If a United States holder purchases a debt security for an amount in excess of the sum of all amounts payable on the debt security after the date of acquisition (other than payments of qualified stated interest), the holder will be considered to have purchased the debt security with premium equal to the amount of such excess, and generally will not be required to include any OID in income. Generally, a United States holder may elect to amortize the premium as an offset to qualified stated interest income, using a constant yield method similar to that described above (see Original Issue Discount), over the remaining term of the debt security (where the debt security is not redeemable prior to its maturity date). In the case of debt securities that may be redeemed prior to maturity, the premium is calculated assuming that we or the United States holder will exercise or not exercise the 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 such holder s tax basis in the debt security by the amount of the premium used to offset qualified stated interest income as set forth above. An election to amortize bond premium applies to all taxable debt instruments owned by the holder on the first day of the taxable year to which such election first applies and thereafter acquired by the holder and may be revoked only with the consent of the IRS.

If a United States holder purchases a debt security issued 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 debt security is purchased at an acquisition premium if its adjusted basis, immediately after its

Table of Contents

purchase, is (a) less than or equal to the sum of all amounts payable on the debt security after the purchase date other than payments of qualified stated interest and (b) greater than the debt security s adjusted issue price (as described above under Original Issue Discount).

If a debt security is purchased at an acquisition premium, the United States holder reduces the amount of OID otherwise includible in income during an accrual period by an amount equal to (i) the amount of OID otherwise includible in income multiplied by (ii) a fraction, the numerator of which is the excess of the adjusted basis of the debt security immediately after its acquisition by the purchaser over the adjusted issue price of the debt security and the denominator of which is the excess of the sum of all amounts payable on the debt security after the purchase date, other than payments of qualified stated interest, over the debt security 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 above.

Short-Term Notes. A Short-Term Note will be treated as having been issued with OID if the stated redemption price at maturity exceeds the issue price of the debt security. 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, are required to include OID in income on such 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. Any interest payable on the obligation (other than OID) is included in gross income as it accrues.

United States holders of Short-Term Notes who use the cash method of accounting and certain other United States holders are not required to accrue OID for federal income tax purposes, unless the holder elects to do so, with the consequence that the reporting of such income is deferred until it is received. 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 or retirement 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 sale, exchange or retirement. In addition, United States holders that are not required, and do not elect, to include OID in income currently 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 such Short-Term Note (which includes both the accrued OID and accrued interest that is payable but has not been included in gross income), until such deferred interest income is realized. A United States holder of a Short-Term Note may elect to apply the foregoing rules (except for the rule characterizing gain on sale, exchange or retirement 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 such 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 such holder s income on such a debt security.

Election to Treat All Interest as OID. United States holders may elect to include in gross income all interest that accrues on a debt security, 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 Original Issue Discount. Such an election for a debt security with amortizable bond premium will result in a deemed election to amortize bond premium for all debt instruments owned on the first day of the taxable year to which such election first applies and all debt instruments later acquired by the United States holder with amortizable bond premium and may be revoked only with the permission of the IRS. Similarly, such an election for a debt security with market discount will result in a deemed election to accrue market discount in income currently for such debt security and for all other debt instruments acquired by the United States holder with market discount on or after the first day

Table of Contents

of the taxable year to which such election first applies, and may be revoked only with the permission of the IRS. A United States holder s tax basis in a debt security will be increased by each accrual of the amounts treated as OID under the constant yield election described in this paragraph.

Integration of Debt Securities with Other Financial Instruments. Any United States holder of debt securities that also acquires or has acquired any financial instrument which, in combination with such debt securities, would permit the calculation of a single yield to maturity, may in certain circumstances treat such debt securities and such 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 will be treated as qualified stated interest.

Sale or Exchange of Debt Securities. A United States holder generally will recognize gain or loss upon the sale or exchange of a debt security equal to the difference between the amount realized upon such sale or exchange and the United States holder s adjusted basis in the debt security. The adjusted basis in the debt security generally will equal the cost of the debt security, increased by OID, acquisition discount or market discount previously included in respect thereof, and reduced (but not below zero) by any payments on the debt security other than payments of qualified stated interest and by any premium 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 will be treated as a payment of interest. Generally, any gain or loss will be capital gain or loss, except as provided under Market Discount and Short-Term Notes .

Tax Rates. Under current law, the highest marginal U.S. federal income tax rate applicable to ordinary income of individuals is 39.6% and the highest marginal U.S. federal income tax rate applicable to long-term capital gains (generally, capital gains on certain assets held for more than 12 months) of individuals is 20%. These rates are subject to change by new legislation at any time.

In addition, individuals, estates and trusts whose income exceeds certain thresholds are also subject to a 3.8% Medicare tax on certain net investment income from a variety of sources. For this purpose, net investment income generally includes, among other things, interest on and capital gains from the sale or other disposition of debt securities. United States holders should consult their tax advisors regarding the effect, if any, of this legislation on their ownership and disposition of debt securities.

Information Reporting and Backup Withholding. Backup withholding at the applicable statutory rate may apply when United States holders receive interest payments on a debt security (including any OID) or proceeds from the sale or other disposition of a debt security. Certain holders including, among others, corporations, financial institutions and certain tax-exempt organizations, are generally not subject to backup withholding. In addition, backup withholding will not apply to any United States holder that provides a social security or other taxpayer identification number in the prescribed manner unless:

- the IRS notifies us or our paying agent that the taxpayer identification number provided is incorrect;
- the United States holder fails to report interest (including any OID) and dividend payments received on the holder s tax return and the IRS notifies us or our paying agent that backup withholding is required; or
- the United States holder fails to certify under penalty of perjury that backup withholding does not apply to the holder.

A United States holder of debt securities who does not provide us or our paying agent with his or her correct taxpayer identification number may be subject to penalties imposed by the IRS. If backup withholding does apply to a United States holder, that holder may request a refund of the amounts withheld or use the

Table of Contents

amounts withheld as a credit against the holder s United States federal income tax liability as long as the United States holder provides the required information to the IRS. United States holders should consult their tax advisors as to their qualification for exemption from backup withholding and the procedures for obtaining the exemption.

We will be required annually to furnish the IRS and holders of debt securities information relating to the amount of interest paid on the debt securities, and information reporting may also apply to payments of proceeds from the sale of the debt securities by those holders. Some United States holders generally are not subject to information reporting.

Non-United States Holders This section applies to non-United States holders of the debt securities. The term non-United States holder means a beneficial owner of a debt security that is not a United States holder, as defined above.

The rules governing United States federal income taxation of the purchase, ownership and disposition of our debt securities by non-United States holders are complex, and no attempt is made herein to provide more than a brief summary of such rules. Accordingly, the discussion does not address all aspects of United States federal income taxation that may be relevant to a non-United States holder in light of its particular circumstances and does not address any state, local or foreign tax consequences. We urge non-United States holders to consult their tax advisors to determine the impact of federal, state, local and foreign income tax laws on the purchase, ownership and disposition of our debt securities, including any reporting requirements.

Payments of Interest. Interest (including any OID) paid to a non-United States holder will not be subject to United States federal income or withholding tax if the interest is not effectively connected with the non-United States holder s conduct of a trade or business within the United States, and the non-United States holder:

does not actually or constructively own a 10% or greater interest in our capital or profits;

is not a controlled foreign corporation with respect to which we are a related person within the meaning of Code Section 864(d)(4);

is not a bank that received such debt securities on an extension of credit made pursuant to a loan agreement entered into in the ordinary course of its trade or business; and

provides the appropriate certification as to the holder s foreign status. This certification requirement generally can be met by providing a properly executed IRS Form W-8BEN or appropriate substitute form to us or our paying agent. If the debt securities are held through a financial institution or other agent acting on behalf of the non-United States holder, such holder may be required to provide appropriate documentation to the agent. The agent will then generally be required to provide appropriate certifications to us or our paying agent, either directly or through other intermediaries. Special certification rules apply to foreign partnerships, estates and trusts, and in certain circumstances, certifications as to the foreign status of partners, trust owners or beneficiaries may have to be provided to us or our paying agent.

If a non-United States holder does not qualify for an exemption under these rules, interest income from the debt securities may be subject to withholding tax at the rate of 30% (or lower applicable treaty rate) at the time such interest is paid. The payment of interest effectively connected with a United States trade or business, however, would not be subject to a 30% withholding tax so long as the non-United States holder provides us or our paying agent an adequate certification (currently on IRS Form W-8ECI), but such interest would be subject to United States federal income tax on a net basis at the rates applicable to United States persons generally. In addition, if the payment of interest is effectively connected with a foreign corporation s conduct of a United

Table of Contents

States trade or business, that foreign corporation may also be subject to a 30% (or lower applicable treaty rate) branch profits tax. To claim the benefit of a tax treaty, a non-United States holder must provide a properly executed IRS Form W- 8BEN before the payment of interest and the non-United States holder may be required to obtain a United States taxpayer identification number and provide documentary evidence issued by foreign governmental authorities to prove residence in the foreign country.

Optional Redemption. If we redeem or otherwise repurchase the debt securities, we may be obligated to pay additional amounts in excess of stated interest and the principal amount (or, if the debt securities are issued with OID, the adjusted issue price). We intend to treat any such amounts paid to a non-United States holder pursuant to any such redemption or repurchase as additional amounts paid for the debt securities, subject to the rules described below in Sale, Exchange or Other Taxable Disposition of Debt Securities.

Sale, Exchange or Other Taxable Disposition of Debt Securities. A non-United States holder generally will not be subject to United States federal income tax on any amount that constitutes capital gain upon a sale, exchange, redemption, retirement or other taxable disposition of a debt security, unless either of the following is true:

- the investment in the debt securities is effectively connected with the non-United States holder s conduct of a United States trade or business; or
- the non-United States holder (i) is a nonresident alien individual holding the debt securities as a capital asset, (ii) is present in the United States for 183 or more days in the taxable year within which the sale, exchange or other taxable disposition takes place, and (iii) certain other requirements are met.

If you are a holder described in the first bullet point above, the net gain derived from the retirement or disposition of your debt securities generally would be subject to United States federal income tax at the rate applicable to United States persons generally (or lower applicable treaty rate). In addition, foreign corporations may be subject to a 30% (or lower applicable treaty rate) branch profits tax if the investment in the debt securities is effectively connected with the foreign corporation s conduct of a United States trade or business. If you are a holder described in the second bullet point above, you will be subject to a flat 30% United States federal income tax on the gain derived from the retirement or disposition of your debt securities, which may be offset by United States source capital losses, even though you are not considered a resident of the United States.

Backup Withholding and Information Reporting. Backup withholding and information reporting generally will not apply to payments made to a non-United States holder with respect to the debt securities, provided that we do not have actual knowledge or reason to know that the non-United States holder is a U.S. person and the holder has given us the statement described above under Non-United States Holders Payments of Interest. In addition, a non-United States holder will not be subject to backup withholding or information reporting with respect to the proceeds of the sale of debt securities within the United States or conducted through certain U.S.-related financial intermediaries, if the payor receives the statement described above and does not have actual knowledge or reason to know that the holder is a U.S. person, as defined under the Code, or the non-United States holder otherwise establishes an exemption. However, we may be required to report annually to the IRS and to a non-United States holder the amount of, and the tax withheld with respect to, any interest (including any OID) paid to the non-United States holder, regardless of whether any tax was actually withheld. Copies of these information returns may also be made available under the provisions of a specific treaty or agreement to the tax authorities of the country in which the non-United States holder resides.

A non-United States holder generally will be entitled to credit any amounts withheld under the backup withholding rules against the holder s United States federal income tax liability, provided that the required information is furnished to the IRS in a timely manner. Non-United States holders of debt securities should consult their tax advisors regarding the application of backup withholding and information reporting in their particular situation, the availability of an exemption therefrom, and the procedure for obtaining an exemption, if available.

Table of Contents

For payments after June 30, 2014, a U.S. withholding tax at a 30% rate will be imposed on interest paid on our debt securities received by certain non-United States holders if certain disclosure requirements related to U.S. accounts or ownership are not satisfied. In addition, if those disclosure requirements are not satisfied, a U.S. withholding tax at a 30% rate will be imposed, for payments after December 31, 2016, on proceeds from the sale of our debt securities received by certain non-United States holders. If payment of withholding taxes is required, non-United States holders that are otherwise eligible for an exemption from, or reduction of, U.S. withholding taxes with respect of such interest and proceeds will be required to seek a refund from the IRS to obtain the benefit or such exemption or reduction. We will not pay any additional amounts in respect of any amounts withheld.

Tax Consequences of Floating Rate, Variable Rate and Contingent Payment Debt Securities.

A description of the material federal income tax consequences of the acquisition, ownership and disposition of variable rate, floating rate or contingent payment debt securities that we may issue in the future will be set forth in the prospectus supplement relating to the offering of such debt securities.

LEGAL MATTERS

The validity of the securities to which this prospectus relates and certain tax matters described under Certain Material Federal Income Tax Considerations will be passed upon for us by Foley & Lardner LLP, Jacksonville, Florida. Attorneys with Foley & Lardner LLP representing us with respect to this offering beneficially owned approximately 1,200 shares of our common stock as of the date of this prospectus.

EXPERTS

The consolidated financial statements and schedule of Regency Centers Corporation and Regency Centers, L.P. as of December 31, 2013 and 2012, and for each of the years in the three-year period ended December 31, 2013, and management s assessment of the effectiveness of internal control over financial reporting as of December 31, 2013 have been incorporated by reference herein in reliance upon the reports of KPMG LLP, independent registered public accounting firm, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing.

Table of Contents

$

Regency Centers, L.P.

% Notes due

Guaranteed as to the Payment of Principal and Interest by

Regency Centers Corporation

PROSPECTUS SUPPLEMENT

August , 2015

Joint Book-Running Managers

J.P. Morgan **BofA Merrill Lynch**

US Bancorp **Wells Fargo Securities**