UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the Quarterly Period Ended September 30, 2005
Commission File Number 1-13165

CRYOLIFE, INC.

(Exact name of registrant as specified in its charter)

Florida	59-2417093
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1655 Roberts Boulevard, NW
Kennesaw, Georgia 30144
(Address of principal executive offices)
(zip code)

(770) 419-3355
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES [X] NO [_]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

YES [X] NO [_]

Indicate by check mark whether the registrant is a shell company (as defined in the Rule 12b-2 of the Exchange Act).

YES [_] NO [X]

The number of shares of common stock, par value $0.01 per share, outstanding on October 31, 2005 was 24,189,043.

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Part I — FINANCIAL INFORMATION

Item 1. Financial statements

CRYOLIFE, INC. AND SUBSIDIARIES
SUMMARY CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(Unaudited)		(Unaudited)	
Revenues:				
Products	$ 9,129	$ 9,151	$ 29,102	$ 27,213
Human tissue preservation services	7,329	6,955	22,219	19,234
Research grants	--	12	--	71
Total revenues	16,458	16,118	51,321	46,518
Costs and expenses:				
Products	1,940	1,998	6,135	5,839
Human tissue preservation services (Including write-downs of $626 for the three months and $1,298 for the nine months ended September 30, 2005 and $1,236 for the three months and $6,394 for the nine months ended September 30, 2004)	6,015	7,124	17,984	23,770
General, administrative, and marketing	11,085	12,127	42,726	31,968
Research and development	894	904	2,744	2,716
Interest expense	77	54	220	156
Interest income	(166)	(71)	(408)	(201)
Change in valuation of derivative	(412)	--	372	--
Other expense (income), net	37	(10)	212	27
Total costs and expenses	19,470	22,126	69,985	64,275
Loss before income taxes	(3,012)	(6,008)	(18,664)	(17,757)
Income tax expense (benefit)	106	--	190	(1,371)
Net loss	$ (3,118)	$ (6,008)	$(18,854)	$(16,386)
Effect of preferred stock	(243)	--	(533)	--
Net loss applicable to common shares	$ (3,361)	$ (6,008)	$(19,387)	$(16,386)
Loss per common share:				
Basic	$ (0.14)	$ (0.26)	$ (0.81)	$ (0.72)
Diluted	$ (0.14)	$ (0.26)	$ (0.81)	$ (0.72)
Weighted average common shares outstanding:				
Basic	24,161	23,287	23,839	22,928
Diluted	24,161	23,287	23,839	22,928

See accompanying notes to summary consolidated financial statements.

Item 1. Financial Statements

CRYOLIFE, INC.
SUMMARY CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

	September 30, 2005	December 31, 2004
ASSETS	(Unaudited)	
Current Assets:		
Cash and cash equivalents	$ 8,600	$ 4,713
Marketable securities, at market	6,901	3,956
Restricted securities	556	563
Trade receivables, net	9,069	8,293
Other receivables	14,406	3,957
Deferred preservation costs, net	12,625	8,822
Inventories	4,689	4,767
Prepaid expenses and other assets	3,069	2,590
Total current assets	59,915	37,661
Property and equipment, net	25,629	28,724
Patents, net	4,914	4,978
Other long-term assets	2,773	1,898
TOTAL ASSETS	$ 93,231	$ 73,261
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 2,793	$ 2,569
Accrued expenses and other current liabilities	23,841	9,615
Accrued compensation	1,630	1,835
Accrued procurement fees	3,924	2,634
Derivative liability	626	--
Notes payable	869	--
Line of credit	3,500	--
Current maturities of capital lease obligations	946	1,319
Total current liabilities	38,129	17,972
Capital lease obligations, less current maturities	321	530
Other long-term liabilities	5,356	5,099
Total liabilities	43,806	23,601
Shareholders' Equity:		
Preferred stock (325 issued shares in 2005)	3	--
Common stock (25,570 issued shares in 2005 and 24,805 shares in 2004)	256	248
Additional paid-in capital	113,982	94,846
Retained deficit	(57,644)	(38,257)
Deferred compensation	(35)	(222)
Accumulated other comprehensive income	195	361
Treasury stock at cost (1,392 shares in 2005 and 1,390 shares in 2004)	(7,332)	(7,316)
Total shareholders' equity	49,425	49,660
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 93,231	$ 73,261

See accompanying notes to summary consolidated financial statements.

CRYOLIFE, INC.
SUMMARY CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	Nine Months Ended September 30,	
	2005	2004
	(Unaudited)	
Net cash from operating activities:		
Net loss	$ (18,854)	$ (16,386)
Adjustments to reconcile net loss to net cash from operating activities:		
Gain on sale of marketable equity securities	(5)	--
Loss on sale of assets	146	24
Depreciation and amortization	3,816	4,121
Provision for doubtful accounts	72	72
Write-down of deferred preservation costs	1,298	6,575
Other non-cash adjustments to income	(138)	8
Non-cash employee compensation	166	--
Change in valuation of derivative	372	--
Changes in operating assets and liabilities:		
Receivables	(754)	(5,106)
Income taxes	66	2,458
Deferred preservation costs and inventories	(5,023)	(6,181)
Prepaid expenses and other assets	1,542	1,599
Accounts payable, accrued expenses, and other liabilities	4,809	893
Net cash used in operating activities	(12,487)	(11,923)
Net cash from investing activities:		
Capital expenditures	(664)	(697)
Other assets	(173)	2
Purchases of marketable securities	(21,690)	(560)
Sales and maturities of marketable securities	18,847	2,000
Net cash (used in) provided by investing activities	(3,680)	745
Net cash from financing activities:		
Proceeds from debt issuance	3,765	--
Principal payments of debt	(265)	--
Payment of obligations under capital leases	(582)	(530)
Principal payments on short-term note payable	(1,613)	(2,188)
Proceeds from exercise of stock options and issuance of common stock	308	349
Payment of preferred stock dividends	(533)	--
Proceeds from equity offerings	19,098	19,364
Net cash provided by financing activities	20,178	16,995
Increase in cash and cash equivalents	4,011	5,817
Effect of exchange rate changes on cash	(124)	(62)
Cash and cash equivalents, beginning of period	4,713	5,672
Cash and cash equivalents, end of period	$ 8,600	$ 11,427

See accompanying notes to summary consolidated financial statements.

CRYOLIFE, INC. AND SUBSIDIARIES
NOTES TO SUMMARY CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 1 — Basis of Presentation

The accompanying unaudited summary consolidated financial statements have been prepared in accordance with (i) accounting principles generally accepted in the United States for interim financial information and (ii) the instructions to Form 10-Q and Rule 10-01 of Regulation S-X of the United States Securities and Exchange Commission ("SEC"). Accordingly, the statements do not include all of the information and disclosures required by accounting principles generally accepted in the United States for a complete presentation of financial statements. In the opinion of management, all adjustments

(consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005. For further information, refer to the consolidated financial statements and notes thereto included in the CryoLife Form 10-K for the year ended December 31, 2004.

The Company expects that the following factors will continue to have an adverse impact on cash flows during the remainder of 2005:

- The anticipated lower preservation service revenues as compared to preservation service revenues prior to the FDA Order, subsequent FDA activities, and related events (discussed in Note 2),
- The high cost of human tissue preservation services as a percentage of revenue, as compared to the period prior to the FDA Order, as a result of lower tissue processing volumes and changes in processing methods, which have increased the cost of processing human tissue and have decreased yields of implantable tissue per donor,
- An expected use of cash related to the defense and resolution of lawsuits and claims, and
- The legal and professional costs related to ongoing FDA compliance.

The Company believes the following factors should have a favorable impact on cash flows from operations during the remainder of 2005, although there can be no assurance that the Company's efforts will be successful:

- Expected increases in the service fees for cardiovascular and vascular tissues due to fee increases implemented in July 2004 and January 2005, to reflect the higher cost of processing these tissues,
- Improvements in yields of implantable tissues per donor over the levels experienced in 2003 and 2004 through process changes and process directives,
- Expected increases in procurement of human tissues for processing during the remainder of 2005 as compared to the previous quarters of 2005, and
- Anticipated decreases in cash payments related to insurance premiums.

The Company believes that its existing cash, cash equivalents, marketable securities, and available borrowings under its Credit Agreement, discussed in Note 6, will enable the Company to meet its liquidity needs through at least September 30, 2006.

The Company's long term liquidity and capital requirements will depend upon numerous factors, including:

- The success of BioGlue and other products using related technology,

- The Company's ability to increase the level of tissue procurement and demand for its tissue preservation services,
- The Company's ability to reestablish sufficient margins on its tissue preservation services in the face of increased processing costs by improving yields and increasing prices,
- The Company's spending levels on its research and development activities, including research studies, to develop and support its product and service pipeline,
- The resolution of the remaining outstanding product liability lawsuits and other claims (see Note 13), and
- To a lesser degree, the Company's success at resolving the issues with the FDA regarding processing of human tissue using the SynerGraft® technology.

If the Company is unable to address these issues and continues to experience negative operating cash flows, the Company anticipates that it may require additional financing or seek to raise additional funds through bank facilities, debt or equity offerings, or other sources of capital to meet liquidity and capital requirements beyond September 30, 2006. Additional funds may not be available when needed or on terms acceptable to the Company, which could have a material adverse effect on the Company's business, financial condition, results of operations, and cash flows.

Note 2 – FDA Order on Human Tissue Preservation and Other FDA Correspondence and Notices

FDA Order

The FDA inspected the Company's tissue processing operations in December 2001, after it was reported that a Minnesota man had died after receiving an implant of orthopaedic tissue processed by the Company. The FDA conducted another inspection in March 2002. In April 2002 the FDA issued a Form 483 Notice of Observations ("April 2002 483") and an FDA Warning Letter was issued, dated June 17, 2002 ("Warning Letter"). On August 13, 2002 the Company received an order from the Atlanta district office of the FDA regarding the non-valved cardiac, vascular, and orthopaedic tissues processed by the Company since October 3, 2001 (the "FDA Order"). Pursuant to the FDA Order, the Company placed non-valved cardiac, vascular, and orthopaedic tissue subject to the FDA Order (i.e. processed since October 3, 2001) on quality assurance quarantine and recalled the portion of those tissues that had been distributed but not implanted. In addition the Company ceased processing non-valved cardiac, vascular, and orthopaedic tissues.

On September 5, 2002 the Company entered into an agreement with the FDA (the "FDA Agreement") that supplemented the FDA Order and allowed non-valved cardiac and vascular tissues subject to the recall (processed between October 3, 2001 and September 5, 2002) to be released for distribution after the

Company had completed specified steps.

In addition pursuant to the FDA Agreement, the Company agreed to perform additional processing procedures and to establish a corrective action plan. The corrective actions taken have been reviewed by the FDA during subsequent inspections.

Other FDA Correspondence and Notices

An FDA Form 483 Notice of Observations ("483") was issued in August 2005 in connection with the FDA inspections of the Company's facilities in July 2005 ("July 2005 483"). The Company responded to the July 2005 483 in August 2005 and in September 2005. In response to the July 2005 483 the Company has implemented new and revised existing systems and procedures. The FDA may require the Company to implement additional corrective actions, perform additional validation testing, or supply additional information related to the inspections, and has the authority to take other actions which may be more burdensome. The Company has and will continue to work with the FDA to review process improvements and address any outstanding observations.

On February 20, 2003 the Company received a letter from the FDA stating that a 510(k) premarket notification should be filed for the Company's SynerGraft processed human cardiac tissues ("CryoValve® SG") and that premarket approval marketing authorization should be obtained for the Company's SynerGraft processed human vascular tissues ("CryoVein® SG") when marketed or labeled as an arteriovenous ("A-V") access graft. The agency's position is that use of the SynerGraft technology in the processing of allograft heart valves represents a modification to the Company's legally marketed CryoValve allograft and that vascular allografts labeled for use as A-V access grafts are medical devices that require premarket approval.

On November 3, 2003 the Company filed a 510(k) premarket notification with the FDA for the CryoValve SG. On February 4, 2004 the Company received a letter from the FDA requesting additional information. On August 24, 2004 the Company submitted an amendment to its original 510(k) submission providing clarification and additional information. The FDA requested further additional information in November 2004. On June 8, 2005 CryoLife responded to some of these additional requests. CryoLife also has initiated an appeal of others through administrative procedures. The FDA may still require that additional studies be undertaken and may never clear the 510(k) premarket notification. Clearance of the 510(k) premarket notification with the FDA will be required before the Company can resume distribution of SynerGraft processed CryoValve SG.

On December 8, 2003 the Company received a letter from the FDA stating that it was the agency's position that cardiovascular tissues processed with the SynerGraft technology should be regulated as medical devices. On September 14, 2004 the Company met with the FDA to discuss the data to be used to support a formal Request for Designation ("RFD") filing for SynerGraft processed cardiovascular tissue, including the CryoVein SG. An RFD submission establishes the regulatory status of the tissue. The Company submitted the RFD on October 5, 2004. The FDA affirmed its original decision in letters received in December 2004. That decision was subject to an administrative appeal. On October 20, 2005 CryoLife was informed that the FDA had denied the appeal and that CryoLife will be unable to distribute CryoVein tissues with the SynerGraft technology until further submissions and FDA clearances are granted. The Company is evaluating whether it will file and seek a premarket approval for CryoVein SG or discontinue the CryoVein SG.

In 2003 the Company suspended the use of the SynerGraft technology in the processing of allograft tissue and the distribution of tissues on hand previously processed with the SynerGraft technology until the regulatory issues associated with these tissues are resolved. Additionally, the Company discontinued labeling its vascular grafts for use as A-V access grafts. Until such time as the issues surrounding SynerGraft are resolved, the Company will employ its traditional processing methods on these tissues. During the year ended December 31, 2004, the Company wrote down $353,000 in SynerGraft processed cardiovascular and vascular tissues. As of September 30, 2005 the Company had no deferred preservation costs related to SynerGraft processed tissues on its Summary Consolidated Balance Sheets.

Note 3 – Cash Equivalents and Marketable Securities

The Company maintains cash equivalents and investments in several large, well-capitalized financial institutions, and the Company's policy disallows investment in any securities rated less than "investment-grade" by national rating services. Management determines the appropriate classification of its marketable securities at the time of purchase and reevaluates such designations quarterly.

Debt securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at amortized cost. Trading securities are securities that are acquired principally for the purpose of generating a profit from short-term fluctuations in price. Trading securities are stated at their fair values, with the realized and unrealized gains and losses, interest, and dividends included in investment income. Debt securities not classified as held-to-maturity or trading and marketable equity securities not classified as trading are classified as available-for-sale. Available-for-sale securities are stated at their fair values, with the unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity. Interest, dividends, realized gains and losses, and declines in value judged to be other than temporary are included in investment income. The cost of securities sold is based on the specific identification method.

As of September 30, 2005 $6.9 million of marketable securities were designated as available-for-sale, and $556,000 of marketable securities were designated as held-to-maturity. These securities were designated held-to-maturity due to a contractual commitment to hold the securities as pledged collateral relating to one of the Company's product liability insurance policies, and, therefore, they are reported as restricted securities on the September 30, 2005 Summary Consolidated Balance Sheet. As of December 31, 2004 $4.0 million of marketable securities were designated as available-for-sale, and $563,000 of marketable securities were designated as held-to-maturity.

The following is a summary of cash equivalents and marketable securities (in thousands):

	Cost Basis	Unrealized Holding (Losses) Gains	Estimated Market Value
September 30, 2005			
Cash equivalents:			
Money market funds	$ 7,502	$ --	$ 7,502
Marketable securities:			
Government entity sponsored debt securities	$ 4,934	$ (5)	$ 4,929

US Treasury debt securities	1,972	--	1,972
Total marketable securities	$ 6,906	$ (5)	$ 6,901
Restricted securities:			
Government entity sponsored debt securities	$ 556	$ --	$ 556

	Cost Basis	Unrealized Holding (Losses) Gains	Estimated Market Value
December 31, 2004			
Cash equivalents:			
Money market funds	$ 2,290	$ --	$ 2,290
Marketable securities:			
Municipal obligations	$ 3,138	$ 43	$ 3,181
Variable rate demand notes	775	--	775
Total marketable securities	$ 3,913	$ 43	$ 3,956
Restricted securities:			
Government entity sponsored debt securities	$ 563	$ --	$ 563

Gross realized gains on sales of available-for-sale securities totaled $5,000 for the nine months ended September 30, 2005 and zero for the twelve months ended December 31, 2004. Differences between cost and market listed above, consisting of a net unrealized holding loss of $5,000 less deferred taxes of zero at September 30, 2005 and a net unrealized holding gain of $43,000 less deferred taxes of $11,000 at December 31, 2004, are included as a separate component of other comprehensive income in the shareholders' equity section of the Summary Consolidated Balance Sheets.

At September 30, 2005 the Company's $6.9 million in marketable securities had a maturity date between 90 days and 1 year. At December 31, 2004 approximately $2.2 million of the Company's marketable securities had a maturity date between 90 days and 1 year, approximately $1.0 million had a maturity date between 1 and 5 years, and approximately $775,000 had a maturity date of greater than 5 years.

Note 4 — Inventories

Inventories are comprised of the following (in thousands):

	September 30 2005	December 31, 2004
	(Unaudited)	
Raw materials	$ 3,202	$ 2,780
Work-in-process	395	246
Finished goods	1,092	1,741
	$ 4,689	$ 4,767

Note 5 – Income Taxes

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and tax return purposes. The Company generated deferred tax assets beginning in 2002 primarily as a result of write-downs of deferred preservation costs, accruals for product liability claims, and operating losses, reflecting reductions in revenues and additional professional fees, as a result of the FDA Order, subsequent FDA activities, and related events. The Company continued to generate deferred tax assets for the nine months ended September 30, 2005 primarily as a result of operating losses. The Company periodically assesses the recoverability of its deferred tax assets and provides a valuation allowance when management believes it is more likely than not that its deferred tax assets will not be realized.

In assessing the recoverability of its deferred tax assets, the Company reviewed its historical operating results, including the reasons for its operating losses, uncertainties regarding projected future operating results due to the effects of the FDA Order and subsequent FDA activity, and the uncertainty of the outcome of litigation. Based on the results of this analysis, at December 31, 2004 the Company determined that it was more likely than not that the Company's deferred tax assets would not be realized. Therefore, as of December 31, 2004 the Company had a total of $18.8 million in valuation allowances against deferred tax assets and a net deferred tax asset balance of zero.

For the nine months ended September 30, 2005 the Company did not experience any changes that would materially affect the Company's analysis of and valuation of its deferred tax assets. As of September 30, 2005 the Company had a total of $25.0 million in valuation allowances against deferred tax assets and a net deferred tax asset balance of zero.

As of September 30, 2005 the Company had income tax receivables related to federal income tax losses from the year ended December 31, 2004 that can be carried back to prior years to offset income taxes paid and should result in approximately $1.3 million in refunds to the Company.

Note 6 – Debt

On February 8, 2005 CryoLife and its subsidiaries entered into a new credit agreement with Wells Fargo Foothill, Inc. as lender (the "Credit Agreement"). The

Credit Agreement provides for a revolving credit facility in an aggregate amount equal to the lesser of $15.0 million (including a letter of credit subfacility of up to an aggregate of $2.0 million) or a borrowing base determined in accordance with the terms of the Credit Agreement. Generally, the borrowing base is 20% of the appraised value of the business of CryoLife, reduced by specified lender reserves. The Credit Agreement places limitations on the amount that the Company may borrow, and includes various affirmative and negative covenants, including financial covenants such as a requirement that CryoLife maintain quarterly (i) a minimum aggregate borrowing capacity plus cash and cash equivalents, as defined, of $12.5 million or (ii) achieve an increasing level of minimum earnings before interest, taxes, depreciation, and amortization ("EBITDA"), BioGlue gross margins greater than 70% for the preceding twelve months, and cash and cash equivalents, as defined, of $5.0 million. While the Company currently expects that its aggregate borrowing capacity under the Credit Agreement will equal $15.0 million, there can be no assurance that the capacity will remain at this level. The Credit Agreement also includes customary conditions on incurring new indebtedness and limitations on cash dividends. Cash dividends on any class of capital stock are prohibited; provided that cash dividends on preferred stock may be paid so long as the Company maintains $7.5 million, in the aggregate, of cash, cash equivalents, and borrowing capacity, as defined. There is no restriction on the payment of stock dividends. Commitment fees are paid based on the unused portion of the facility. The Credit Agreement expires on February 7, 2008, at which time the outstanding principal balance will be due. Due to the terms of the Credit Agreement, including a subjective acceleration clause and springing lockbox requirement, and due to the net losses and negative cash flows experienced by the Company since the FDA Order, the Company has classified amounts due under the Credit Agreement as short-term debt on the September 30, 2005 Summary Consolidated Balance Sheet in accordance with the provisions of FASB Technical Bulletin No. 79-3 (As Amended).

Amounts borrowed under the Credit Agreement are secured by substantially all of the tangible and intangible assets of CryoLife and its subsidiaries and bear interest at the bank's prime rate plus 1%, which was 7.75% as of September 30, 2005. During the first quarter of 2005 CryoLife borrowed approximately $265,000 against the $15.0 million then available under the Credit Agreement, and used such borrowings to pay certain expenses of the transaction and related interest expenses and fees. During the third quarter of 2005, CryoLife borrowed approximately $3.5 million, and used such borrowings to pay costs associated with a legal settlement. As of September 30, 2005 the outstanding balance of the Credit Agreement was $3.5 million, borrowing availability was $11.5 million, and total borrowing capacity was $15.0 million.

In the quarter ended June 30, 2005 the Company entered into two agreements to finance approximately $1.7 million and $761,000, respectively, in insurance premiums associated with the yearly renewal of certain Company insurance policies. The amounts financed accrue interest at a 4.98% and 5.01% rate, respectively, and are payable in equal monthly payments over a nine month period and an eight month period, respectively. As of September 30, 2005 the aggregate outstanding balance of the agreements was $869,000.

In April 2004 the Company entered into two agreements to finance approximately $1.9 million and $1.5 million, respectively, in insurance premiums associated with the yearly renewal of certain Company insurance policies. The amounts financed accrue interest at a 3.25% rate and are payable in equal monthly payments over a nine month period and an eight month period, respectively. As of September 30, 2005 the outstanding balance under the agreements was zero.

Note 7 – Private Equity Placement

On January 7, 2004 the Company's Board of Directors authorized an agreement with a financial advisory company to sell shares of the Company's common stock in a private investment in public equity transaction (the "PIPE"). The PIPE was consummated on January 27, 2004, and resulted in the sale of approximately 3.4 million shares of stock at a price of $6.25 per share. The sale generated net proceeds of approximately $19.4 million, after commissions, filing fees, late registration fees, and other related charges, which was used for general corporate purposes. The Company filed a registration statement on Form S-3 with the SEC covering the resale of the shares sold in the PIPE by the investors. The Company paid a total of $466,000 in late registration penalties to the investors through May 18, 2004, the date the registration statement was declared effective. This amount was deducted from the PIPE proceeds in recording net proceeds from the PIPE in shareholders' equity.

Note 8 – Convertible Preferred Stock

On December 17, 2004 the Company announced that it had filed a shelf registration statement on Form S-3 with the SEC covering the sale from time to time of up to $50 million of its common stock, preferred stock, depositary shares, or any combination of these securities for its own account in one or more offerings.

On March 18 and April 19, 2005 the Company completed a public offering of 417,000 shares of 6% convertible preferred stock (the "Preferred Stock") at a price to the public of $50.00 per share. Net proceeds from the offering, after deducting underwriting discounts and offering-related expenses, totaled approximately $19.1 million.

Dividends on the Preferred Stock are cumulative from the date of original issue at the annual rate of 6% of the liquidation preference of the Preferred Stock, payable quarterly on the first day of January, April, July, and October, commencing July 1, 2005. Any dividends must be declared by the Company's board of directors and must come from funds that are legally available for dividend payments. On June 2, 2005 the Company declared a dividend of $0.8667 per share on its 6% convertible preferred stock. The dividend of approximately $290,000 was paid on July 1, 2005 to shareholders of record on June 20, 2005. On September 12, 2005 the Company declared a dividend of $0.75 per share on its 6% convertible preferred stock. The dividend of approximately $243,000 was paid on October 1, 2005 to shareholders of record on September 22, 2005.

The Preferred Stock is convertible at the option of the holder at any time into the Company's common stock at a conversion rate of approximately 6.2189 shares of common stock for each share of Preferred Stock, based on an initial conversion price of $8.04. The initial conversion price is subject to adjustment in certain events. The Company reserved 4,600,000 shares of common stock for issuance upon conversion. At September 30, 2005 holders had voluntarily converted 92,500 shares of Preferred Stock into 575,240 shares of common stock.

The Company may automatically convert the Preferred Stock into common stock if the closing price of the Company's common stock has exceeded $12.06, which is 150% of the conversion price of the Preferred Stock, for at least 20 trading days during any 30-day trading period, ending within five trading days prior to notice of automatic conversion.

If the Company elects to automatically convert, or the holder elects to voluntarily convert, some or all of the Preferred Stock into common stock prior to April

1, 2008, the Company will make an additional payment on the Preferred Stock equal to the aggregate amount of dividends that would have been payable on the Preferred Stock through and including April 1, 2008, less any dividends already paid on the Preferred Stock, the "Dividend Make-Whole Payment". The Dividend Make-Whole Payment is payable in cash or, at the Company's option, in shares of the Company's common stock, or a combination of cash and shares of common stock. At September 30, 2005 the Company had issued 118,526 shares of common stock to converting holders in satisfaction of this additional payment.

In accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), the Company is required to separate and account for the Dividend Make-Whole Payment feature of the Preferred Stock, (the "Derivative,") as an embedded derivative. As an embedded derivative instrument, the Dividend Make-Whole Payment feature must be measured at fair value and reflected as a current liability on the Company's Summary Consolidated Balance Sheets. Changes in the fair value of the Derivative are recognized in the line item change in valuation of derivative as a non-operating income/expense on the Company's Summary Consolidated Statements of Operations. The Company determined the fair value of the Derivative to be $1.0 million on March 18, 2005, the date of issuance. The Company determined the fair value of the Derivative related to the issuance upon exercise of the underwriter's over allotment option to be $32,000 on April 19, 2005, the date of issuance. These amounts were allocated from the proceeds of the Preferred Stock to the derivative liability.

Due to voluntary conversions, which took place during the period from March 18, 2005 through September 30, 2005, and due to the quarterly revaluation of the derivative liability, the Company recorded other income of $412,000 for the three months ended September 30, 2005 and other expense of $372,000 for the nine months ended September 30, 2005. At September 30, 2005 the derivative liability was valued at $626,000.

The Preferred Stock has a liquidation preference of $50 per share, plus accrued and unpaid dividends. The liquidation preference of the Preferred Stock was approximately $16.2 million as of September 30, 2005 after the payment by the Company in late September of the October 1, 2005 dividend.

The Company may elect to redeem the Preferred Stock, in whole or in part, at declining redemption prices on or after April 7, 2008.

The Preferred Stock has no maturity date and no voting rights prior to conversion into common stock, except under limited circumstances.

Note 9 – Comprehensive Income (Loss)

The following is a summary of comprehensive loss (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(Unaudited)		(Unaudited)	
Net loss	$ (3,118)	$ (6,008)	$ (18,854)	$ (16,386)
Unrealized loss on investments	(13)	(6)	(37)	(38)
Translation adjustment	20	(20)	(129)	(70)
Comprehensive loss	$ (3,111)	$ (6,034)	$ (19,020)	$ (16,494)

The tax effect on the change in unrealized gain/loss on investments is zero and a benefit of $3,000 for the three months ended September 30, 2005 and 2004, respectively. The tax effect on the change in unrealized gain/loss on investments is a benefit of $11,000 and $20,000 for the nine months ended September 30, 2005 and 2004, respectively. The tax effect on the translation adjustment is zero for each period presented.

Components of accumulated other comprehensive income consist of the following, net of tax (in thousands):

	September 30, 2005	December 31, 2004
	(Unaudited)	
Unrealized (loss) gain on investments	$ (5)	$ 32
Translation adjustment	200	329
Total accumulated other comprehensive income	$ 195	$ 361

Note 10 – Loss per Common Share

The following table sets forth the computation of basic and diluted loss per common share (in thousands, except per share data). The net loss for the three and nine months ended September 30, 2005 is adjusted by the effect of the Company's cumulative, convertible Preferred Stock to arrive at net loss applicable to common shares in accordance with SFAS No. 128, "Earnings Per Share" ("SFAS 128"). The Company also considers the effect of its Preferred Stock, as discussed in Note 8, and common stock options, as discussed in Note 11, in the calculation of diluted weighted-average shares below.

	Three Months Ended September 30,	Nine Months Ended September 30,

	2005	2004	2005	2004
	(Unaudited)		(Unaudited)	
Numerator for basic loss per common share:				
Net loss	$ (3,118)	$ (6,008)	$(18,854)	$(16,386)
Effect of preferred stock [a]	(243)	--	(533)	--
Net loss applicable to common shares	$ (3,361)	$ (6,008)	$(19,387)	$(16,386)
Denominator for basic loss per common share				
Basic weighted-average shares	24,161	23,287	23,839	22,928
Basic loss per common share	$ (0.14)	$ (0.26)	$ (0.81)	$ (0.72)
Numerator for diluted loss per common share:				
Net loss	$ (3,118)	$ (6,008)	$(18,854)	$(16,386)
Effect of preferred stock [a, b]	(243)	--	(533)	--
Net loss applicable to common shares	$ (3,361)	$ (6,008)	$(19,387)	$(16,386)
Denominator for diluted loss per common share:				
Basic weighted-average shares	24,161	23,287	23,839	22,928
Effect of dilutive convertible preferred stock [b]	--	--	--	--
Effect of dilutive stock options [c]	--	--	--	--
Adjusted weighted-average shares	24,161	23,287	23,839	22,928
Diluted loss per common share	$ (0.14)	$ (0.26)	$ (0.81)	$ (0.72)

a The amount of the accumulated dividend on the Preferred Stock increases the net loss applicable to common shares by $243,000 and $533,000 for the three and nine months ended September 30, 2005, respectively.

b The adjustment for voluntary conversions of Preferred Stock which took place during the period from March 18, 2005 through September 30, 2005 and the adjustment for the quarterly revaluation of the derivative liability, would have increased the net loss applicable to common shareholders by $412,000 for the three months ended September 30, 2005 and decreased the net loss applicable to common shareholders by $372,000 for the nine months ended September 30, 2005. The common shares that would be issued to shareholders upon conversion of the remaining Preferred Stock and in payment of the remaining Dividend Make-Whole Payment would have increased the weighted-average shares by 2.4 million and 1.9 million for the three and nine months ended September 30, 2005, respectively. These adjustments were excluded from the calculation above as they were anti-dilutive pursuant to the provisions of SFAS 128.

c Outstanding options to purchase the Company's common stock that would have resulted in additional dilutive common shares of 387,000 and 325,000 for the three months ended September 30, 2005 and 2004, respectively, and 382,000 and 353,000 for the nine months ended September 30, 2005 and 2004, respectively, were excluded from the calculation, as these items were anti-dilutive pursuant to the provisions of SFAS 128.

In future periods the basic and diluted loss per common share are expected to be affected by the declaration of dividends on Preferred Stock, the conversion of Preferred Stock, fluctuations in the fair value of the Company's common stock, and changes in the valuation of the derivative.

Note 11 – Stock-Based Compensation

The Company has stock incentive and stock option plans, which provide for grants of shares to employees and grants of options to employees and directors to purchase shares of the Company's common stock at exercise prices generally equal to the fair values of such stock at the dates of grant. The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations ("APB 25") in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") as amended by SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure" ("SFAS 148") requires use of option valuation models that were not developed for use in valuing employee stock options.

Under APB 25, no compensation expense is recognized because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of the grant. In accordance with APB 25 the compensation recorded for employee stock grants is equal to the value of the grant on the measurement date, the date of the grant, as determined by the price of the Company's common stock on that date. Some employee stock grants vest in future periods based on a requirement of continued service to the Company. For these stock grants the amount of the stock grant is recorded as deferred compensation in the equity section of the Company's Consolidated Balance Sheets, and is expensed on a straight-line basis over the vesting period.

The Company expects to adopt SFAS 123 Revised "Share-Based Payment" ("SFAS 123-R") in the fourth quarter of 2005. In anticipation of this adoption, on September 30, 2005 the Company's Board of Directors approved the accelerated vesting of unvested and "out-of-the-money" options with an exercise price

equal to or greater than $6.97, the closing price of the Company's common stock on September 29, 2005. Vesting was accelerated on a total of 166,925 options with a range of exercise prices from $7.03 to $31.99. As a result of this accelerated vesting, the Company recorded an additional pro forma expense of $1.4 million for the three and nine months ended September 30, 2005. This expense is deducted from the net loss applicable to common shares – as reported to calculate net loss applicable to common shareholders – pro forma and the corresponding pro forma loss per share amounts in the tables below. The decision to initiate the accelerated vesting, which the Company believes to be in the best interest of the Company and its shareholders, was made primarily to reduce compensation expense related to unvested "out-of-the money" options that might be recorded in future periods following the Company's expected adoption of SFAS 123-R in the fourth quarter of 2005.

Pro forma information regarding net loss and loss per share is required by SFAS 123, which requires that this pro forma information be determined as if the Company has accounted for its employee stock options granted under the fair value method of that statement. The fair values for these options were estimated at the dates of grant using a Black-Scholes option-pricing model assuming a 10% annual forfeiture rate in 2005 and a 5% annual forfeiture rate in 2004. The Company periodically reviews its forfeiture rate through a comparison to actual forfeitures experienced by the Company. Additionally, the following weighted-average assumptions were used:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(Unaudited)		(Unaudited)	
Expected dividend yield	0%	0%	0%	0%
Expected stock price volatility	.340	.589	.519	.600
Risk-free interest rate	3.17%	3.13%	3.36%	3.54%
Expected life of options	0.3 Years	3.7 Years	3.2 Years	4.4 Years

For purposes of pro forma disclosures, the estimated fair values of the options are amortized to expense over the options' vesting periods. The Company's pro forma information follows (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(Unaudited)		(Unaudited)	
Basic net loss applicable to common shares - as reported	$ (3,361)	$ (6,008)	$ (19,387)	$ (16,386)
Stock-based employee compensation:				
Add expense included in net loss	51	--	166	--
Deduct expense determined under the fair value based method for all awards	(1,634)	(286)	(3,253)	(1,810)
Basic net loss applicable to common shares - pro forma	$ (4,944)	$ (6,294)	$ (22,474)	$ (18,196)
Basic weighted-average shares	24,161	23,287	23,839	22,928
Basic loss per common share:				
As reported	$ (0.14)	$ (0.26)	$ (0.81)	$ (0.72)
Pro forma	$ (0.20)	$ (0.27)	$ (0.94)	$ (0.79)
Diluted net loss applicable to common shares - as reported	$ (3,361)	$ (6,008)	$ (19,387)	$ (16,386)
Stock-based employee compensation:				
Add expense included in net loss	51	--	166	--
Deduct expense determined under the fair value based method for all awards	(1,634)	(286)	(3,253)	(1,810)
Diluted net loss applicable to common shares - pro forma	$ (4,944)	$ (6,294)	$ (22,474)	$ (18,196)
Diluted weighted-average shares	24,161	23,287	23,839	22,928
Diluted loss per common share:				
As reported	$ (0.14)	$ (0.26)	$ (0.81)	$ (0.72)
Pro forma	$ (0.20)	$ (0.27)	$ (0.94)	$ (0.79)

Note 12 – Segment Information

The Company has two reportable segments organized according to its products and services: Implantable Medical Devices and Human Tissue Preservation Services.

The Implantable Medical Devices segment includes external revenue from product sales of BioGlue and bioprosthetic devices, including stentless porcine heart valves and SynerGraft processed bovine vascular grafts. The Human Tissue Preservation Services segment includes external services revenue from cryopreservation of cardiac, vascular, and orthopaedic allograft tissues. There are no intersegment revenues.

The primary measure of segment performance, as viewed by the Company's management, is segment gross margin, or net external revenues less cost of products and preservation services. The Company does not segregate assets by segment, therefore, asset information is excluded from the segment disclosures below.

The following table summarizes revenues, cost of products and preservation services, and gross margins for the Company's operating segments (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(Unaudited)		(Unaudited)	
Revenue:				
Implantable medical devices	$ 9,129	$ 9,151	$ 29,102	$ 27,213
Human tissue preservation services	7,329	6,955	22,219	19,234
All other [a]	--	12	--	71
	16,458	16,118	51,321	46,518
Cost of Products and Preservation Services:				
Implantable medical devices	1,940	1,998	6,135	5,839
Human tissue preservation services	6,015	7,124	17,984	23,770
All other [a]	--	--	--	--
	7,955	9,122	24,119	29,609
Gross Margin (Loss):				
Implantable medical devices	7,189	7,153	22,967	21,374
Human tissue preservation services	1,314	(169)	4,235	(4,536)
All other [a]	--	12	--	71
	$ 8,503	$ 6,996	$ 27,202	$ 16,909

a The "All other" designation includes grant revenue.

The following table summarizes net revenues by product (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(Unaudited)		(Unaudited)	
BioGlue	$ 8,917	$ 8,914	$ 28,340	$ 26,519
Human tissue preservation services:				
Cardiovascular tissue	3,139	3,476	10,407	9,737
Vascular tissue	2,825	2,636	8,281	7,771
Orthopaedic tissue	1,365	843	3,531	1,726
Total preservation services	7,329	6,955	22,219	19,234
Bioprosthetic devices	212	237	762	694
Research grants	--	12	--	71
	$ 16,458	$ 16,118	$ 51,321	$ 46,518

Note 13 – Commitments and Contingencies

Product Liability Claims

In the normal course of business as a medical device and services company, the Company has product liability complaints filed against it. Following the FDA Order, a greater number of lawsuits than has historically been experienced were filed. As of November 1, 2005 the Company was aware of six pending product liability lawsuits. The lawsuits are currently in the pre-discovery or discovery stages. Of these lawsuits, two allege product liability claims arising out of the Company's orthopaedic tissue services, three allege product liability claims arising out of the Company's allograft heart valve tissue services, and one alleges a product liability claim arising from BioGlue.

As of November 1, 2005 there were two outstanding product liability lawsuits against the Company that are covered by the 2004/2005 insurance policy. The Company believes its insurance policy to be adequate to defend against the covered lawsuits in this time period. Additionally, there are four outstanding product liability lawsuits against the Company that are not covered by insurance policies, as either the Company has used all of its insurance coverage related to that policy year, or the claims were asserted against the Company in periods after the coverage in the related incident year had lapsed. Additional uninsured claims may be filed in the future. Other product liability claims have been asserted against the Company that have not resulted in lawsuits. The Company is monitoring these claims.

The Company performed an analysis as of September 30, 2005 of the settled but unpaid claims and the pending product liability claims based on settlement negotiations to date and advice from counsel. As of September 30, 2005 the Company had accrued a total of approximately $1.1 million for settled but unpaid claims and pending product liability claims and recorded zero representing amounts to be recovered from the Company's insurance carriers. The $1.1 million accrual is included as a component of accrued expenses and other current liabilities on the September 30, 2005 Summary Consolidated Balance Sheet. This amount represents the Company's estimate of the probable losses related to two settled but unpaid claims and three of the six pending product liability claims. The Company has not recorded an accrual for the remaining three product liability claims because management has concluded that either a loss is remote or that, although a loss is reasonably possible or probable, a reasonable estimate of that loss or the range of losses cannot be made at this time.

The Company's product liability insurance policies do not include coverage for any punitive damages, which may be assessed at trial. The Company is currently unable to reasonably estimate the maximum amount of the possible loss related to these claims, as many of the claims do not specify the damages sought and the Company does not have a reasonable method for estimating the amount of compensatory or punitive damages that could be assessed by a trial jury. Additionally, if the Company is unable to settle the outstanding claims for amounts within its ability to pay or one or more of the product liability claims in which the Company is a defendant should be tried with a substantial verdict rendered in favor of the plaintiff(s), there can be no assurance that such verdict(s) would not exceed the Company's available insurance coverage and liquid assets. Failure by the Company to meet required future cash payments to resolve the outstanding product liability claims would have a material adverse effect on the financial position, results of operations, and cash flows of the Company.

On April 1, 2005 the Company bound coverage for the 2005/2006 insurance policy year. This policy is a three-year claims-made insurance policy, i.e. claims incurred during the period April 1, 2003 through March 31, 2006 and reported during the period April 1, 2005 through March 31, 2006 are covered by this policy. Claims incurred prior to April 1, 2003 that have not been reported are uninsured.

The Company maintains claims-made insurance policies to mitigate its financial exposure to product liability claims. Claims-made insurance policies generally cover only those asserted claims and incidents that are reported to the insurance carrier while the policy is in effect. Thus, a claims-made policy does not generally represent a transfer of risk for claims and incidents that have been incurred but not reported to the insurance carrier during the policy period. The Company periodically evaluates its exposure to unreported product liability claims and records accruals as necessary for the estimated cost of unreported claims related to services performed and products used. In July 2005 the Company retained an independent actuarial firm to perform revised estimates of the unreported claims as of June 30, 2005 and December 31, 2005. The independent firm estimated the unreported product loss liability using a frequency-severity approach, whereby projected losses were calculated by multiplying the estimated number of claims by the estimated average cost per claim. The estimated claims were calculated based on the reported claim development method and the Bornhuetter-Ferguson method using a blend of the Company's historical claim experience and industry data. The estimated cost per claim was calculated using a lognormal claims model blending the Company's historical average cost per claim with industry claims data. The independent actuarial firm used a number of assumptions in order to estimate the unreported product loss liability including:

- A ceiling of $5.0 million was selected for actuarial purposes in determining the liability per claim given the uncertainty in projecting claim losses in excess of $5.0 million,
- The future claim reporting lag time would be a blend of the Company's experiences and industry data,
- The frequency of unreported claims for accident years 2001 through 2005 would be lower than the Company's experience since the 2002/2003 policy year, but higher than the Company's historical claim frequency prior to the 2002/2003 policy year,
- The average cost per claim would be lower than the Company's experience since the 2002/2003 policy year, but higher than the Company's historical cost per claim prior to the 2002/2003 policy year,
- The average cost per BioGlue claim would be consistent with the Company's overall historical exposures until adequate historical data is available on this product line, and
- The number of BioGlue claims per million dollars of BioGlue revenue would be 30% lower than non-BioGlue claims per million dollars of revenue. The 30% factor was selected based on BioGlue claims experience to-date and the actuary's judgment.

The Company believes that these assumptions provide a reasonable basis for the calculation of the unreported product liability loss, but actual developments could differ materially from the assumptions above. The accuracy of the actuarial firm's estimates is limited by the general uncertainty that exists for any estimate of future activity due to uncertainties surrounding the assumptions used and due to Company specific conditions, including the FDA Order, the Company's recent levels of litigation activity, the Company's low volume of pre-FDA Order historical claims, and the scarcity of industry data directly relevant to the Company's business activities. Due to these factors, actual results may differ significantly from the amounts accrued.

Based on the actuarial valuation performed in July 2005 as of June 30, 2005 and December 31, 2005, the Company estimated that its liability for unreported product liability claims was $8.0 million as of June 30, 2005 and would be $8.8 million as of December 31, 2005. In accordance with Emerging Issues Task Force Issue 03-8, the Company has accrued a prorated amount of $8.4 million, representing the Company's best estimate of the total liability for unreported product liability claims related to services performed and products sold prior to September 30, 2005. The $8.4 million balance is included as a component of accrued expenses and other current liabilities of $4.3 million and other long-term liabilities of $4.1 million on the September 30, 2005 Summary Consolidated Balance Sheet. Further analysis indicated that the liability could be estimated to be as high as $14.8 million, after including a reasonable margin for statistical fluctuations calculated based on actuarial simulation techniques. Based on the actuarial valuation, the Company estimated that as of September 30, 2005, $2.6 million of the accrual for unreported liability claims would be recoverable under the Company's insurance policies. The $2.6 million insurance recoverable is included as a component of other receivables of $1.1 million and other long-term assets of $1.5 million on the September 30, 2005 Summary Consolidated Balance Sheet. These amounts represent management's estimate of the probable losses and anticipated recoveries for unreported product liability claims related to services performed and products sold prior to September 30, 2005. Actual results may differ from this estimate.

Class Action Lawsuit

Several putative class action lawsuits were filed in July through September 2002 against the Company and certain officers of the Company, alleging violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 based on a series of purportedly materially false and misleading statements to the market. The suits were consolidated, and a consolidated amended complaint filed, that principally alleges that the Company made misrepresentations and omissions relating to product safety and the Company did not comply with certain FDA regulations regarding the handling and processing of certain tissues and other product safety matters. The consolidated complaint sought certification of a class of purchasers between April 2, 2001 and August 14, 2002, compensatory damages, and other expenses of litigation. The Company and the other defendants filed a motion to dismiss the consolidated complaint on February 28, 2003, which motion the U.S. District Court for the Northern District of Georgia denied in part and granted in part on May 27, 2003. The discovery phase of the case commenced on July 16, 2003. On December 16, 2003 the Court certified a class of individuals and entities who purchased or otherwise acquired CryoLife stock from April 2, 2001 through August 14, 2002. On March 11, 2005 defendants moved for summary judgment on all of plaintiffs' claims, and plaintiffs moved for partial summary judgment as to some of their claims against certain defendants. On June 17, 2005 the court denied plaintiffs' motion for partial summary judgment and granted in part and denied in part defendants' motion for summary judgment.

On July 21, 2005 the Company reached an agreement in principle to settle the securities class action lawsuit. The settlement will resolve all claims asserted against the Company and the individual defendants in this case. The terms of the settlement, which must be approved by the court following notice to the class, include a total settlement of $23.25 million, of which $19.5 million is to be paid in cash and $3.75 million in CryoLife common stock. The cash payment, which included approximately $12.0 million in insurance proceeds and approximately $7.5 million in Company funds, has been placed into an escrow account, in the fourth and third quarter, respectively, pending court approval and the settlement becoming final. The stock transfer of $3.75 million will likewise be completed if and when the settlement is approved by the court and becomes final. The Company and the individual defendants have denied any wrongdoing and liability whatsoever, and the settlement does not contain any admission of liability.

As of September 30, 2005 the Company had accrued $15.9 million for the settlement payment and legal fees incurred but unpaid related to this case and recorded an asset of $12.0 million representing the anticipated recovery of these fees from the Company's insurance carrier which was placed into an escrow account in October 2005. The $15.9 million accrual is included as a component of accrued expenses and other current liabilities and the $12.0 million insurance receivable is included as a component of other receivables on the September 30, 2005 Summary Consolidated Balance Sheet.

The Company has filed a request for mediation under its insurance policies to assert a claim against two of its insurance carriers. The claim is for recovery of monetary losses of approximately $11.25 million paid by the Company in excess of policy limits to settle the securities class action lawsuit. The claim alleges that the loss resulted from the carriers' bad faith failure to settle. There can be no assurance that the claim will be successful. The Company has not recorded a gain related to this claim.

Shareholder Derivative Action

On August 30, 2002 a purported shareholder derivative action was filed by Rosemary Lichtenberger against Steven G. Anderson, Albert E. Heacox, John W. Cook, Ronald C. Elkins, Virginia C. Lacy, Ronald D. McCall, Alexander C. Schwartz, and Bruce J. Van Dyne in the Superior Court of Gwinnett County, Georgia. The suit, which named the Company as a nominal defendant, alleged that the individual defendants breached their fiduciary duties to the Company by causing or allowing the Company to engage in certain inappropriate practices that caused the Company to suffer damages. The complaint was preceded by one day by a letter written on behalf of Ms. Lichtenberger demanding that the Company's Board of Directors take certain actions in response to her allegations. On January 16, 2003 another purported derivative suit alleging claims similar to those of the Lichtenberger suit was filed in the Superior Court of Fulton County by complainant Robert F. Frailey. As in the Lichtenberger suit, the filing of the complaint in the Frailey action was preceded by a demand letter sent on Frailey's behalf to the Company's Board of Directors. Both complaints sought undisclosed damages, costs and attorney's fees, punitive damages, and prejudgment interest against the individual defendants derivatively on behalf of the Company.

A settlement with respect to the shareholder derivative lawsuit was agreed to by the parties and approved by the board and the court. Pursuant to the settlement, the Company paid $3.5 million, in the third quarter of 2005, related to the plaintiffs' counsel fees and expenses. The $3.5 million payment was entirely covered by the Company's insurance carriers. Additionally, as part of the settlement, the Company and its management have also agreed to several changes in corporate governance, including the identification and appointment of a new director with regulatory experience, the formation of a regulatory affairs and quality assurance committee, and the adoption of SFAS 123 Revised "Share-Based Payment" ("SFAS 123-R") in the quarter preceding the quarter in which expensing of share-based payments is required, which is expected to be fourth quarter of 2005.

SEC Investigation

On August 19, 2002 the Company issued a press release announcing that on August 17, 2002, the Company received a letter from the Atlanta District Office of the SEC inquiring about certain matters relating to the Company's August 14, 2002 announcement of the FDA Order. The SEC notified the Company in July 2003 that the inquiry became a formal investigation in June 2003. CryoLife has cooperated with this investigation both before and after the issuance of the formal order of investigation in June 2003 and intends to continue doing so. CryoLife voluntarily reported the names of six employees and former employees to the SEC in December 2002 after discovering they had apparently sold CryoLife shares on August 14, 2002, before trading was halted pending

CryoLife's press release reporting the FDA Order. These individuals were not and are not executive officers of CryoLife. The formal order of investigation indicates that the SEC's scope includes whether, during 2002, among other things, CryoLife or others may have traded while in possession of material nonpublic information, made (or caused to be made) false or misleading statements or omissions in press releases and SEC filings, and failed to maintain accurate records and adequate controls. The investigation could also encompass matters not specifically identified in the formal order. On September 15, 2005 the SEC announced that it had commenced proceedings in federal district court against certain of the above-referenced former and current employees (and certain of their spouses) for alleged illegal insider trading arising out of their August 14, 2002 trading activities. Certain of those proceedings resulted in settlements with the SEC, while other proceedings remain pending. As of the date hereof, the SEC has had no discussions with CryoLife as to whether the SEC will seek relief against CryoLife, or the nature of any relief that may be sought. At present, CryoLife is unable to predict the ultimate focus or outcome of the investigation, or when it will be completed. An unfavorable outcome could have a material adverse effect on CryoLife's reputation, business, financial position, results of operations, and cash flows.

Note 14 – Subsequent Events

On November 1, 2005 the Compensation Committee of the Board of Directors determined that the Company's supplemental life insurance program should be terminated and unwound. The three participating executive officers will no longer be required to repay the Company for the aggregate premiums paid by it. Although this will not result in additional Company cash outlay, this change will result in additional expense of $253,000 to be recognized by the Company in the fourth quarter of 2005.

On November 2, 2005 the Company amended and restated its Rights Agreement, which was entered into on November 27, 1995, to extend its expiration date to November 23, 2015 and make other changes.

PART I — FINANCIAL INFORMATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview

For CryoLife, Inc. ("CryoLife" or the "Company"), the quarter ended September 30, 2005 brought the resolution of several outstanding legal matters. The Company borrowed $3.5 million under its Credit Agreement and used cash on hand to pay $7.5 million toward the settlement of the class action lawsuit in accordance with the settlement plan announced earlier in the third quarter. An additional amount payable by the Company's insurance policy holders was made early in the fourth quarter and common stock with a stipulated value of approximately $3.75 million and additional legal fees are expected to be paid in the fourth quarter of 2005. In addition the Company's insurers paid $3.5 million for the settlement of the shareholder derivative lawsuit and a settlement agreement and dismissal were reached on two product liability lawsuits during the quarter ended September 30, 2005. An agreement was reached to settle one additional lawsuit shortly after quarter-end, bringing the Company's total outstanding product liability lawsuits to its lowest level since before the FDA Order in 2002. See the "Results of Operations" section below for additional analysis of the third quarter results.

FDA Order on Human Tissue Preservation

On August 13, 2002 the Company received an order from the Atlanta district office of the FDA regarding the non-valved cardiac, vascular, and orthopaedic tissues processed by the Company since October 3, 2001 (the "FDA Order"). The FDA Order followed an April 2002 FDA Form 483 Notice of Observations ("April 2002 483") and an FDA Warning Letter dated June 17, 2002, ("Warning Letter"). Pursuant to the FDA Order, the Company placed non-valved cardiac, vascular, and orthopaedic tissue subject to the FDA Order (i.e. processed since October 3, 2001) on quality assurance quarantine and recalled the portion of those tissues that had been distributed but not implanted. In addition the Company ceased processing non-valved cardiac, vascular, and orthopaedic tissues.

On September 5, 2002 the Company entered into an agreement with the FDA (the "FDA Agreement") that supplemented the FDA Order and allowed non-valved cardiac and vascular tissues subject to the recall (processed between October 3, 2001 and September 5, 2002) to be released for distribution after the Company had completed specified steps.

In addition pursuant to the FDA Agreement, the Company agreed to perform additional processing procedures and to establish a corrective action plan. The corrective actions taken have been reviewed by the FDA during subsequent inspections.

Other FDA Correspondence and Notices

An FDA Form 483 Notice of Observations ("483") was issued in August 2005 in connection with the FDA inspections of the Company's facilities in July 2005 ("July 2005 483"). The Company responded to the July 2005 483 in August 2005 and in September 2005. In response to the July 2005 483 the Company has implemented new and revised existing systems and procedures. The FDA may require the Company to implement additional corrective actions, perform additional validation testing, or supply additional information related to the inspections, and has the authority to take other actions which may be more burdensome. The Company has and will continue to work with the FDA to review process improvements and address any outstanding observations.

On February 20, 2003 the Company received a letter from the FDA stating that a 510(k) premarket notification should be filed for the Company's SynerGraft processed human cardiac tissues ("CryoValve® SG") and that premarket approval marketing authorization should be obtained for the Company's SynerGraft processed human vascular tissues ("CryoVein® SG") when marketed or labeled as an arteriovenous ("A-V") access graft. The agency's position is that use of the SynerGraft technology in the processing of allograft heart valves represents a modification to the Company's legally marketed CryoValve allograft and that vascular allografts labeled for use as A-V access grafts are medical devices that require premarket approval.

On November 3, 2003 the Company filed a 510(k) premarket notification with the FDA for the CryoValve SG. On February 4, 2004 the Company received a letter from the FDA requesting additional information. On August 24, 2004 the Company submitted an amendment to its original 510(k) submission

providing clarification and additional information. The FDA requested further additional information in November 2004. On June 8, 2005 CryoLife responded to some of these additional requests. CryoLife also has initiated an appeal of others through administrative procedures. The FDA may still require that additional studies be undertaken and may never clear the 510(k) premarket notification. Clearance of the 510(k) premarket notification with the FDA will be required before the Company can resume distribution of SynerGraft processed CryoValve SG.

On December 8, 2003 the Company received a letter from the FDA stating that it was the agency's position that cardiovascular tissues processed with the SynerGraft technology should be regulated as medical devices. On September 14, 2004 the Company met with the FDA to discuss the data to be used to support a formal Request for Designation ("RFD") filing for SynerGraft processed cardiovascular tissue, including the CryoVein SG. An RFD submission establishes the regulatory status of the tissue. The Company submitted the RFD on October 5, 2004. The FDA affirmed its original decision in letters received in December 2004. That decision was subject to an administrative appeal. On October 20, 2005 CryoLife was informed that the FDA had denied the appeal and that CryoLife will be unable to distribute CryoVein tissues with the SynerGraft technology until further submissions and FDA clearances are granted. The Company is evaluating whether it will file and seek a premarket approval for CryoVein SG or discontinue the CryoVein SG.

In 2003 the Company suspended the use of the SynerGraft technology in the processing of allograft tissue and the distribution of tissues on hand previously processed with the SynerGraft technology until the regulatory issues associated with these tissues are resolved. Additionally, the Company discontinued labeling its vascular grafts for use as A-V access grafts. Until such time as the issues surrounding SynerGraft are resolved, the Company will employ its traditional processing methods on these tissues. During the year ended December 31, 2004 the Company wrote down $353,000 in SynerGraft processed cardiovascular and vascular tissues. As of September 30, 2005 the Company had no deferred preservation costs related to SynerGraft processed tissues on its Summary Consolidated Balance Sheets.

Critical Accounting Policies

A summary of the Company's significant accounting policies is included in Part I, Item 1, "Note 1 of the Notes to Summary Consolidated Financial Statements," as filed in the Form 10-K for the fiscal year ended December 31, 2004. Management believes that the consistent application of these policies enables the Company to provide users of the financial statements with useful and reliable information about the Company's operating results and financial condition. The summary consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States for interim financial information, which require the Company to make estimates and assumptions. The following are accounting policies that management believes are most important to the portrayal of the Company's financial condition and results and may involve a higher degree of judgment and complexity.

Product Liability Claims: In the normal course of business as a medical device and services company, the Company has product liability complaints filed against it. Following the FDA Order, a greater number of lawsuits than has historically been experienced were filed. As of November 1, 2005 the Company was aware of six pending product liability lawsuits. The lawsuits are currently in the pre-discovery or discovery stages. Of these lawsuits, two allege product liability claims arising out of the Company's orthopaedic tissue services, three allege product liability claims arising out of the Company's allograft heart valve tissue services, and one alleges product liability claims arising from BioGlue.

As of November 1, 2005 there were two outstanding product liability lawsuits against the Company that are covered by the 2004/2005 insurance policy year. The Company believes its insurance policy to be adequate to defend against the covered lawsuits in this time period. Additionally, there are four outstanding product liability lawsuits against the Company that are not covered by insurance policies, as either the Company has used all of its insurance coverage related to that policy year, or the claims were asserted against the Company in periods after the coverage in the related incident year had lapsed. Additional uninsured claims may be filed in the future. Other product liability claims have been asserted against the Company that have not resulted in lawsuits. The Company is monitoring these claims.

The Company performed an analysis as of September 30, 2005 of the settled but unpaid claims and the pending product liability claims based on settlement negotiations to date and advice from counsel. As of September 30, 2005 the Company had accrued a total of $1.1 million for settled but unpaid claims and pending product liability claims and recorded zero representing amounts to be recovered from the Company's insurance carriers. The $1.1 million accrual is included as a component of accrued expenses and other current liabilities on the September 30, 2005 Summary Consolidated Balance Sheet. This amount represents the Company's estimate of the probable losses related to two settled but unpaid claims and three of the six pending product liability claims. The Company has not recorded an accrual for the remaining three product liability claims because management has concluded that either a loss is remote or that, although a loss is reasonably possible or probable, a reasonable estimate of that loss or the range of losses cannot be made at this time.

The Company's product liability insurance policies do not include coverage for any punitive damages, which may be assessed at trial. The Company is currently unable to reasonably estimate the maximum amount of the possible loss related to these claims, as many of the claims do not specify the damages sought and the Company does not have a reasonable method for estimating the amount of compensatory or punitive damages that could be assessed by a trial jury. Additionally, if the Company is unable to settle the outstanding claims for amounts within its ability to pay or one or more of the product liability claims in which the Company is a defendant should be tried with a substantial verdict rendered in favor of the plaintiff(s), there can be no assurance that such verdict(s) would not exceed the Company's available insurance coverage and liquid assets. Failure by the Company to meet required future cash payments to resolve the outstanding product liability claims would have a material adverse effect on the financial position, results of operations, and cash flows of the Company.

On April 1, 2005 the Company bound coverage for the 2005/2006 insurance policy year. This policy is a three-year claims-made insurance policy, i.e. claims incurred during the period April 1, 2003 through March 31, 2006 and reported during the period April 1, 2005 through March 31, 2006 are covered by this policy. Claims incurred prior to April 1, 2003 that have not been reported are uninsured.

The Company maintains claims-made insurance policies to mitigate its financial exposure to product liability claims. Claims-made insurance policies generally cover only those asserted claims and incidents that are reported to the insurance carrier while the policy is in effect. Thus, a claims-made policy does not generally represent a transfer of risk for claims and incidents that have been incurred but not reported to the insurance carrier during the policy period. The Company periodically evaluates its exposure to unreported product liability claims and records accruals as necessary for the estimated cost of unreported claims related to services performed and products used. In July 2005 the Company retained an independent actuarial firm to perform revised estimates of the unreported claims as of June 30, 2005 and December 31, 2005. The independent firm estimated the unreported product loss liability using a frequency-severity approach, whereby projected losses were calculated by multiplying the estimated number of claims by the estimated average cost per claim. The estimated claims were calculated based on the reported claim development method and the Bornhuetter-Ferguson method using a blend of the Company's historical claim experience and industry data. The estimated cost per claim was calculated using a lognormal claims model blending the Company's historical average cost per claim with industry claims data. The independent actuarial firm used a number of assumptions in order to estimate the

unreported product loss liability including:

- A ceiling of $5.0 million was selected for actuarial purposes in determining the liability per claim given the uncertainty in projecting claim losses in excess of $5.0 million,
- The future claim reporting lag time would be a blend of the Company's experiences and industry data,
- The frequency of unreported claims for accident years 2001 through 2005 would be lower than the Company's experience since the 2002/2003 policy year, but higher than the Company's historical claim frequency prior to the 2002/2003 policy year,
- The average cost per claim would be lower than the Company's experience since the 2002/2003 policy year, but higher than the Company's historical cost per claim prior to the 2002/2003 policy year,
- The average cost per BioGlue claim would be consistent with the Company's overall historical exposures until adequate historical data is available on this product line, and

- The number of BioGlue claims per million dollars of BioGlue revenue would be 30% lower than non-BioGlue claims per million dollars of revenue. The 30% factor was selected based on BioGlue claims experience to-date and the actuary's judgment.

The Company believes that these assumptions provide a reasonable basis for the calculation of the unreported product liability loss, but actual developments could differ materially from the assumptions above. The accuracy of the actuarial firm's estimates is limited by the general uncertainty that exists for any estimate of future activity due to uncertainties surrounding the assumptions used and due to Company specific conditions, including the FDA Order, the Company's recent levels of litigation activity, the Company's low volume of pre-FDA Order historical claims, and the scarcity of industry data directly relevant to the Company's business activities. Due to these factors, actual results may differ significantly from the amounts accrued.

Based on the actuarial valuation performed in July 2005 as of June 30, 2005 and December 31, 2005, the Company estimated that its liability for unreported product liability claims was $8.0 million as of June 30, 2005 and would be $8.8 million as of December 31, 2005. In accordance with Emerging Issues Task Force Issue 03-8, the Company has accrued a prorated amount of $8.4 million, representing the Company's best estimate of the total liability for unreported product liability claims related to services performed and products sold prior to September 30, 2005. The $8.4 million balance is included as a component of accrued expenses and other current liabilities of $4.3 million and other long-term liabilities of $4.1 million on the September 30, 2005 Summary Consolidated Balance Sheet. Further analysis indicated that the liability could be estimated to be as high as $14.8 million, after including a reasonable margin for statistical fluctuations calculated based on actuarial simulation techniques. Based on the actuarial valuation, the Company estimated that as of September 30, 2005, $2.6 million of the accrual for unreported liability claims would be recoverable under the Company's insurance policies. The $2.6 million insurance recoverable is included as a component of other receivables of $1.1 million and other long-term assets of $1.5 million on the September 30, 2005 Summary Consolidated Balance Sheet. These amounts represent management's estimate of the probable losses and anticipated recoveries for unreported product liability claims related to services performed and products sold prior to September 30, 2005. Actual results may differ from this estimate.

Deferred Preservation Costs: Tissue is procured from deceased human donors by organ and tissue procurement agencies, which consign the tissue to the Company for processing and preservation. Preservation costs related to tissue held by the Company are deferred until revenue is recognized upon shipment of the tissue to the implanting facilities. Deferred preservation costs consist primarily of direct labor and materials including laboratory expenses, tissue procurement fees, and freight-in charges, and indirect costs including allocations of costs from departments that support processing activities, fringe benefits, and facility allocations. Deferred preservation costs are stated on a first-in, first-out basis.

The calculation of deferred preservation costs includes a high degree of judgment and complexity. The costs included in deferred preservation costs contain several estimates due to the timing differences between the occurrence of the cost and receipt of final bills for services. Costs that contain estimates include tissue procurement fees, which are estimated based on the Company's contracts with independent procurement agencies, and freight-in charges, which are estimated based on the Company's prior experiences with these charges. These costs are adjusted for differences between estimated and actual fees when invoices for these services are received. Management believes that its estimates approximate the actual costs of these services, but estimates could differ from actual costs. Total deferred preservation costs are then allocated among the different tissues processed during the period based on specific cost drivers such as the number of donors and the number of tissues processed. At each balance sheet date a portion of the deferred preservation costs relates to tissues currently in active processing or held in quarantine pending release to implantable status. The Company applies a yield estimate to all tissues in process and in quarantine to estimate the portion of tissues that will ultimately become implantable. Management determines this estimate of quarantine yields based on its experience in prior periods and reevaluates this estimate periodically. Due to the nature of this estimate and the length of the processing times experienced by the Company, actual yields could differ from the Company's estimates. A significant change in quarantine yields could materially affect the deferred preservation costs per tissue, which could impact the amount of deferred preservation costs on the Company's Summary Consolidated Balance Sheet and the cost of preservation services, including the lower of cost or market write-down, described below, on the Company's Summary Consolidated Statements of Operations.

During 2002 the Company recorded impairment write-downs of deferred preservation costs totaling $32.7 million as a result of the FDA Order. The amount of these write-downs reflected management's estimates based on information available to it at the time the estimates were made and actual results did differ from these estimates. The write-down created a new cost basis, which cannot be written back up if and when these tissues become available for distribution. The cost of human tissue preservation services in the nine months ended September 30, 2004 was favorably affected by tissue shipments that were related to previously written-down deferred preservation costs. The cost of human tissue preservation services was not materially affected by these write-downs in the nine months ended September 30, 2005 and is not expected to be materially affected by these write-downs in future periods.

The Company regularly evaluates its deferred preservation costs to determine if the costs are appropriately recorded at the lower of cost or market value. The Company recorded $626,000 and $1.3 million, respectively, in the three and nine months ended September 30, 2005 and $1.2 million and $6.0 million, respectively, in the three and nine months ended September 30, 2004 as an increase to cost of preservation services to write-down the value of certain deferred tissue preservation costs that exceeded market value. The amount of these write-downs reflects management's estimates of market value based on

recent average service fees. Actual results may differ from these estimates. The nine months ended September 30, 2004 also included $353,000 in costs related to the write-down of SynerGraft processed tissues.

As of September 30, 2005 deferred preservation costs consisted of $3.3 million for allograft heart valve tissues, $512,000 for non-valved cardiac tissues, $5.2 million for vascular tissues, and $3.6 million for orthopaedic tissues.

Deferred Income Taxes: Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and tax return purposes. The Company generated deferred tax assets beginning in 2002 primarily as a result of write-downs of deferred preservation costs, accruals for product liability claims, and operating losses, reflecting reductions in revenues and additional professional fees, as a result of the FDA Order, subsequent FDA activities, and related events. The Company continued to generate deferred tax assets for the nine months ended September 30, 2005 primarily as a result of operating losses. The Company periodically assesses the recoverability of its deferred tax assets and provides a valuation allowance when management believes it is more likely than not that its deferred tax assets will not be realized.

In assessing the recoverability of its deferred tax assets, the Company reviewed its historic operating results, including the reasons for its operating losses, uncertainties regarding projected future operating results due to the effects of the FDA Order and subsequent FDA activity, and the uncertainty of the outcome of litigation. Based on the results of this analysis, at December 31, 2004 the Company determined that it was more likely than not that the Company's deferred tax assets would not be realized. Therefore, as of December 31, 2004 the Company had a total of $18.8 million in valuation allowances against deferred tax assets and a net deferred tax asset balance of zero.

For the nine months ended September 30, 2005 the Company did not experience any changes that would materially affect the Company's analysis of and valuation of its deferred tax assets. As of September 30, 2005 the Company had a total of $25.0 million in valuation allowances against deferred tax assets and a net deferred tax asset balance of zero.

Valuation of Long-lived and Intangible Assets and Goodwill: The Company assesses the impairment of its long-lived, identifiable intangible assets and related goodwill annually and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors that management considers important that could trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results,
- Significant negative industry or economic trends,
- Significant decline in the Company's stock price for a sustained period, and

- Significant decline in the Company's market capitalization relative to net book value.

Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), requires the write-down of a long-lived asset to be held and used if the carrying value of the asset or the asset group to which the asset belongs is not recoverable. The carrying value of the asset or asset group is not recoverable if it exceeds the sum of the undiscounted future cash flows expected to result from the use and eventual disposition of the asset or asset group. In applying SFAS 144, the Company defined the specific asset groups used to perform the cash flow analysis. The Company defined the asset groups at the lowest level possible, by identifying the cash flows from groups of assets that could be segregated from the cash flows of other assets and liabilities. Using this methodology, the Company determined that its asset groups consisted of the long-lived assets related to the Company's two reporting segments. As the Company does not segregate assets by segment, the Company allocated assets to the two reporting segments based on factors including facility space and revenues. The undiscounted future cash flows related to these asset groups exceeded their carrying values as of December 31, 2004 and, therefore, management concluded that there was not an impairment of the Company's long-lived intangible assets and tangible assets related to the tissue preservation business or medical device business. However, depending on the Company's ability to rebuild demand for its tissue preservation services and the future effects of events surrounding the FDA Order, these assets may become impaired. Management will continue to evaluate the recoverability of these assets in accordance with SFAS 144. For the three and nine months ended September 30, 2005 the Company did not experience any changes that would materially affect the Company's analysis of and recoverability of its long-lived assets.

SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), requires goodwill resulting from business acquisitions and other intangible assets be subject to periodic impairment testing. The Company's intangible assets consist of patent costs, which are amortized over the expected useful lives of the patents (primarily 17 years) using the straight-line method, trademarks, which are non-amortizing, and other intangibles, which consist primarily of manufacturing rights and agreements and are amortized over the expected useful lives of the related assets (primarily five years). As of December 31, 2004 the Company did not believe that an impairment existed related to the other intangible assets that were assessed in accordance with SFAS No. 144.

Derivative Instruments: The terms of the Company's first quarter 6% convertible Preferred Stock offering include a Dividend Make-Whole Payment. If the Company elects to automatically convert, or the holder elects to voluntarily convert, some or all of the Preferred Stock into common stock prior to April 1, 2008, the Company will make an additional payment on the Preferred Stock equal to the aggregate amount of dividends that would have been payable on the Preferred Stock through and including April 1, 2008, less any dividends already paid on the Preferred Stock. The Dividend Make-Whole Payment is payable in cash or, at the Company's option, in shares of the Company's common stock, or a combination of cash and shares of common stock. In accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), the Company is required to separate and account for, as an embedded derivative, the Dividend Make-Whole Payment feature of the Preferred Stock, (the "Derivative"). As an embedded derivative instrument, the Dividend Make-Whole Payment feature must be measured at fair value and reflected as a current liability on the Company's Summary Consolidated Balance Sheets. Changes in the fair value of the Derivative are recognized as the line item change in valuation of derivative as a non-operating income/expense on the Company's Summary Consolidated Statements of Operations.

The accounting for derivatives is complex, and requires significant judgments and estimates in determining the fair value in the absence of quoted market values. These estimates are based on valuation methodologies and assumptions deemed appropriate in the circumstances. The fair value of the Dividend Make-Whole Payment feature is based on various assumptions, including the estimated market volatility and discount rates used in determination of fair value. The use of different assumptions may have a material effect on the estimated fair value amount, which is reflected in the Company's results of operations and financial position.

New Accounting Pronouncements

The Company will be required to adopt SFAS 123 Revised "Share-Based Payment" ("SFAS 123-R") as amended by SEC Rule 2005-57 "Commission Amends Compliance Dates For FASB Statement No. 123R on Employee Stock Options" for the fiscal year beginning January 1, 2006 per the SFAS 123-R. However, pursuant to the shareholder derivative action settlement, as discussed in Part I, Item 1, "Note 13 of the Notes to Summary Consolidated Financial Statements", the Company expects to adopt of SFAS 123-R in the fourth quarter of 2005. SFAS 123-R requires companies to recognize the cost of all share-based payments in the financial statements using a fair-value based measurement method. Based on its preliminary analysis, the Company anticipates that the effect of implementing SFAS 123-R on its results of operations will be less than the amounts in the pro forma footnote disclosures currently required, but will have a significant impact on the Company's results of operations, assuming that the Company's stock price, option terms, and amounts of 2005 option grants are comparable with 2004. The Company anticipates it will adopt SFAS 123-R using the modified version of prospective application, as defined in SFAS 123-R. However, the Company is continuing to evaluate the adoption of SFAS 123-R.

In anticipation of the adoption of SFAS123-R, on September 30, 2005 the Company's Board of Directors approved the accelerated vesting of unvested and "out-of-the-money" options with an exercise price equal to or greater than $6.97, the closing price of the Company's common stock on September 29, 2005. Vesting was accelerated on a total of 166,925 options with a range of exercise prices from $7.03 to $31.99. As a result of this accelerated vesting, the Company recorded an additional pro forma expense of $1.4 million for the three and nine months ended September 30, 2005. This expense is deducted from the net loss applicable to common shares – as reported to calculate net loss applicable to common shareholders – pro forma and the corresponding pro forma loss per share amounts in the tables below. The decision to initiate the accelerated vesting, which the Company believes to be in the best interest of the Company and its shareholders, was made primarily to reduce compensation expense related to unvested "out-of-the-money" options that might be recorded in future periods following the Company's expected adoption of SFAS 123-R in the fourth quarter of 2005.

The Company will be required to adopt SFAS 151 "Inventory Costs" ("SFAS 151") for the fiscal year ending December 31, 2006. SFAS 151 requires current period expensing of items such as idle facility expense, excessive spoilage, double freight, and rehandling costs and requires allocation of fixed production overheads to be based on the normal capacity of the production facilities. The Company is currently evaluating the impact of the adoption of SFAS 151 on its results of operations and financial position.

Results of Operations
(In thousands)

Revenues

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Revenues	$ 16,458	$ 16,118	$ 51,321	$ 46,518

Revenues increased 2% and 10%, respectively, for the three and nine months ended September 30, 2005 as compared to the three and nine months ended September 30, 2004. The increase in revenues is primarily due to an increase in human tissue preservation service revenues for the three and nine months ended September 30, 2005 and an increase in sales of BioGlue for the nine months ended September 30, 2005.

BioGlue

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Revenues	$ 8,917	$ 8,914	$ 28,340	$ 26,519
BioGlue revenues as a percentage of total revenue	54%	55%	55%	57%

Revenues from the sale of BioGlue were flat for the three months ended September 30, 2005 as compared to the three months ended September 30, 2004. BioGlue revenues for the three months ended September 30, 2005 included an increase in average selling prices, which increased revenues by 4%, largely offset by a decrease in BioGlue sales volume, which decreased revenues by 4%.

Revenues from the sale of BioGlue increased 7% for the nine months ended September 30, 2005 as compared to the nine months ended September 30, 2004. The 7% increase in revenues for the nine months ended September 30, 2005 was primarily due to an increase in average selling prices, which increased revenues by 6%, and an increase in BioGlue sales volume, which increased revenues by 1%, primarily due to an increase in demand at the Company's European subsidiary.

The price increase was primarily due to an increase in average selling prices, due to list price increases that went into effect on January 1, 2005 domestically. The volume decrease for the three months ended September 30, 2005 was primarily due to a decrease in domestic sales, attributed to vacant sales territories resulting from turnover and increased competition, partially offset by volume increases at the Company's European subsidiary. The Company is making efforts to fill these vacant sales territories. Domestic revenues accounted for 75% and 76% of total BioGlue revenues for the three and nine months ended September 30, 2005, respectively, and 78% of total BioGlue revenues for both the three and nine months ended September 30, 2004.

The Company anticipates that revenues from BioGlue for the full year 2005 will exceed the full year of 2004 primarily due to the price increase that went

into effect on January 1, 2005.

Cardiovascular Preservation Services

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Revenues	$ 3,139	$ 3,476	$ 10,407	$ 9,737
Cardiovascular revenues as a percentage of total revenue	19%	22%	20%	21%

Revenues from cardiovascular preservation services decreased 10% for the three months ended September 30, 2005 as compared to the three months ended September 30, 2004. The 10% decrease in revenues for the three months ended September 30, 2005 was due to a decrease in cardiovascular volume, which reduced revenues by 21%, partially offset by an increase in average service fees, which increased revenues by 11%.

Revenues from cardiovascular preservation services increased 7% for the nine months ended September 30, 2005 as compared to the nine months ended September 30, 2004. The 7% increase in revenues for the nine months ended September 30, 2005 was due to an increase in average service fees, which increased revenues by 22%, partially offset by a decrease in cardiovascular volume, which reduced revenues by 15%.

The decrease in cardiovascular volume was largely due to a reduced level of pulmonary valve shipments, primarily due to reduced amount of tissues available for implantation as a result of a decline in procurement levels. The reduced levels of cardiac tissue procurement experienced during the first half of 2005, which decreased 18% from the same period in the prior year, had a negative impact on cardiovascular revenues in the three and nine months ended September 30, 2005. See the additional discussion of procurement below. The price increase reflected the fee increases that went into effect in July 2004 and January 2005. The fee increases primarily increased revenues for traditionally processed pulmonary valves and aortic valves.

The Company's procurement of cardiac tissues, from which heart valves and non-valved cardiac tissues are processed, decreased 3% during the three months ended September 30, 2005 as compared to the three months ended September 30, 2004, but increased 14% during the three months ended September 30, 2005 as compared to the three months ended June 30, 2005. Procurement levels of cardiac tissues remain significantly below procurement levels in the second quarter of 2002, prior to the FDA Order.

The Company anticipates that cardiovascular service revenues will benefit in the remainder of 2005, if and to the extent tissues available for implantation increase due to expected improvements in procurement and in the Company's tissue processing yields. Process changes were implemented during 2004 and 2005 and others are being evaluated for future implementation. Cardiovascular revenues for the remainder of 2005 should also be favorably affected by the fee increases implemented in July 2004 and January 2005.

As discussed in "Other FDA Correspondence and Notices" the Company has suspended the use of the SynerGraft technology in the processing of allograft cardiovascular tissue and in late September 2003 suspended the distribution of tissues on hand that were processed with the SynerGraft technology until the regulatory status of the CryoValve SG is resolved. At this time, the Company cannot estimate when or if it will resume processing allograft cardiovascular tissue using the SynerGraft technology.

Vascular Preservation Services

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Revenues	$ 2,825	$ 2,636	$ 8,281	$ 7,771
Vascular revenues as a percentage of total revenue	17%	16%	16%	17%

Revenues from vascular preservation services increased 7% for the three months ended September 30, 2005 as compared to the three months ended September 30, 2004. The 7% increase in revenues for the three months ended September 30, 2005 was due to an increase in average service fees, which increased revenues by 13%, partially offset by a decrease in vascular volume, which reduced revenues by 6%.

Revenues from vascular preservation services increased 7% for the nine months ended September 30, 2005 as compared to the nine months ended September 30, 2004. The 7% increase in revenues for the nine months ended September 30, 2005 was due to an increase in average service fees, which increased revenues by 21%, partially offset by a decrease in vascular volume, which reduced revenues by 14%.

The price increase reflected the fee increases that went into effect in July 2004 and January 2005 on all vascular tissues. The decrease in vascular volume is primarily due to reduced amount of tissues available for implantation as a result of a decline in procurement levels in the fourth quarter of 2004 and the first quarter of 2005, which had a negative impact on vascular revenues in the nine months ended September 30, 2005. The rebound in the Company's procurement levels in the second quarter of 2005 resulted in a lower volume decrease for the three months ended September 30, 2005 than that experienced in the first and second quarters of 2005. See the additional discussion of procurement below.

The Company's procurement of vascular tissues increased 36% during the three months ended September 30, 2005 as compared to the three months ended September 30, 2004 and increased 26% during the three months ended September 30, 2005 as compared to the three months ended June 30, 2005.

Procurement levels of vascular tissues remain significantly below procurement levels in the second quarter of 2002, prior to the FDA Order.

The Company anticipates that vascular service revenues will benefit in the remainder of 2005, if and to the extent tissues available for implantation increase through expected improvements in procurement and in the Company's tissue processing yields. Process changes were implemented during 2004 and 2005 and others are being evaluated for future implementation. Vascular revenues for the remainder of 2005 should also be favorably affected by the fee increases implemented in July 2004 and January 2005.

Orthopaedic Preservation Services

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Revenues	$ 1,365	$ 843	$ 3,531	$ 1,726
Orthopaedic revenues as a percentage of total revenue	8%	5%	7%	4%

Revenues from orthopaedic preservation services increased 62% for the three months ended September 30, 2005 as compared to the three months ended September 30, 2004. The 62% increase in revenues for the three months ended September 30, 2005 was due to an increase in orthopaedic volume.

Revenues from orthopaedic preservation services increased 105% for the nine months ended September 30, 2005 as compared to the nine months ended September 30, 2004. The 105% increase in revenues for the nine months ended September 30, 2005 was largely due to an increase in orthopaedic volume, which increased revenues by 104%.

The volume increase was primarily due to an increase in shipments of osteochondral grafts and non-boned tendons for the three and nine months ended September 30, 2005. The increase in orthopaedic tissue shipments is directly related to an increase in demand for the Company's orthopaedic tissues through the introduction of the new cryopreserved osteochondral graft in the first quarter of 2005, the reestablishment of the Company's presence in the orthopaedic tissue business, and the rebuilding of the Company's supply of tissues available for shipment.

The Company's procurement of orthopaedic tissues decreased 27% during the three months ended September 30, 2005 as compared to the three months ended September 30, 2004 and increased 14% during the three months ended September 30, 2005 as compared to the three months ended June 30, 2005. Procurement levels of orthopaedic tissues remain significantly below procurement in the second quarter of 2002, prior to the FDA Order.

The Company anticipates that orthopaedic service revenues will benefit in the remainder of 2005 due to the reintroduction of osteochondral grafts in February 2005, which have not been part of the Company's service offerings since the FDA Order was issued in August 2002. Revenues will additionally benefit, if and to the extent tissues available for implantation increase through expected improvements in procurement and in the Company's tissue processing yields.

Grant Revenues

Grant revenues were zero and $12,000, respectively, for the three months ended September 30, 2005 and 2004. Grant revenues were zero and $71,000, respectively, for the nine months ended September 30, 2005 and 2004.

The 2005 Defense Appropriations Conference Report included $926,000 for the development of BioFoam™. In February 2005 CryoLife submitted a proposal to the Department of Defense for the use of these funds. These funds were released for the Company's use in the latter part of the third quarter, and the Company received its first advance under the grant by September 30, 2005. As a result, the Company expects to begin recording revenues related to this grant in the fourth quarter of 2005.

Cost of Products

Cost of products was $1.9 million for the three months ended September 30, 2005 as compared to $2.0 million for the three months ended September 30, 2004, representing 21% and 22%, respectively, of total product revenues during such periods. Cost of products was $6.1 million for the nine months ended September 30, 2005 as compared to $5.8 million for the nine months ended September 30, 2004, representing 21% of total product revenues during each such period. Cost of products as a percentage of total product revenues remained at consistent levels from period-to-period.

Cost of Human Tissue Preservation Services

Cost of human tissue preservation services was $6.0 million for the three months ended September 30, 2005 as compared to $7.1 million for the three months ended September 30, 2004, representing 82% and 102%, respectively, of total tissue preservation service revenues during such periods. Cost of human tissue preservation services for the three months ended September 30, 2005 and 2004 includes the write-down of $626,000 and $1.2 million, respectively, of certain deferred preservation costs that exceeded market value.

Cost of human tissue preservation services was $18.0 million for the nine months ended September 30, 2005 as compared to $23.8 million for the nine months ended September 30, 2004, representing 81% and 124%, respectively, of total tissue preservation service revenues during such periods. Cost of human tissue preservation services for the nine months ended September 30, 2005 and 2004 includes the write-down of $1.3 million and $6.0 million, respectively, of certain deferred preservation costs that exceeded market value. The nine months ended September 30, 2004 also included $353,000 in costs related to the write-down of SynerGraft processed tissues. See "Critical Accounting Policies—Deferred Preservation Costs" above.

The write-down of deferred tissue preservation costs in both the three and nine months ended September 30, 2005 and 2004 is primarily due to higher

overhead cost allocations per unit associated with lower tissue processing volumes and changes in processing methods subsequent to the FDA Order, resulting in costs which exceed market value for certain tissues. The decrease in cost of human tissue preservation services and the decrease in cost of human tissue preservation services as a percentage of tissue preservation service revenues is primarily due to improvements in the Company's tissue processing yields. Cost of human tissue preservation services as a percentage of tissue preservation service revenues was favorably affected by shipments of tissue with a zero cost basis for which revenues were recognized but costs, estimated to be $189,000 and $719,000 for the three and nine months ended September 30, 2004, had already been recorded in previous periods primarily related to write-downs of deferred preservation costs in 2002. The write-downs of deferred preservation costs during 2002 created a new cost basis, which cannot be written back up when these tissues are shipped or become available for shipment.

The Company anticipates that cost of human tissue preservation services as a percentage of tissue preservation service revenues will benefit in the remainder of 2005 as compared to 2004 from any increases in the amount of tissues processed, or any increases in yields of implantable tissue per donor, as well as increases in average service fees due to fee increases implemented in July 2004 and January 2005. The cost of human tissue preservation services as a percentage of revenue will likely continue to be high compared to pre-FDA Order levels as a result of lower tissue processing volumes and changes in processing methods, which have increased the cost of processing human tissue.

General, Administrative, and Marketing Expenses

General, administrative, and marketing expenses decreased 9% to $11.1 million for the three months ended September 30, 2005, compared to $12.1 million for the three months ended September 30, 2004, representing 67% and 75%, respectively, of total revenues during such periods. General, administrative, and marketing expenses for the three months ended September 30, 2005 includes an accrual of approximately $701,000 in post employment benefits related to the signing of a compensation agreement by one of the Company's senior executives and approximately $741,000 in additional legal expenses and settlement accruals. General, administrative, and marketing expenses for the three months ended September 30, 2004 includes an accrual of approximately $2.4 million in additional legal expenses and settlement accruals. Excluding these items, general, administrative, and marketing expenses are comparable from year-to-year.

General, administrative, and marketing expenses increased 34% to $42.7 million for the nine months ended September 30, 2005, compared to $32.0 million for the nine months ended September 30, 2004, representing 83% and 69%, respectively, of total revenues during such periods. General, administrative, and marketing expenses for the nine months ended September 30, 2005 includes an accrual of $11.8 million in expense related to the settlement of the shareholder class action lawsuit as discussed in Part I, Item 1, "Note 13 of the Notes to Summary Consolidated Financial Statements," approximately $701,000 in post employment benefits related to the signing of a compensation agreement by one of the Company's senior executives, and approximately $403,000 in additional legal expenses and settlement accruals. General, administrative, and marketing expenses for the nine months ended September 30, 2004 includes an accrual of approximately $1.6 million in additional legal expenses and settlement accruals. Excluding these items, general, administrative, and marketing expenses are comparable from year-to-year.

Research and Development Expenses

Research and development expenses were $894,000 for the three months ended September 30, 2005, compared to $904,000 for the three months ended September 30, 2004, representing 5% and 6%, respectively, of total revenues during such periods. Research and development expenses were $2.7 million for both the nine months ended September 30, 2005 and 2004, representing 5% and 6%, respectively, of total revenues during such periods. Research and development spending in 2005 and 2004 was primarily focused on the Company's tissue preservation, SynerGraft, and Protein Hydrogel Technologies ("PHT"), which include BioGlue and related products.

The 2005 Defense Appropriations Conference Report included $926,000 for the development of BioFoam. In February 2005 CryoLife submitted a proposal to the Department of Defense for the use of these funds. These funds were released for the Company's use in the latter part of the third quarter, and the Company received its first advance under the grant by September 30, 2005. As a result, the Company expects to begin incurring expenses related to this grant in the fourth quarter of 2005.

Other Costs and Expenses

Interest expense increased to $77,000 for the three months ended September 30, 2005, compared to $54,000 for the three months ended September 30, 2004. Interest expense increased to $220,000 for the nine months ended September 30, 2005, compared to $156,000 for the nine months ended September 30, 2004. Interest expense for the three and nine months ended September 30, 2005 included interest incurred related to the Credit Agreement, short term notes payable, and capital leases. Interest expense for the three and nine months ended September 30, 2004 included interest incurred related to the Company's short term notes payable and capital leases.

The Company expects that interest expense will increase for the remainder of 2005 when compared to the prior quarters of 2005 and compared to the prior year due to the Company's borrowings under the Credit Agreement.

Interest income increased to $166,000 for the three months ended September 30, 2005, compared to $71,000 for the three months ended September 30, 2004. Interest income increased to $408,000 for the nine months ended September 30, 2005, compared to $201,000 for the nine months ended September 30, 2004. Interest income in both periods was primarily due to interest earned on the Company's cash, cash equivalents, and marketable securities.

The change in valuation of the derivative was income of $412,000 for the three months ended September 30, 2005 and expense of $372,000 for the nine months ended September 30, 2005. The change in valuation of derivative in the three and nine months ended September 30, 2005 reflects the amount of the Dividend Make-Whole Payment on preferred shares converted during the period and the amount of the change in valuation of the derivative. The change in valuation of the derivative was zero for the three and nine months ended September 30, 2004, as the Derivative was first established in March 2005.

The Company's income tax expense of $106,000 and $190,000 for the three and nine months ended September 30, 2005 is primarily related to foreign taxes on income of the Company's wholly owned European subsidiary and due to adjustments of the Company's net operating loss carryforwards. The Company's income tax benefit of $1.4 million for the nine months ended September 30, 2004 was due to the receipt of tax refunds related to product liability expenses incurred in 2003.

Seasonality

The demand for BioGlue appears to be somewhat seasonal, with a flattening or slight decline in demand generally occurring in the third quarter followed by

stronger demand in the fourth quarter. Management believes that this trend for BioGlue may be due to fewer surgeries being performed on adult patients in the summer months. The Company will continue to evaluate the seasonal nature of BioGlue sales.

The demand for the Company's cardiovascular tissue preservation services is seasonal, with peak demand generally occurring in the second and third quarters. Management believes this trend for cardiovascular tissue preservation services is primarily due to the high number of surgeries scheduled during the summer months for school aged patients, who drive the demand for a large percentage of CryoLife's cardiovascular tissues. In recent periods this trend has been partially obscured by the low supply of tissues available for shipment resulting from the FDA Order and related events.

The demand for the Company's vascular and orthopaedic tissue preservation services and bioprosthetic cardiovascular and vascular devices does not appear to experience seasonal trends.

Liquidity and Capital Resources

Net Working Capital

At September 30, 2005 net working capital (current assets of $59.9 million less current liabilities of $38.1 million) was $21.8 million, with a current ratio (current assets divided by current liabilities) of 2 to 1, compared to net working capital of $19.7 million, with a current ratio of 2 to 1 at December 31, 2004. The Company's primary capital requirements historically arose out of general working capital needs, capital expenditures for facilities and equipment, and funding of research and development projects, and the Company funded those requirements through cash generated by operations, equity offerings, and bank credit facilities.

In recent years the Company's primary requirements for capital have arisen out of working capital needs created by increasing costs of operations and settlements of litigation combined with losses incurred in the Company's tissue preservation services business. Operating results have also been negatively impacted by increases in general, administrative, and marketing costs over pre-FDA Order levels, as a result of legal and professional fees and litigation costs. For the nine months ended September 30, 2005 the Company funded these requirements primarily through existing cash, cash equivalents, and marketable securities, through the proceeds from its equity financing, and by drawing down on its Credit Agreement as discussed below.

Overall Liquidity and Capital Resources

The Company expects that the following factors will continue to have an adverse impact on cash flows during the remainder of 2005:

- The anticipated lower preservation service revenues as compared to preservation service revenues prior to the FDA Order, subsequent FDA activities, and related events (discussed in "FDA Order on Human Tissue Preservation" and "Other FDA Correspondence and Notices" above),
- The high cost of human tissue preservation services as a percentage of revenue, as compared to the period prior to the FDA Order, as a result of lower tissue processing volumes and changes in processing methods, which have increased the cost of processing human tissue and have decreased yields of implantable tissue per donor,
- An expected use of cash related to the defense and resolution of lawsuits and claims, and
- The legal and professional costs related to ongoing FDA compliance.

The Company believes the following factors should have a favorable impact on cash flows from operations during the remainder of 2005, although there can be no assurance that the Company's efforts will be successful:

- Expected increases in the service fees for cardiovascular and vascular tissues due to fee increases implemented in July 2004 and January 2005, to reflect the higher cost of processing these tissues,
- Improvements in yields of implantable tissues per donor over the levels experienced in 2003 and 2004 through process changes and process directives,
- Expected increases in procurement of human tissues for processing during the remainder of 2005 as compared to the previous quarters of 2005, and
- Anticipated decreases in cash payments related to insurance premiums.

The Company believes that its existing cash, cash equivalents, marketable securities, and available borrowings under its Credit Agreement, will enable the Company to meet its liquidity needs through at least September 30, 2006.

The Company's long term liquidity and capital requirements will depend upon numerous factors, including:

- The success of BioGlue and other products using related technology,
- The Company's ability to increase the level of tissue procurement and demand for its tissue preservation services,
- The Company's ability to reestablish sufficient margins on its tissue preservation services in the face of increased processing costs by improving yields and increasing prices,

- The Company's spending levels on its research and development activities, including research studies, to develop and support its product and service pipeline,
- The resolution of the remaining outstanding product liability lawsuits and other claims (see Part I, Item 1, "Note 13 of the Notes to Summary Consolidated Financial Statements"), and
- To a lesser degree, the Company's success at resolving the issues with the FDA regarding processing of human tissue using the SynerGraft technology.

If the Company is unable to address these issues and continues to experience negative operating cash flows, the Company anticipates that it may require additional financing or seek to raise additional funds through bank facilities, debt or equity offerings, or other sources of capital to meet liquidity and capital requirements beyond September 30, 2006. Additional funds may not be available when needed or on terms acceptable to the Company, which could have a material adverse effect on the Company's business, financial condition, results of operations, and cash flows.

Product Liability Claims

As discussed in Part I, Item 1, "Note 13 of the Notes to Summary Consolidated Financial Statements", as of September 30, 2005 the Company had accrued a total of $1.1 million for settled but unpaid claims and pending product liability claims and recorded a receivable of zero representing amounts to be paid by the Company's insurance carriers. The $1.1 million accrual is an estimate of the Company's portion of the costs required to resolve outstanding claims, and does not reflect actual settlement arrangements or actual judgments for all open claims, including punitive damages, which may be assessed by the courts. The $1.1 million accrual is not a cash reserve. The timing and amount of actual future payments is dependent on when and if judgments are rendered, and/or settlements are reached. Should payments related to the accrual be required, the Company's portion of these monies would have to be paid from liquid assets. The Company continues to attempt to reach resolution of these outstanding claims in order to minimize the potential cash payout.

If the Company is unable to settle the outstanding claims for amounts within its ability to pay or one or more of the product liability lawsuits in which the Company is a defendant should be tried with a substantial verdict rendered in favor of the plaintiff(s), such verdict(s) could exceed the Company's liquid assets. There is a possibility that significant punitive damages could be assessed in one or more lawsuits which would have to be paid out of the liquid assets of the Company, if available.

As discussed in Part I, Item 1, "Note 13 of the Notes to Summary Consolidated Financial Statements", at September 30, 2005 the Company had accrued a total $8.4 million for the estimated costs of unreported product liability claims related to services performed and products sold prior to September 30, 2005 and had recorded a receivable of $2.6 million representing amounts to be paid by the Company's insurance carriers. The $8.4 million accrual does not represent cash set aside. The timing of future payments related to the accrual is dependent on when and if claims are asserted, judgments are rendered, and/or settlements are reached. Should payments related to the accrual be required, these monies would have to be paid from insurance proceeds and liquid assets. Since the amount accrued is based on actuarial estimates, actual amounts required could vary significantly from this estimate.

Class Action Lawsuit

As discussed in Part I, Item 1, "Note 13 of the Notes to Summary Consolidated Financial Statements", the Company has agreed in principle to settle the class action lawsuit. The terms of the settlement, which must be approved by the court following notice to the class, include a total settlement of $23.25 million, of which $19.5 million is to be paid in cash and $3.75 million in CryoLife common stock. The cash payment, which included approximately $12.0 million in insurance proceeds and approximately $7.5 million in Company funds, has been placed into an escrow account, in the fourth and third quarter, respectively, pending court approval and the settlement becoming final. The stock transfer of $3.75 million will likewise be completed if and when the settlement is approved by the court and becomes final. There can be no assurance that court approval will be obtained, and the terms could change. As of September 30, 2005 the Company had accrued $15.9 million for the settlement payment and legal fees incurred but unpaid related to this case and recorded an asset of $12.0 million representing the anticipated recovery of these fees from the Company's insurance carrier which was placed into an escrow account in October 2005. The $15.9 million accrual is included as a component of accrued expenses and other current liabilities and the $12.0 million insurance receivable is included as a component of other receivables on the September 30, 2005 Summary Consolidated Balance Sheet.

The Company and the individual defendants have denied any wrongdoing and liability whatsoever, and the settlement does not contain any admission of liability. While the court previously dismissed a number of plaintiffs' claims in a ruling on the Company's motion for summary judgment, the court also ruled that several claims could proceed to trial. Plaintiffs intended to seek damages at trial in excess of $150 million. Although the Company believes plaintiffs' claims lacked merit, in light of the inherent risks and uncertainties of litigation, the Company determined to resolve the matter short of trial rather than expose the Company and its current shareholders to these costs and the risk of a potentially catastrophic award at trial.

The Company has filed a request for mediation under its insurance policies to assert a claim against two of its insurance carriers. The claim is for recovery of monetary losses of approximately $11.25 million paid by the Company in excess of policy limits to settle the securities class action lawsuit. The claim alleges that the loss resulted from the carriers' bad faith failure to settle. There can be no assurance that the claim will be successful.

Net Cash from Operating Activities

Net cash used in operating activities was $12.5 million for the nine months ended September 30, 2005, as compared to $11.9 million for the nine months ended September 30, 2004. The $12.5 million in cash used in the nine months ended September 30, 2005 was primarily due to the $18.9 million net loss generated by the Company during the period. Included in this net loss is an expense of $11.8 million for the settlement of the Company's class action lawsuit, of which $7.5 million was paid out in cash during the third quarter. The remaining amount accrued for the class action lawsuit was not yet paid out and, therefore, is discussed below as part of the timing difference between accruing a liability and making the cash payment. The Company's net loss is also due to the Company's preservation services business, which has failed to generate margins sufficient to cover its operating expenses since the second half of 2002 as a result of the FDA Order, subsequent FDA activity, and related events, as discussed in "FDA Order on Human Tissue Preservation" and "Other FDA Correspondence and Notices" above.

The Company uses the indirect method to prepare its cash flow statement, and as such the operating cash flows are based on the Company's net loss, which is then adjusted to remove non-cash items included that generated a book gain or loss during the period and for changes in operating assets and liabilities. For the nine months ended September 30, 2005, the Company's $18.9 million net loss included significant recurring non-cash items that generated favorable and

unfavorable adjustments to the net loss. For the nine months ended September 30, 2005 these adjustments included a favorable $3.8 million in depreciation and amortization, a favorable $1.3 million in write-downs for impairment of deferred preservation costs, and a favorable $372,000 in non-cash losses related to the revaluation of the Derivative. The Company's working capital needs, or changes in operating assets and liabilities, also affected cash from operations. For the nine months ended September 30, 2005 these changes included an unfavorable $754,000 due to the timing differences between the recording of receivables and the actual receipt of cash, an unfavorable $5.0 million due to the buildup of deferred preservation costs and inventories for which vendors and employees have already been paid, a favorable $1.5 million due to timing differences between making cash payments and the expensing of assets, and a favorable $4.8 million due to the timing differences between the recording of accounts payable, accrued expenses, and other current liabilities and the actual payment of cash, primarily due to the accrual related to the settlement of the Company's class action lawsuit.

The Company expects that its operations will continue to generate negative cash flows from operating activities during the fourth quarter of 2005. Cash used will primarily be a result of the Company's projected fourth quarter net loss and additional payments related to the settlement of lawsuits.

Net Cash from Investing Activities

Net cash used by investing activities was $3.7 million for the nine months ended September 30, 2005, as compared to cash provided of $745,000 for the nine months ended September 30, 2004. The $3.7 million in current year cash used was primarily due to $21.7 million in purchases of marketable securities, partially offset by $18.8 million in sales and maturities of marketable securities. Investments were purchased using the proceeds of the equity offering discussed below. In addition capital expenditures used $664,000 in cash during the period.

Net Cash from Financing Activities

Net cash provided by financing activities was $20.2 million for the nine months ended September 30, 2005, as compared to $17.0 million for the nine months ended September 30, 2004. The $20.2 million in current year cash provided was primarily due to $19.1 million in net proceeds from the Company's offering of Preferred Stock in March and April of 2005 and a net $3.5 million in proceeds from drawing down on the Company's Credit Agreement, partially offset by $2.2 million in principal payments on capital leases and short-term notes payable used to finance certain of the Company's insurance policies and $533,000 in payments of Preferred Stock dividends.

Scheduled Contractual Obligations and Future Payments

Scheduled contractual obligations and the related future payments are as follows (in thousands):

	Total	Remainder of 2005	2006	2007	2008	2009	Thereafter
Operating leases	$22,052	$ 574	$2,255	$2,220	$2,168	$2,062	$12,773
Shareholder class action settlement	4,210	4,210	--	--	--	--	--
Line of credit	3,500	--	--	--	3,500	--	--
Capital lease obligations	1,346	221	860	265	--	--	--
Insurance premium obligations	934	934	--	--	--	--	--
Purchase commitments	730	703	27	--	--	--	--
Other obligations	1,147	179	396	402	170	--	--
Total contractual obligations	$33,919	$ 6,821	$3,538	$2,887	$5,838	$2,062	$12,773

The Company's operating lease obligations result from the lease of land and buildings that comprise the Company's corporate headquarters and manufacturing facilities, leases related to additional office and warehouse space rented by the Company, leases on Company vehicles, and leases on a variety of office equipment.

The shareholder class action settlement is the net liability that the Company must satisfy in stock and cash related to the settlement agreement for the class action litigation discussed above.

The line of credit obligation results from the Company's borrowing of funds under its Credit Agreement. The timing of the obligation in the above table is based on the February 7, 2008 Credit Agreement expiration date, at which time the outstanding principal balance will be due. Due to the terms of the Credit Agreement, including a subjective acceleration clause and springing lockbox requirement, and due to the net losses and negative cash flows experienced by the Company since the FDA Order, the Company has classified amounts due under the Credit Agreement as short-term debt on the September 30, 2005 Summary Consolidated Balance Sheet in accordance with the provisions of FASB Technical Bulletin No. 79-3 (As Amended).

The Company's capital lease obligations result from the financing of certain of the Company's equipment and leasehold improvements primarily purchased during the renovation of the corporate headquarters and manufacturing facilities in previous years. Additional capital lease obligations result from the lease of a building related to Company's Ideas for Medicine ("IFM") manufacturing business, which the Company sold in 2000. The Company has a sublease agreement with a wholly owned subsidiary of LeMaitre Vascular, Inc., the current parent of IFM, to sublet the building housing the IFM manufacturing facilities, which effectively reduces the Company's future obligations under this capital lease to zero.

The Company's insurance premium obligations are required installment payments related to payment plans and notes payable from the renewal and financing of certain Company insurance policies.

The Company's purchase commitments result from agreements with suppliers to stock certain custom raw materials needed for the Company's processing and production.

The Company's other obligations contain various items including minimum required royalty payments, payments to support research and development activities, litigation settlement obligations, and other items as appropriate.

Capital Expenditures

The Company expects that its capital expenditures for the full year 2005 will be comparable to its expenditures in 2004, which were approximately $1.0 million. Planned expenditures for 2005 are primarily related to routine purchases of tissue processing, manufacturing, computer, and office equipment needed to support the Company's business needs. The Company expects to have the flexibility to increase or decrease the majority of its planned capital expenditures depending on its ability to generate cash flows.

FORWARD-LOOKING STATEMENTS

This Form 10-Q contains forward-looking statements and information made or provided by the Company that are based on the beliefs of its management as well as estimates and assumptions made by and information currently available to management. The words "could," "may," "will," "would," "should," "pro forma," "potential," "pending," "intend," "believe," "expect," "anticipate," "estimate," "plan," "future," and other similar expressions generally identify forward-looking statements, including, in particular, statements regarding anticipated revenues, cost savings, insurance coverage, regulatory activity, available funds and capital resources, and pending litigation. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Investors are cautioned not to place undue reliance on these forward-looking statements, which are as of their respective dates. Such forward-looking statements reflect the views of our management at the time such statements are made and are subject to a number of risks, uncertainties, estimates, and assumptions, including, without limitation, in addition to those identified in the text surrounding such statements, those identified under "Risks and Uncertainties" and elsewhere in this filing.

All statements, other than statements of historical facts, included herein that address activities, events, or developments that the Company expects or anticipates will or may occur in the future, are forward-looking statements, including statements regarding:

- The impact of recent accounting pronouncements,
- The impact of adoption of SFAS 123 Revised "Share-Based Payment,"
- Adequacy of product liability insurance to defend against lawsuits,
- The outcome of lawsuits filed against the Company,
- The impact of the FDA Order, subsequent FDA activity, and measures taken by the Company as a result, on anticipated future revenues, profits, and business operations,
- The effect of the FDA Order and subsequent FDA activity on sales of BioGlue,
- Future tissue procurement levels,
- Expected future impact of BioGlue on revenues and gross margins,
- The impact of the FDA's Form 483 Notice of Observation,
- The estimates of the amounts accrued for the retention levels under the Company's product liability and directors' and officers' insurance policies, as well as the estimates of the amounts accrued for product liability claims incurred but not reported,
- Future costs of human tissue preservation services,
- Changes in liquidity and capital resources,
- Statements regarding the expected 2005 performance of the Company relative to that of 2004,
- The Company's expectations regarding the adequacy of current financing arrangements,
- Product demand and market growth,
- The impact on net loss of future fluctuations in the value of the Dividend Make-Whole Payment feature of ;the Company's 6% convertible preferred stock, and
- Other statements regarding future plans and strategies, anticipated events or trends.

These statements are based on certain assumptions and analyses made by the Company in light of its experience and its perception of historical trends, current conditions, and expected future developments as well as other factors it believes are appropriate in the circumstances. However, whether actual results and developments will conform with the Company's expectations and predictions is subject to a number of risks and uncertainties which could cause actual results to differ materially from the Company's expectations, including without limitation, in addition to those specified in the text surrounding such statements, the risk factors set forth below, the risks set forth under "Risk Factors" in Part I, Item 1 of the Company's Form 10-K for the year ended December 31, 2004 and other factors, many of which are beyond the control of the Company. Consequently, all of the forward-looking statements made in this Form 10-Q are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences to or effects on the Company or its business or operations. The Company assumes no obligation to update publicly any such forward-looking statements, whether as a result of new information, future events, or otherwise.

RISKS AND UNCERTAINTIES

The risks and uncertainties which might impact the forward-looking statements and the Company, and its ability to continue as a going concern, include concerns that:

- The August 2002 FDA Order on human tissue and subsequent FDA activity continue to adversely impact CryoLife's business, including reducing demand for its services and increasing processing costs,
- The FDA Order and subsequent activity have had and continue to have an adverse impact on liquidity and capital resources,
- The Company may be unable to reduce costs of processing tissues, to obtain increased yields of implantable tissue, and to increase fees for tissue preservation services,
- Revenue from orthopaedic tissue preservation services is minimal and may not return to levels prior to the FDA recall,
- Physicians may be reluctant to implant CryoLife's preserved tissues,

- Products and services not included in the FDA recall may come under increased scrutiny,
- Demand for heart valves processed by CryoLife has decreased and may continue to decrease,
- Adverse publicity may reduce demand for products and services not affected by the FDA recall,
- The Company may be unable to address the concerns raised by the FDA in its Form 483 Notice of Observations,
- Depending on the nature and extent of any observations provided or other actions taken by the FDA, as a result of the inspection it began on July 11, 2005, the Company may incur significant additional expenses to address those observations or other actions,
- The FDA may provide observations, including by means of a new Form 483 Notice of Observations, or take other actions, as a result of the inspection it began on July 11, 2005, and the Company may be unable to address the FDA's concerns in a timely or cost-effective manner, if at all,
- The FDA has notified CryoLife of its belief that marketing of CryoValve SG and CryoVein SG require additional regulatory submissions and/or approvals,
- Regulatory action outside of the United States may also affect CryoLife's business,
- CryoLife is the subject of an ongoing SEC investigation,
- CryoLife's insurance coverage may be insufficient,
- Insurance coverage may be difficult or impossible to obtain in the future and if obtained, the cost of insurance coverage is likely to be much more expensive than in the past,
- Intense competition may affect CryoLife's ability to recover from the FDA Order,
- CryoLife may not be successful in obtaining necessary clinical results and regulatory approvals for products and services in development, and such products and services may not achieve market acceptance,
- Investments in new technologies or distribution rights may not be successful,
- CryoLife is dependent on its key personnel,
- Extensive government regulation may adversely affect the ability to develop and sell products and services,
- Uncertainties related to patents and protection of proprietary technology may adversely affect the value of intellectual property,
- Uncertainties regarding future health care reimbursement may affect the amount and timing of revenues,
- Rapid technological change could cause the Company's services and products to become obsolete,
- Sales prices for CryoLife shares on the New York Stock Exchange have been, and may continue to be, volatile,
- Future fluctuations in the value of the Dividend Make-Whole Payment feature of the Company's 6% convertible preferred stock may have a material impact on the Company's results of operations,
- Dividends on the Company's common stock are not likely to be paid in the foreseeable future,
- The Company may not be able to borrow against its Credit Agreement, and
- CryoLife may be unable to raise funds if they are needed to continue operations after September 30, 2006.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk

The Company's interest income and expense are sensitive to changes in the general level of United States interest rates. In this regard, changes in United States interest rates affect the interest earned on the Company's cash and cash equivalents of $8.6 million and the interest incurred on the line of credit balance of $3.5 million as of September 30, 2005. The Company's short-term investments in marketable securities of $6.9 million as of September 30, 2005 can also be affected by changing interest rates to the extent that these items contain variable interest rates or are subject to maturity or sale during a period of changing interest rates. A 10% adverse change in interest rates affecting the Company's cash equivalents and short-term investments or borrowings under the Company's Credit Agreement would not have a material impact on the Company's financial position, results of operations, or cash flows.

Derivative Valuation Risk

The terms of the Company's March 18, 2005 6% convertible preferred stock offering include a Dividend Make-Whole Payment feature. This feature is considered an embedded derivative instrument, and the Company determined the fair value of this derivative to be $1.0 million on March 18, 2005, the date of issuance. Due to voluntary conversions and the quarterly revaluation of the derivative liability, the Company recorded other income of $412,000 for the three months ended September 30, 2005 and other expense of $372,000 for the nine months ended September 30, 2005. At September 30, 2005 the derivative liability was valued at $626,000. The fair value of this derivative is based on various factors, including the market price of the Company's common stock and discount rates used in determination of fair value. Changes in these factors could cause the fair value of this derivative to fluctuate significantly from period to period. These resulting changes in valuation may have a significant impact on the Company's results of operations.

Item 4. Controls and Procedures.

The Company's management, including the Company's President and Chief Executive Officer ("CEO") and the Company's Executive Vice President, Chief Operating Officer, and Chief Financial Officer ("CFO"), does not expect that its Disclosure Controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdown can occur because of simple error or mistake.

Based upon the Company's most recent Disclosure Controls evaluation as of September 30, 2005, the CEO and CFO have concluded that the Company's Disclosure Controls were effective at the reasonable assurance level to satisfy their objectives and to ensure that the information required to be disclosed by the Company in its periodic reports is accumulated and communicated to management, including the CEO and CFO, as appropriate, to allow timely decisions regarding disclosure and is recorded, processed, summarized, and reported within the time periods specified in the United States Securities and Exchange Commission's rules and forms.

During the quarter ended September 30, 2005 there were no changes in the Company's internal control over financial reporting that materially affected or that are reasonably likely to materially affect the Company's internal control over financial reporting.

Part II — OTHER INFORMATION

Item 1. Legal Proceedings.

See "Note 13 of Notes to Summary Consolidated Financial Statements" at Part I, Item 1 "Financial Statements", which is incorporated herein by reference.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

(c) The following table provides information about purchases by the Company during the quarter ended September 30, 2005 of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act:

Issuer Purchases of Equity Securities

Common Stock

Period	Total Number of Common Shares Purchased	Average Price Paid per Common Share	Total Number of Common Shares Purchased as Part of Publicly Announced Programs	Maximum Number of Common Shares That May Yet Be Purchased Under the Programs
07/01/05 - 07/31/05	220	$ 7.99	--	--
08/01/05 - 08/31/05	--	--	--	--
09/01/05 - 09/30/05	1,222	7.91	--	--
Total	1,442	$ 7.92	--	--

The Company currently has no stock repurchase program, publicly announced or otherwise. The common shares shown were tendered to the Company in payment of the exercise price of outstanding options.

6% Convertible Preferred Stock

The Company did not repurchase any shares of its 6% convertible preferred stock in the quarter ended September 30, 2005.

Item 3. Defaults Upon Senior Securities.
None

Item 4. Submission of Matters to a Vote of Security Holders. None.

Item 5. Other information.

Note: The following items represent events or transactions that occurred within four business days prior to the filing of this Quarterly Report on Form 10-Q. The Company is reporting them herein in lieu of filing a separate Current Report on Form 8-K to report each item

Amendments to Bylaws

On November 1, 2005, as part of its implementation of the previously announced settlement of the derivative lawsuit, the Company's Board of Directors deleted Sections 1 and 6 of Article IV of the Company's bylaws in their entirety and replaced them with the following provisions, including a new Section 8:

Section 1. Number and Qualification. The officers of the corporation shall be a Chairman of the Board, a Chief Executive Officer, a President, a Chief Operating Officer, a Chief Financial Officer and a Secretary, each of whom shall be elected by the Board of Directors. The Board of Directors may also elect one or more Executive Vice Presidents, Senior Vice Presidents, Vice Presidents, one or more Assistant Secretaries and Assistant Treasurers and such other officers as the Board of Directors shall deem appropriate. Two (2) or more offices may be held by the same person.

Section 6. Executive Compensation. The salaries and other compensation of the officers shall be fixed from time to time by the Board of Directors, and no officer shall be prevented from receiving such salary or compensation by reason of the fact that he is also a Director of the corporation.

Section 8. Limitation on Executive Compensation. The corporation shall not award bonuses to officers, directors and/or other employees to avoid or satisfy margin calls. Severance, separation and/or similar payments made to the Chief Executive Officer, as well as all other officers at the Vice President level or higher, shall be limited to the equivalent of such officer's total salary for the three calendar years immediately preceding the year in which such payment is determined, including bonuses and guaranteed benefits.

Termination of Supplemental Retirement Plan

As disclosed in the Company's 2005 proxy materials, the Company maintained a supplemental life insurance program for certain executive officers of the Company. Under this arrangement, the Company and the executives shared in the premium payments and ownership of insurance policies on the lives of such executives. Upon death of the insured party, policy proceeds equal to the premium contribution were due to the Company with the remaining proceeds due to the designated beneficiaries of the insured party. The Company suspended payment of a portion of the premiums upon effectiveness of Section 402(a) of the Sarbanes-Oxley Act of 2002. Therefore, no premium contributions were made by the Company in 2004 or 2003. The aggregate Company contributions, made over several years to cover premiums for certain Company executives, were $187,600, $56,023, and $9,776, respectively for each of Messrs. Anderson, Heacox, and Fronk as of September 30, 2005.

On November 1, 2005, the Compensation Committee of the Board of Directors determined that the supplemental life insurance program should be terminated and unwound. The three participating executive officers will no longer be required to repay the Company for the aggregate premiums paid by it. Each will receive funds from the insurance carrier and recognize income in the amount of those contributions. This change will result in additional expense of $253,399 to be recognized by the Company in the fourth quarter of 2005.

Employment Agreement with Gerald B. Seery

On November 1, 2005 the Company signed a new employment agreement with Gerald B. Seery, a copy of which is filed with this Report as Exhibit 10.4 and incorporated herein by this reference.

Item 6. Exhibits.

The exhibit index can be found below.

Exhibit Number	Description
3.1	Restated Certificate of Incorporation of the Company, as amended. (Incorporated by reference to Exhibit 3.1 to Form 10-Q for the quarter ended March 31, 2003.)
3.2*	ByLaws of the Company, amendments adopted on November 1, 2005.
3.3	Articles of Amendment to the Articles of Incorporation of the Company. (Incorporated by reference to Exhibit 3.3 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2000.)
4.1	Form of Certificate for the Company's Common Stock. (Incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-1 (No. 33-56388).
10.1	The Stipulation of Settlement of the shareholder derivative action dated August 1, 2005 (incorporated by reference to Exhibit 10.1 to Form 8-K dated August 1, 2005 and filed August 5, 2005).
10.2	Employment Agreement between CryoLife, Inc. and Steven G. Anderson dated as of September 5, 2005 (incorporated by reference to Exhibit 10.1 to Form 8-K dated September 5, 2005 and filed September 9, 2005).
10.3	Employment Agreement between CryoLife, Inc. and D. Ashley Lee dated as of September 5, 2005 (incorporated by reference to Exhibit 10.1 to Form 8-K dated September 5, 2005 and filed September 9, 2005).
10.4*	Employment Agreement between CryoLife, Inc. and Gerald B. Seery dated as of November 1, 2005.
10.5*	The Stipulation of Settlement of the securities class action dated as of August 29, 2005.
10.6	First Amendment to the Credit Agreement signed on September 27, 2005, amends the February 8, 2005 Credit Agreement between Wells Fargo Foothill, Inc., Cryolife, Inc., and its subsidiaries (incorporated by reference to Exhibit 10.2.1 to Form 8-K dated and filed on September 27, 2005).
31.1*	Certification by Steven G. Anderson pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification by D. Ashley Lee pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
32*	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CRYOLIFE, INC.
(Registrant)

/s/ STEVEN G. ANDERSON
STEVEN G. ANDERSON
Chairman, President, and
Chief Executive Officer
(Principal Executive Officer)

/s/ DAVID ASHLEY LEE
DAVID ASHLEY LEE
Executive Vice President,
Chief Operating Officer, and
Chief Financial Officer
(Principal Financial and
Accounting Officer)

November 3, 2005
DATE

EXHIBIT 3.2

BY-LAWS

OF

CRYOLIFE, INC.

ARTICLE I

Offices

The principal Office shall be in the City of Tampa, County of Hillsborough, and State of Florida.

The corporation may also have offices at such other places both within and without the State of Florida as the Board of Directors may from time to time determine or the business of the corporation may require.

ARTICLE II

Stockholders

Section 1. Annual Meeting. The annual meeting of the stockholders shall be held within the seven (7) month period beginning with the first day of the last month of the fiscal year of the corporation for the purpose of electing Directors and for the transaction of such other business as may come before the meeting, the actual day thereof to be set forth in the Notice of Meeting or in the Call and Waiver of Notice of Meeting. If the election of Directors shall not be held at any such annual meeting of the stockholders or at any adjournment thereof, the Board of Directors shall cause the election to be held at a special meeting of the stockholders as soon thereafter as may be convenient.

Section 2. Special Meetings. Special meetings of the stockholders for any purposes, unless otherwise prescribed by law or by the Articles of Incorporation, may be called by the President or Secretary at the request in writing of a majority of the Board of Directors then in office, or at the request in writing of stockholders owning not less than one-tenth (1/10) of the entire capital stock of the corporation issued and outstanding and entitled to vote thereat. Such request shall state the purpose or purposes of the proposed meeting. Business transacted at any special meeting of stockholders shall be limited to the purposes stated in the notice thereof.

REVISED AND ADOPTED 6/18/92 AND 3/18/94 AND 4/29/03 AND 12/4/03 AND 11/2/04 AND 12/8/04 AND 11/1/05

Section 3. Place of Meeting. The Board of Directors may designate any place, whether within or without the State of Florida unless otherwise prescribed by law or by the Articles of Incorporation, as the place of meeting for any annual meeting or for any special meeting of the stockholders. In the absence of any such designation, the meeting shall be held at an office of the company or at any place near an office of the company. A waiver of notice signed by all stockholders entitled to vote at a meeting may designate any place, either within or without the State of Florida unless otherwise prescribed by law or by the Articles of Incorporation, as the place for the holding of such meeting. If no designation is made, or if a special meeting be otherwise called, the place of meeting shall be at any office of the corporation.

Section 4. Notice of Meeting. Written or printed notice stating the place, day and hour of the meeting, and in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be delivered not less than ten (10) nor more than sixty (60) days before the date of the meeting, either

personally or by first-class mail, by or at the direction of the President or the Secretary, or the officer or persons that called the meeting, to each stockholder of record entitled to vote at such meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail, addressed to the stockholder at his address as it appears on the stock transfer books of the corporation, with postage thereon prepaid.

Section 5. Waiver of Notice of Meeting. When stockholders who hold four-fifths (4/5) of the voting stock having the right and entitled to vote at any meeting, shall be present at such meeting, however called or notified, and shall sign a written consent thereto on the record of the meeting, the acts of such meeting shall be as valid as if legally called and notified.

Section 6. Voting Lists. The officer or agent having charge of the stock transfer books for shares of the corporation shall make, at least ten (10) days before each meeting of stockholders, a complete list of the stockholders entitled to vote at such meeting, or any adjournment thereof, arranged in alphabetical order, with the address and the number and class and series of shares held by each, which list, for a period of ten (10) days prior to such meeting, shall be kept on file at the principal office of the corporation and shall be subject to inspection by any stockholder during the whole time of the meeting. The original stock transfer book shall be prima facie evidence as to who are the stockholders entitled to examine such list or transfer books or to vote at any meeting of the stockholders.

Section 7. Quorum. A majority of the outstanding shares of the corporation entitled to vote, represented in person or by proxy, shall constitute a quorum at a meeting of stockholders, unless otherwise provided in the Articles of Incorporation, but in no event shall a quorum consist of less than one-third (1/3) of the shares entitled to vote at the meeting. If less than a majority of the outstanding shares are represented at a meeting, a majority of the shares so represented may adjourn the meeting from time to time without further notice. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally notified. The stockholders present at a duly organized meeting may continue to transact business until adjournment, notwithstanding quorum.

Section 8. Voting of Shares. Each stockholder entitled to vote shall at every meeting of the stockholders be entitled to one vote in person for each share of voting stock held by him. Such right to vote shall be subject to the right of the Board of Directors to close the transfer books or to fix a record date for voting stockholders as hereinafter provided, and if such Directors shall not have exercised such right, no share of stock shall be voted on at any election for Directors which shall have been transferred on the books of the corporation within twenty (20) days next preceding such election. No stockholder shall enter into a voting trust agreement or any other type agreement vesting another person with the authority to exercise the voting power of any or all of his stock.

Section 9. Proxies. At all meetings of stockholders, a stockholder may vote by proxy, executed in writing by the stockholder or by his duly authorized attorney-in-fact; but no proxy shall be valid after eleven (11) months from its date, unless the proxy provides for a longer period. Such proxies shall be filed with the Secretary of the corporation before or at the time of the meeting.

ARTICLE III

Board of Directors

Section 1. General Powers. The business and affairs of the corporation shall be managed by its Board of Directors.

Section 2. Number, Tenure and Qualifications. The number of Directors of the corporation shall be not less than one (1) nor more the fifteen (15), the number of the same shall be fixed by the Board of Directors at any regular or special meeting. Each Director shall hold office until the next annual meeting of stockholders and until his successor has been qualified, unless sooner removed by the stockholders at any general or special meeting. None of the Directors need be residents of the State of Florida.

Section 3. Annual Meeting. After each annual meeting of stockholders, the Board of Directors shall hold its annual meeting at the same place as and immediately following such annual meeting of stockholders for the purpose of the election of officers and the transaction of such other business as may come before the meeting; and, if a majority of the Directors be present at such place and time, no prior notice of such meeting shall be required to be given to the Directors. The place and time of such meeting may also be fixed by written consent of the Directors.

Section 4. Regular Meetings. Regular meetings of the Board of Directors may be held without notice at such time and at such place as shall be determined from time to time by the Board of Directors.

Section 5. Special Meetings. Special meetings of the Board of Directors may be called by the Chairman of the Board, if there be one, or the President or any two (2) Directors. The persons authorized to call special meetings of the Board of Directors may fix the place for holding any special meetings of the Board of Directors called by them.

Section 6. Notice. Notice of any special meeting shall be given at least three (3) days prior thereto by written notice delivered personally or mailed to each Director at his business address, or by telegram. If mailed, such notice shall be deemed to be delivered when deposited in United States mail so addressed, with postage thereon prepaid. If notice be given by telegram, such notice shall be deemed to be delivered when the telegram is delivered to the telegraph company. Any Director may waive notice of such meeting, either before, at or after such meeting. The attendance of a Director at a meeting shall

constitute a waiver of notice of such meeting, except where a director attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened.

Section 7. Quorum. A majority of the Directors shall constitute a quorum, but a smaller number may adjourn from time to time, without further notice, until a quorum is secured.

Section 8. Manner of Acting. The act of the majority of the Directors present at a meeting at which a quorum is present shall be the act of the Board of Directors.

Section 9. Vacancies. Any vacancy occurring in the Board of Directors, including any vacancy created by reason of an increase in the number of directors, may be filled by the affirmative vote of a majority of the remaining Directors though less than a quorum of the Board of Directors. A Director elected to fill a vacancy shall be elected for the unexpired term of his predecessor in office.

Section 10. Compensation. The compensation of non-employee Directors for their services as a Director may be fixed by resolution of the Board of Directors, or by a duly authorized committee of the Board of Directors. Unless otherwise determined by the Board of Directors or such committee, Directors shall be paid their expenses of attendance at each meeting of the Board of Directors or committee thereof. No payment received by a Director for services as a Director shall preclude a Director from serving the corporation in any other capacity.

Section 11. Presumption of Assent. A director of the corporation who is present at a meeting of its Board of Directors at which action on any corporate matter is taken shall be presumed to have assented to the action taken, unless he votes against such action or abstains from voting in respect thereto because of an asserted conflict of interest.

Section 12. Informal Action by Board. Any action required or permitted to be taken by any provisions of law, of the Articles of Incorporation or of these By-Laws at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting if, prior to such action, a written consent thereto is signed by all members of the Board or of such committee, as the case may be, setting forth the actions of the Board or of the committee.

Section 13. Telephonic Meetings. Members of the Board of Directors or an

executive committee shall be deemed present at a meeting of such board or committee if a conference telephone, or similar communications equipment by means of which all persons participating in the meeting can hear each other at the same time, is used.

Section 14. Removal. Any director may be removed, with or without cause, by the stockholders at any general or special meeting of the stockholders whenever, in the judgment of the stockholders, the best interests of the corporation will be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person removed. This by-law shall not be subject to change by the Board of Directors.

ARTICLE IV

Officers

Section 1. Number and Qualification. The officers of the corporation shall be a Chairman of the Board, a Chief Executive Officer, a President, a Chief Operating Officer, a Chief Financial Officer and a Secretary, each of whom shall

be elected by the Board of Directors. The Board of Directors may also elect one or more Executive Vice Presidents, Senior Vice Presidents, Vice Presidents, one or more Assistant Secretaries and Assistant Treasurers and such other officers as the Board of Directors shall deem appropriate. Two (2) or more offices may be held by the same person.

Section 2. Election and Term of Office. The officers of the corporation shall be elected annually by the Board of Directors at its first meeting after each annual meeting of the stockholders. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as may be convenient. Each officer shall hold office until his successor shall have been duly elected and shall have qualified, or until his death, or until he shall resign or shall have been removed in the manner hereinafter provided.

Section 3. Removal. Any officer elected or appointed by the Board of Directors may be removed by the board of Directors whenever in its judgment the best interests of the corporation will be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed.

Section 4. Vacancies. A vacancy in any office because of death, resignation, removal, disqualification or otherwise, may be filled by the Board of Directors for the unexpired portion of the term.

Section 5. Duties of Officers. The Chairman of the Board of the corporation, or the Presiding Director if there shall not be a Chairman of the Board, shall preside at all meetings of the Board of Directors and of the stockholders which he shall attend. The Chairman or the President shall be the chief executive officer of the corporation, as specified by the Board of Directors. Subject to the foregoing, the officers of the corporation shall have such powers and duties as usually pertain to their respective offices and such additional powers and duties specifically conferred by law, by the Articles of Incorporation, by these By-Laws, or as may be assigned to them from time to time by the Board of Directors.

Section 6. Executive Compensation. The salaries and other compensation of the officers shall be fixed from time to time by the Board of Directors, and no officer shall be prevented from receiving such salary or compensation by reason of the fact that he is also a Director of the corporation.

Section 7. Delegation of Duties. In the absence of or disability of any officer of the corporation or for any other reason deemed sufficient by the Board of Directors, the Board may delegate his powers or duties to any other officer or to any other Director for the time being.

Section 8. Limitation on Executive Compensation. The corporation shall not award bonuses to officers, directors and/or other employees to avoid or satisfy margin calls. Severance, separation and/or similar payments made to the Chief Executive Officer, as well as all other officers at the Vice President level or higher, shall be limited to the equivalent of such officer's total salary for the three calendar years immediately preceding the year in which such payment is

determined, including bonuses and guaranteed benefits.

ARTICLE V

Executive and Other Committees

Section 1. Creation of Committees. The Board of Directors may, by resolution passed by a majority of the whole Board, designate an Executive Committee and one or more other committees, each to consist of one (1) or more of the Directors of the corporation.

Section 2. Executive Committees. The Executive committee, if there shall be one, shall consult with and advise the officers of the corporation in the management of its business and shall have and may exercise, to the extent provided in the resolution of the Board of Directors creating such Executive Committee, such powers of the Board of Directors as can be lawfully delegated by the Board.

Section 3. Other Committees. Such other committees shall have such functions and may exercise the powers of the Board of Directors as can be lawfully delegated and to the extent provided in the resolution or resolutions creating such committee or committees.

Section 4. Meetings of Committees. Regular meetings of the Executive Committee and other committees may be held without notice at such time and at such place as shall from time to time be determined by the Executive Committee or such other committees, and special meetings of the Executive Committee or such other committees may be called by any member thereof upon two (2) days notice to each of the other members of such committee, or on such shorter notice as may be agreed to in writing by each of the other members of such committee, given either personally or in the manner provided in Section 6 of Article III of these By-Laws (pertaining to notice for Directors' meetings).

Section 5. Vacancies on Committees. Vacancies on the Executive Committee or on such other committees may be filled by the Board of Directors then in office at any regular or special meeting.

Section 6. Quorum of Committees. At all meetings of the Executive Committee or such other committees, a majority of the committee's members then in office shall constitute a quorum for the transaction of business.

Section 7. Manner of Acting of Committee. The acts of a majority of the members of the Executive Committee, or such other committees, present at any meeting at which there is a quorum, shall be the act of such committee.

Section 8. Minutes of Committees. The Executive Committee, if there shall be one, and such other committees shall keep regular minutes of their proceedings and report the same to the Board of Directors when required.

Section 9. Compensation. Members of the Executive Committee and such other committees may be paid compensation in accordance with the provisions of Section 10 of Article III (pertaining to compensation of Directors).

ARTICLE VI

Indemnification of Director and Officers

If in the judgment of a majority of the entire Board of Directors (excluding from such majority any director under consideration for indemnification), the criteria set forth in Section 607.014(1) or (2) of the Florida General Corporation Act have been met, then the Company shall indemnify any officer or director, or former officer or director, his personal representatives, devisees or heirs, in the manner and to the extent contemplated by Section 607.014.

ARTICLE VII

Certificates of Stock

Section 1. Certificates for Shares. Every holder of stock in the corporation shall be entitled to have a certificate, signed by a President or a Vice President and the Secretary or an Assistant Secretary, exhibiting the holder's name and certifying the number of shares owned by him in the corporation. The certificates shall be numbered and entered in the books of the corporation as they are issued.

Section 2. Transfer of Shares. Transfers of shares of the corporation shall be made upon its books by the holder of the share in person or by his lawfully constituted representative, upon surrender of the certificate of stock for cancellation. The person in whose name shares stand on the books of the corporation shall be deemed by the corporation to be the owner thereof for all purposes and the corporation shall not be bound to recognize any equitable or other claim to or interest in such share on the part of any other person whether or not it shall have express or other notice thereof, save as expressly provided by the laws of the State of Florida.

Section 3. Facsimile Signature. Where a certificate is manually signed on behalf of a transfer agent or a registrar other then the corporation itself or an employee of the corporation, the signature of any such President, Vice President, Secretary or Assistant Secretary may be a facsimile. In case any officer or officers who have signed, or whose facsimile signature or signatures have been used, shall cease to be such officer or officers of the corporation, such certificate or certificates may nevertheless be adopted by the corporation and be issued and delivered as though the person or persons who signed such certificate or certificates or whose facsimile signature or signatures have been used thereon had not ceased to be such officer or officers of the corporation.

Section 4. Lost Certificate. The Board of Directors may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the corporation alleged to have been lost or destroyed, upon the making of an affidavit of that fact by the person claiming their certificate of stock to be lost or destroyed. When authorizing such issue of new certificate or certificates, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost or destroyed certificate or certificates, or his legal representative, to advertise the same in such manner as it shall require and/or to give the corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the corporation with respect to the certificate alleged to have been lost or destroyed.

ARTICLE VIII

Record Date

The Board of Directors is authorized, from time to time, to fix in advance a date, not more than sixty (60) nor less than ten (10) days before the date of any meeting of stockholders, or not more than sixty (60) days prior to the date for the payment of any dividend or the date for the allotment of rights, or the date when any change or conversion or exchange of stock shall go into effect, or a date in connection with the obtaining of the consent of stockholders for any purpose, as a record date for the determination of the stockholders entitled to notice of and to vote at any such meeting and any adjournment thereof, or entitled to receive payment of any such dividend or to any such allotment, or to exercise the rights in respect of any such change, conversion or exchange of stock; or to give such consent, as the case may be; and, in such case, such stockholders and only such stockholders as shall be stockholders of record on the date so fixed shall be entitled to such notice of, and to vote at such meeting and any adjournment thereof, or to receive payment of such dividend, or to receive such allotment of rights, or to exercise such rights or to give such consent, as the case may be, notwithstanding any transfer of any stock on the books of the corporation after any such record date fixed as aforesaid.

ARTICLE IX

Dividends

The Board of Directors may from time to time declare, and the corporation may pay, dividends on its outstanding shares of capital stock in the manner upon the terms and conditions provided by the Articles of Incorporation and by-laws. Dividends may be paid in cash, in property, or in shares of stock, subject to the provisions of the Articles of Incorporation and by-laws.

ARTICLE X

Fiscal Year

The fiscal year of the corporation shall be the twelve (12) month period selected by the Board of Directors as the taxable year of the corporation for federal income tax purposes

ARTICLE XI

Seal

The corporate seal shall bear the name of the corporation, which shall be between two concentric circles, and in the inside of the inner circle shall be the calendar year of incorporation, an impression of said seal appearing in the margin hereof.

ARTICLE XII

Stock in Other Corporations

Shares of stock in other corporations held by this corporation shall be voted by such officer or officers of this corporation as the Board of Directors shall from time to time designate for the purpose or by a proxy thereunto duly authorized by said Board.

ARTICLE XIII

Amendments

These By-Laws may be altered, amended or repealed and new by-laws may be adopted by the Board of Directors; provided that any by-law or amendment thereto as adopted by the Board of Directors may be altered, amended or repealed by vote of the stockholders entitled to vote thereon, or a new by-law in lieu thereof may be adopted by the stockholders. No by-law which has been altered, amended or adopted by such a vote of the stockholders may be altered, amended or repealed by a vote of the Directors until two (2) years shall have expired since such action by vote of such stockholders.

ARTICLE XIV

Reimbursement of Disallowed Expenses

Any payments made to an officer of the corporation such as salary, commission, bonus, interest or rent, or for entertainment expenses incurred by him, which shall be disallowed in whole or in part as a deductible expense by the Internal Revenue Service, shall be reimbursed by such officer to the corporation to the full extent of such disallowance. It shall be the duty of the Directors, as a Board, to enforce payment of each such amount disallowed. Reimbursement of such disallowed amounts may, subject to the determination of the directors, be withheld in proportionate amounts from the future compensation payments of the officer until the amount owed to the corporation has been recovered.

ARTICLE XV

Advance Notice of Shareholder Nominations and Proposals

Section 1 Nominations and Proposal Requirements. Nominations of persons for election to the Board of Directors and proposals of business to be transacted by the shareholders may be made at an annual meeting of shareholders (a) pursuant to the Corporation's notice with respect to such meeting, (b) by or at the direction of the Board of Directors, or (c) by any shareholder of record of the Corporation who (1) was a shareholder of record at the time of the giving of the notice provided for in the following paragraph, (2) is entitled to vote at the meeting and (3) has complied with the notice procedures set forth in this Article.

For nominations or other business to be properly brought before an annual meeting by a shareholder pursuant to clause (c) of the foregoing paragraph, (1) the shareholder must have given timely notice thereof in writing to the Secretary of the Corporation, (2) such business must be a proper matter for shareholder action under the Florida Business Corporation Code, (3) if the shareholder, or the beneficial owner on whose behalf any such proposal or nomination is made, has provided the Corporation with a Solicitation Notice, as that term is defined in this paragraph, such shareholder or beneficial owner must, (i) in the case of a proposal, have delivered a proxy statement and form of proxy to holders of at least the percentage of the Corporation's voting shares required under applicable law to carry any such proposal, or, (ii) in the case of a nomination or nominations, have delivered a proxy statement and form of proxy to holders of a percentage of the Corporation's voting shares reasonably believed by such shareholder or beneficial holder to be sufficient to elect the nominee or nominees proposed to be nominated by such shareholder, and must, in either case, have included in the materials accompanying such notice to the Corporation, the Solicitation Notice and any proxy statement and form of proxy utilized or to be utilized by such person, and (4) if no Solicitation Notice relating thereto has been timely provided pursuant to this Article, the shareholder or beneficial owner proposing such business or nomination must not have solicited, and must represent that he, she or it will not solicit, a number of proxies sufficient to have required the delivery of such a Solicitation Notice under this Article. To be timely, a stockholder's notice and the required accompanying materials shall be delivered to the Secretary at the principal executive offices of the Corporation not less than ninety (90) nor more than one hundred eighty (180) days prior to the first anniversary (the "Anniversary") of the date on which the Corporation first mailed its proxy materials for the preceding year's annual meeting of shareholders; provided, however, that if the date of the annual meeting is advanced more than thirty (30) days prior to or delayed by more than thirty (30) days after the anniversary of the preceding year's annual meeting, notice by the shareholder to be timely must be so delivered not later than the close of business on the later of (i) the 90th day prior to such annual meeting or (ii) the 10th day following the day on which public announcement of the date of such meeting is first made. Such stockholder's notice shall set forth (a) as to each person whom the shareholder proposes to nominate for election or reelection as a director all information relating to such person as would be required to be disclosed in solicitations of proxies for the election of such nominees as directors pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and shall contain such person's written consent to serve as a director if elected; (b) as to any other business that the shareholder proposes to bring before the meeting, a brief description of such business, the reasons for conducting such business at the meeting and any material interest in such business of such shareholder and the beneficial owner, if any, on whose behalf the proposal is made; (c) as to the shareholder giving the notice and the beneficial owner, if any, on whose behalf the nominations or proposal is made (i) the name and address of such shareholder, and of such beneficial owner, as they appear on the Corporation's books, (ii) the class and number of shares of the Corporation that are owned beneficially and of record by such shareholder and such beneficial owner, and (iii) whether such shareholder or beneficial owner has delivered or intends to deliver a proxy statement and form of proxy to holders of, in the case of a proposal, at least the percentage of the Corporation's voting shares required under applicable law to carry the proposal or, in the case of a nomination or nominations, a sufficient number of holders of the Corporation's voting shares to elect such nominee or nominees (the notice described in this sentence, a "Solicitation Notice").

Section 2. Increase in Number of Directors. Notwithstanding anything in the second sentence of the second paragraph of Section 1 of this Article XV to the contrary, in the event that the number of directors to be elected to the Board is increased and there is no public announcement naming all of the nominees for director or specifying the size of the increased Board made by the Corporation at least fifty-five (55) days prior to the Anniversary, a stockholder's notice required by this Article shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the 10th day following the day on which such public announcement is first made by the Corporation.

Section 3. Compliance with Procedures. Only persons nominated in accordance with the procedures set forth in this Article XV shall be eligible to serve as directors and only such business shall be conducted at an annual meeting of shareholders as shall have been brought before the meeting in accordance with the procedures set forth in this Article. The chairman of the meeting shall have the power and the duty to determine whether a nomination or any business proposed to be brought before the meeting has been made in accordance with the procedures set forth in these Bylaws and, if any proposed nomination or business is not in compliance with these Bylaws, to declare that such defective proposed business or nomination shall not be presented for shareholder action at the meeting and shall be disregarded.

Section 4. Nominations at Special Meetings. Nominations of persons for election to the Board of Directors may be made at a special meeting of shareholders at which directors are to be elected pursuant to the Corporation's notice of meeting (a) by or at the direction of the Board or (b) by any shareholder of record of the Corporation who is a shareholder of record at the time of giving of notice provided for in this paragraph, who shall be entitled to vote at the meeting and who complies with the notice procedures set forth in this Article XV. Nominations by shareholders of persons for election to the Board may be made at such a special meeting of shareholders if the stockholder's notice required by the second paragraph of this Article XV shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the later of 90th day prior to such special meeting or the 10th day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board to be elected at such meeting.

Section 5. General. For purposes of this Article, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or a comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

Notwithstanding the foregoing provisions of this Article XV, a shareholder must also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to matters set forth in this Article XV. Nothing in this Article XV shall be deemed to affect any rights of shareholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

EXHIBIT 10.4

EMPLOYMENT AGREEMENT

This Agreement ("the Agreement") dated as of the _____ day of [ ], 2005 (the "Effective Date"), is by and between CryoLife, Inc., a Florida corporation ("CryoLife") and Gerald B. Seery (the "Employee").

WITNESSETH:

WHEREAS, the Board of Directors of CryoLife (the "Board"), has determined that it is in the best interests of CryoLife and its shareholders to enter into this Employment Agreement in order to assure the Employee of CryoLife's commitment and, in so doing, to motivate the Employee to continue in Employee's dedicated service to CryoLife even in circumstances such as a possible future threat or occurrence of a Change of Control (defined below) of CryoLife; and,

WHEREAS, in order to accomplish these objectives, the Board has caused CryoLife to enter into this Agreement.

NOW, THEREFORE, in consideration of the premises, the promises hereinafter set forth and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledges, it is hereby agreed as follows:

1. Employment.

(a) CryoLife hereby employs Employee in the capacity of Senior Vice President of Sales and Marketing and Employee hereby accepts such duties as are customarily performed and exercised by such officer subject to the supervision of the President of CryoLife. The duties of Employee shall include those duties more specifically described on Exhibit A attached hereto together with such additional duties as are assigned by the President of CryoLife.

(b) CryoLife agrees to continue the Employee in its employ, and the Employee hereby agrees to remain in the employ of CryoLife subject to the terms and conditions of this Agreement, for the period commencing on the Effective Date and ending on the second anniversary of such date (the "Employment Period"). Unless either party elects not to extend the term of this Agreement by so notifying the other in writing at least 30 days prior to the first anniversary of the Effective Date, the Employment Period shall automatically extend for an additional one year.

2. Employment Duties.

(a) During the Employment Period, (A) the Employee's position (including status, offices, titles and reporting requirements), authority, duties and responsibilities shall be at least commensurate in all material respects with the most significant of those held, exercised and assigned at any time during the 120-day period immediately preceding the Effective Date and (B) the Employee's services shall be performed at the location where the Employee was employed immediately preceding the Effective Date.

(b) During the Employment Period, and excluding any periods of vacation and sick leave to which the Employee is entitled, the Employee agrees to devote reasonable attention and time to the business and affairs of CryoLife and, to the extent necessary to discharge the responsibilities assigned to the Employee hereunder, to use the Employee's reasonable best efforts to perform faithfully and efficiently such responsibilities.

(c) During the Employment Period, the Employee will not, without the prior written consent of CryoLife, directly or indirectly other than in the performance of the duties hereunder, render services of a business, professional or commercial nature to any other person or firm, whether for compensation or otherwise, except with respect to any noncompetitive family businesses of the Employee for which the rendering of such services will not have an adverse effect upon Employee's performance of his duties and obligations hereunder.

3. Compensation, Benefits and Business Expenses.

(a) For all services which Employee renders to CryoLife or any of its subsidiaries or affiliates during the term hereof, CryoLife agrees to pay the Employee the salary and bonus compensation as set by the Compensation Advisory Committee of the Board of Directors. Employee shall be entitled to participate in all compensation and bonus plans made available to CryoLife's executive employees. Employee's salary at the Effective Date is set forth on Exhibit A.

(b) CryoLife shall pay all reasonable expenses incurred by the Employee directly related to performance of his responsibilities and duties for CryoLife hereunder. Employee shall submit to CryoLife statements that justify in reasonable detail all reasonable expenses so incurred. Subject to such audits as CryoLife may deem necessary, CryoLife shall reimburse Employee the full amount of any such expenses advanced by Employee.

(c) Employee shall be entitled to a vacation each year of his employment with CryoLife, according to the standard vacation policy, as well as insurance and other employment benefits, as more particularly described on Exhibit A. Vacations not taken shall be cumulative and carried over to a subsequent year.

4. Change of Control.

(a) In consideration and recognition of the Employee's continued employment and his contribution to protecting and enhancing shareholder value in any future sale of CryoLife that may occur and to provide incentive to Employee as a senior executive to remain with the Company through any future sale or merger of the Company, CryoLife agrees to pay to Employee a retention payment in addition to other compensation due pursuant to this Agreement equal to one times the aggregate of Employee's annual salary and bonus compensation for the year in which a Change of Control occurs (the "Retention Payment"). The Retention Payment shall be in addition to sums otherwise payable pursuant to Section 3 and shall be earned and become due upon the happening of a Change of Control (as

defined below) provided Employee remains employed by the Company at such time or, if no longer then employed by the Company, Employee's employment was terminated by the Company without Cause within 12 months of the Change of Control. If the Change of Control occurs before the awarding of bonuses in the year in which the Change of Control occurs, the bonus compensation component of the Retention Payment shall be computed based on the prior year's bonus. Bonus compensation shall include cash bonus payments and the present value of non-cash bonuses such as options or restricted stock. The Retention Payment shall be paid within three (3) months after the occurrence of a Change of Control.

(b) For the purposes of this Agreement, the term "Change of Control" shall mean a change in the beneficial ownership of CryoLife's voting stock or a change in the composition of the Board that occurs as follows:

(i) any "person," including a "syndicate" or "group" as those terms are used in Section 13(d)(3) of the Securities Exchange Act of 1934, is or becomes the beneficial owner, directly or indirectly, of securities of CryoLife representing 20% or more of the combined voting power of CryoLife's then outstanding "Voting Securities," which is any security which ordinarily possesses the power to vote in the election of the Board of Directors of a corporation without the happening of any precondition or contingency;

(ii) CryoLife is merged or consolidated with another corporation and immediately after giving effect to the merger or consolidation less than 60% of the outstanding Voting Securities of the surviving or resulting entity are then beneficially owned in the aggregate by (x) the shareholders of CryoLife immediately prior to such merger or consolidation, or (y) if a record date has been set to determine the shareholders of CryoLife entitled to vote on such merger or consolidation, the shareholders of CryoLife as of such record date;

(iii) the following individuals cease for any reason to constitute a majority of the number of directors then serving: individuals who, on the date hereof, constitute the Board and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of CryoLife) whose appointment or election by the Board or nomination for election by CryoLife's stockholders was approved or recommended by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors on the date hereof or whose appointment,

election or nomination for election was previously so approved or recommended; or

(iv) CryoLife transfers substantially all of its assets to another corporation which is a less than 60% owned subsidiary of CryoLife.

5. Termination of Employment.

(a) Disability or Death. If CryoLife determines in good faith that the Disability of the Employee has occurred during the Employment Period (pursuant to the definition of Disability set forth below), it may give to the Employee written notice in accordance with Section 12(b) of this Agreement of its intention to terminate the Employee's employment. In such event, the Employee's employment with CryoLife shall terminate effective on the 30th day after receipt of such notice by the Employee (the "Disability Effective Date"), provided that, within the 30 days after such receipt, the Employee shall not have returned to full-time performance of the Employee's duties. For purposes of this Agreement, "Disability" shall mean the absence of the Employee from the Employee's duties with CryoLife on a full-time basis for 180 consecutive days as a result of incapacity due to mental or physical illness or determination by a physician selected by CryoLife or its insurers and acceptable to the Employee or the Employee's legal representative that the Employee is unable to perform the essential functions of his position as a result of incapacity due to mental or physical illness. The Employee's employment shall terminate automatically upon the Employee's death during the Employment Period.

(b) Cause. CryoLife may terminate the Employee's employment during the Employment Period for Cause. For purposes of this Agreement, "Cause" shall mean:

(i) the willful and continued failure of the Employee to perform substantially the Employee's duties with CryoLife (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to Employee by the Board or the Chief Executive Officer of CryoLife which specifically identifies the manner in which CryoLife believes that the Employee has not substantially performed the Employee's duties, or

(ii) the willful engaging by the Employee in illegal conduct or gross misconduct which is materially and demonstrably injurious to CryoLife.

For purposes of this provision, no act or failure to act, on the part of the Employee, shall be considered "willful" unless it is done, or omitted to be done, by the Employee in bad faith or without reasonable belief that the Employee's action or omission was in the best interests of CryoLife. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board or upon the instructions of the Chief Employee Officer or a senior officer of CryoLife or based upon the advice of counsel for CryoLife shall be conclusively presumed to be done, or omitted to be done, by the Employee in good faith and in the best interests of CryoLife.

(c) Good Reason. The Employee's employment may be terminated by the Employee for Good Reason. For purposes of this Agreement, "Good Reason" shall mean:

(i) the assignment to the Employee of any duties inconsistent in any respect with the Employee's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as contemplated by Section 1(a) of this Agreement, or any other action by CryoLife which results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by CryoLife promptly after receipt of notice thereof given by the Employee;

(ii) any failure by CryoLife to comply with any of the provisions of Section 3(a) or 3(b) of this Agreement, other than an isolated, insubstantial or

inadvertent failure not occurring in bad faith and which is remedied by CryoLife promptly after receipt of notice thereof given by the Employee;

(iii) any threatened termination by CryoLife of the Employee's employment other than for Cause, Death or Disability; or

(iv) any failure by CryoLife to comply with and satisfy Section 11(c) of this Agreement.

For purposes of this Section 5(c), any good faith determination of "Good Reason" made by the Employee shall be conclusive. Anything in this Agreement to the contrary notwithstanding, a termination by the Employee for any reason at least 90 but not more than 120 days following consummation of a Change of Control or during the 30 day period immediately following the first anniversary of a Change of Control shall be deemed to be a termination for Good Reason for all purposes of this Agreement.

(d) Notice of Termination. Any termination by CryoLife for Cause, or by the Employee for Good Reason, shall be communicated by Notice of Termination to the other party hereto given in accordance with Section 12(b) of this Agreement. For purposes of this Agreement, a "Notice of Termination" means a written notice which (i) indicates the specific termination provision in this Agreement relied upon, (ii) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Employee's employment under the provision so indicated and (iii) if the Date of Termination (as defined below) is other than the date of receipt of such notice, specifies the termination date (which date shall be not more than 30 days after the giving of such notice). The failure by the Employee or CryoLife to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Employee or CryoLife, respectively, hereunder or preclude the Employee or CryoLife, respectively, from asserting such fact or circumstance in enforcing the Employee's or CryoLife's rights hereunder.

(e) Date of Termination. "Date of Termination" means (i) if the Employee's employment is terminated by CryoLife for Cause, or by the Employee for Good Reason, the date of receipt of the Notice of Termination, or any later date specified therein, as the case may be, (ii) if the Employee's employment is terminated by CryoLife other than for Cause or Disability, the Date of Termination shall be the date on which the Employee receives the Notice of Termination, and (iii) if the Employee's employment is terminated by reason of death or Disability, the Date of Termination shall be the date of death of the Employee or the Disability Effective Date, as the case may be.

(f) Non-Compete Commitment. During the term of this Agreement and for a period of one year after any termination of this Agreement, the Employee agrees not to accept any position as vice president of sales or marketing or similar position such as national sales or marketing manager to any competitor of CryoLife in the cardiac, vascular or orthopedic tissue processing business or

biological glue business within the United States. Payments of amounts owing under any Severance Payment (defined in Section 6(a)) obligation, shall be conditioned upon Employee's continued compliance with this non-compete commitment.

(g) Agreement Not to Solicit. During the term of this Agreement and for a period of one year after any termination of this Agreement, the Employee agrees he will not, without the prior written consent of the Company, either directly or indirectly, on his own behalf or in the service or on behalf of others, solicit or attempt to solicit, divert or hire away any person employed by the Company.

6. Obligations of CryoLife upon Termination.

(a) Good Reason; Other Than for Cause, Death or Disability. If, during the Employment Period, (i) CryoLife shall terminate the Employee's employment other than for Cause, Death or Disability or (ii) the Employee shall terminate employment for Good Reason, then CryoLife shall pay to Employee as severance compensation an amount equal to one times the aggregate of Employee's annual salary and bonus compensation for the year in which the termination of employment occurs (the "Severance Payment"). Such payment shall be in addition

to sums due to Employee through the Date of Termination and shall be subject to normal withholding requirements of CryoLife. The Severance Payment shall be payable in cash by the Company in 12 equal monthly installments commencing on the date thirty (30) days after Employee's Date of Termination (the "Severance Period"); provided, however, that, to the extent required under Section 409A of the Code to avoid the imposition of additional tax to Employee under that Section, any payment of the Severance Payment shall commence on the six-month anniversary of Employee's separation from service with the Company (or, if earlier, the date of Employee's death) and continue in equal monthly installments over the remainder of the Severance Period; provided further, that, to the extent permitted under Section 409A of the Code without the imposition of additional tax to Employee under that Section, the Severance Payment shall be paid (i) in an immediate lump-sum in the event the Employee's separation from service occurs on or after a Change of Control or (ii) in an immediate lump sum at the time of a Change of Control (less amounts previously paid to Employee) in the event the separation from service occurs within six months prior to a Change of Control. Payment of any Severance Payment will be subject to normal withholding. If the employment termination occurs before the awarding of bonuses in the year in which the employment termination occurs, the bonus compensation component of the Severance Payment shall be computed based on the prior year's bonus. Bonus compensation shall include cash bonus payments and the present value of non-cash bonuses such as options or restricted stock.

(b) Death. If the Employee's employment is terminated by reason of the Employee's death during the Employment Period, this Agreement shall terminate without further obligations to the Employee's legal representatives under this Agreement, other than for payment of obligations accruing through the Date of Termination.

(c) Disability. If the Employee's employment is terminated by reason of the Employee's Disability during the Employment Period, this Agreement shall terminate without further obligations to the Employee, other than for payment obligations accruing through the Date of Termination.

(d) Cause; Other than for Good Reason. If the Employee's employment shall be terminated by CryoLife for Cause or by the Employee without Good Reason during the Employment Period, this Agreement shall terminate without further obligations to the Employee other than the obligation to pay to the Employee his or her salary through the Date of Termination.

7. Non-exclusivity of Rights. Nothing in this Agreement shall prevent or limit the Employee's continuing or future participation in any plan, program, policy or practice provided by CryoLife or any of its affiliated companies and for which the Employee may qualify, nor shall anything herein limit or otherwise affect such rights as the Employee may have under any contract or agreement with CryoLife or any of its affiliated companies. Amounts which are vested benefits or which the Employee is otherwise entitled to receive under any plan, practice or program of or any contract or agreement with CryoLife or any of its affiliated companies at or subsequent to the Date of Termination shall be payable in accordance with such plan, policy, practice or program or contract or agreement except as explicitly modified by this Agreement.

8. Full Settlement. In no event shall the Employee be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Employee under any of the provisions of this Agreement and such amounts shall not be reduced whether or not the Employee obtains other employment. CryoLife agrees to pay as incurred, to the full extent permitted by law, all legal fees and expenses which the Employee may reasonably incur as a result of any contest (regardless of the outcome thereof) by CryoLife, the Employee or others of the validity or enforceability of, or liability under, any provision of this Agreement.

9. Limitation or Expansion of Benefits.

(a) In the event it shall be determined that any benefit, payment or distribution by CryoLife to or for the benefit of the Employee (whether payable or distributable pursuant to the terms of this Agreement or otherwise) would, if paid, be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"; such excise tax, the "Excise Tax"), then CryoLife shall pay to Employee an additional amount of cash (a

"Gross-Up Payment") equal to the amount necessary to cause the amount of the aggregate after-tax compensation and benefits received by the Employee hereunder (after payment of the excise tax under Section 4999 of the Code with respect to any excess parachute payment, and any state and federal income and employment taxes with respect to the Gross-Up Payment) to equal the aggregate after-tax compensation and benefits the Employee would have received if Sections 280G and 4999 of the Code had not been enacted. A nationally recognized public accounting firm selected by CryoLife shall initially determine, at CryoLife's expense, whether an "excess parachute payment" will be made to Employee, and if so, the amount of the Gross-Up Payment. In the event of a subsequent claim by the Internal Revenue Service that, if successful, would result in Employee's liability for an Excise Tax under Section 4999 of the Code in excess of the amount covered by any previous Gross-Up Payment, the Employee shall promptly notify CryoLife in writing of such claim. If CryoLife elects to contest such claim, it shall so notify the Employee and shall bear and pay directly or indirectly all costs and expenses of contesting the claim (including additional interest and penalties incurred in connection with such action), and shall indemnify and hold Employee harmless, on an after-tax basis, for any excise, income, or employment tax, including interest and penalties with respect thereto, imposed as a result of CryoLife's payment of costs of the contest. Employee shall cooperate fully with CryoLife in the defense of any such IRS

claim. If, as a result of CryoLife's action with respect to a claim, Employee receives a refund of any amount paid by CryoLife with respect to such claim, Employee shall promptly pay such refund to CryoLife. In the event the IRS claim is finally determined to result in the imposition of additional excise tax under Section 280G of the Code on Employee, CryoLife shall make an additional Gross-Up Payment with respect to any such additional excise tax.

(b) Anything in this Agreement to the contrary notwithstanding, severance, separation and/or similar payments made to the Employee shall be limited to the equivalent of three years salary, including bonuses and guaranteed benefits. If necessary, any Gross-Up Payment will be reduced in order to comply with this provision.

10. Confidential Information. The Employee and CryoLife are parties to one or more separate agreements respecting confidential information, trade secrets, inventions and non-competition (collectively, the "IP Agreements"). The parties agree that the IP Agreements shall not be superceded or terminated by this Agreement and shall survive any termination of this Agreement, except to the extent, if any, those IP Agreements conflict with Section 5(f). In the event of any such conflict, the provisions of this Agreement shall prevail.

11. Successors.

(a) This Agreement is personal to the Employee and without the prior written consent of CryoLife shall not be assignable by the Employee otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Employee's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon CryoLife and its successors and assigns.

(c) CryoLife will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of CryoLife to assume expressly and agree to perform this Agreement in the same manner and to the same extent that CryoLife would be required to perform it if no such succession had taken place. As used in this Agreement, "CryoLife" shall mean CryoLife as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise.

12. Miscellaneous.

(a) This Agreement shall be governed by and construed in accordance with the laws of the State of Georgia, without reference to principles of conflict of

laws. The captions of this Agreement are not part of the provisions hereof and shall have no force and effect. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(b) All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Employee:

Gerald B. Seery
[ ]

If to CryoLife:

CryoLife, Inc.
1655 Roberts Boulevard, N.W,
Kennesaw, Georgia 30144
Attention: President

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

(c) The invalidity or unenforceability or any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(d) CryoLife may withhold from any amounts payable under this Agreement such Federal, state, local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(e) Except as provided in Section 10, from and after the Effective Date, this Agreement shall supersede any other agreement between the parties with respect to the subject matter hereof.

(f) The provisions of this Agreement are intended to satisfy the applicable requirements of Section 409A of the Code and shall be performed and interpreted consistent with such intent. If any provision of this Agreement does not satisfy such requirements or could otherwise cause Employee to be subject to the interest and penalties under Section 409A of the Code, Employee and the Company agree to negotiate in good faith on appropriate modification to maintain, to the maximum extent practicable, the original intent of the applicable provision without violating the requirements of Section 409A of the Code (or causing the imposition of additional tax to Employee under Section 409A of the Code).

IN WITNESS WHEREOF, the Employee has hereunder set the Employee's hand and, pursuant to the authorization from its Board, CryoLife has caused these presents to be executed in its name on its behalf, all as of the day and year first above written.

CRYOLIFE, INC.

By:

Steven G. Anderson
Chairman, President and CEO

Gerald B. Seery

Exhibit A

Duties and Responsibilities of Gerald B. Seery:

All duties of Senior Vice President of Sales and Marketing and duties not inconsistent with such duties that are assigned by the President.

Compensation:

Salary of $250,000 plus for Company Q4 Mr. Seery will receive 2.25% of the net increase in Company Q4, 2005 revenues over Company Q4, 2004 revenues. Mr. Seery will also be eligible for bonuses as set by the Compensation Advisory Committee. Salary & Bonus subject are subject to yearly review by the Compensation Advisory Committee of the Board of Directors.

Vacation and Employee Benefits:

See attached Company vacation plan, standard Company medical plan and contributory 401K plan.

Company Business:

The development, marketing, sale and distribution of tissue preservation services and biomedical and medical products including cardiac, vascular or orthopedic tissue processing business and biological glues.

EXHIBIT 10.5

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF GEORGIA
ATLANTA DIVISION

IN RE CRYOLIFE, INC. SECURITIES LITIGATION	:	CIVIL ACTION NO. 1:02-CV-1868 BBM

STIPULATION OF SETTLEMENT

This Stipulation of Settlement dated as of August 29, 2005 (the "Stipulation"), is made and entered into by and among the following Settling Parties: (i) the Lead Plaintiffs (on behalf of themselves and each of the Class Members), by and through their counsel of record in the Litigation; and (ii) the Defendants identified below, by and through their counsel of record in the Litigation. The Stipulation is intended by the Settling Parties to fully, finally and forever resolve, discharge and settle the Released Claims, upon and subject to the terms and conditions hereof and subject to the approval of the United States District Court for the Northern District of Georgia.

I. THE LITIGATION

On or after July 3, 2002, the following actions were filed in the United States District Court for the Northern District of Georgia, Atlanta Division (the "Court"), as class actions on behalf of persons who purchased the common stock of CryoLife, Inc. ("CryoLife" or the "Company"): *Morley v. CryoLife, Inc., et al.*, Civil Action No. 1:02-CV-1868-BBM; *Haghjoo v. CryoLife, Inc., et al.*, Civil Action No. 1:02-CV-1917-TWT; *Kaptur v. CryoLife, Inc., et al.*, Civil Action No. 1:02-CV-1934-BBM; *Narwani v. CryoLife, Inc., et al.*, Civil Action No. 1:02-CV-1946-BBM; *Richard and Sheila Korschein Trust v. CryoLife, Inc., et al.*, Civil Action No. 1:02-CV- 1953-BBM; *Doerter v. CryoLife, Inc., et al.*, Civil Action No. 1:02-CV- 2097-BBM; *Mancuso v. CryoLife, Inc., et al.*, Civil Action No. 1:02-CV- 2125-BBM; *Wurster v. CryoLife, Inc., et al.*, Civil Action No. 1:02-CV- 2126-BBM; *Ridge v. CryoLife, Inc., et al.*, Civil Action No. 1:02-CV-2323; and *Ward v. CryoLife, Inc., et al.*, Civil Action No. 1:02-CV-2342-BBM. By order of the Court, these ten actions were consolidated and styled *In re CryoLife, Inc. Sec. Litig.*, Civil Action No. 1:02-CV-1868-BBM (the "Litigation"). On November 14, 2002 Plaintiffs Peter and Alison Hilbig, Richard Lippe and Stanley R. Levine (the "Lead Plaintiffs") were appointed Lead Plaintiffs and their choice of counsel was approved by the Court.

The operative Complaint in the Litigation is the Consolidated and Amended Class Action Complaint for Violation of Federal Securities Laws, filed on January 15, 2003 (the "Complaint"). The Complaint alleges claims for violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act") and Securities and Exchange Commission Rule 10b-5 promulgated thereunder against CryoLife, Inc., Steven G. Anderson, Albert E. Heacox, David Ashley Lee, and James C. Vander Wyk.

On February 28, 2003, Defendants moved to dismiss the Complaint. By Order dated May 27, 2003, the Court denied in part and granted in part Defendants' motion to dismiss the Complaint.

On July 24, 2003, Plaintiffs moved for class certification. The Court, by Order dated December 16, 2003 (and as modified by the Court's Order dated March 1, 2004), certified the Litigation to proceed as a class action on behalf of all persons who purchased or otherwise acquired the common stock of CryoLife, Inc. between April 2, 2001 and August 14, 2002, inclusive, and were allegedly damaged thereby. The parties concluded discovery on February 9, 2005 and served motions for summary judgment on March 11, 2005. On June 17, 2005, the Court denied Plaintiffs' motion for partial summary judgment and denied in part and granted in part Defendants' motion for summary judgment.

Excluded from the Class is anyone named as a Defendant in this action; members of the immediate family of any such Defendant; any entity in which any such Defendant or family member has or had a controlling interest; the officers and directors of CryoLife, Inc.; or the legal affiliates, representatives, controlling persons, predecessors in interest, heirs, assigns, or any other successors in interest of any such excluded party.

II. DEFENDANTS' DENIALS OF WRONGDOING AND LIABILITY

Defendants have denied and continue to deny each and all of the claims and contentions alleged by Lead Plaintiffs in the Litigation. Defendants expressly have denied and continue to deny all charges of wrongdoing or liability against them arising out of any of the conduct, statements, acts or omissions alleged, or that could have been alleged, in the Litigation. Defendants also have denied and continue to deny, *inter alia*, the allegations that Lead Plaintiffs or the Class have suffered damage or that Lead Plaintiffs or the Class were harmed by the conduct alleged in the Litigation.

This Stipulation shall in no event be construed or deemed to be evidence of an admission or concession on the part of any Defendant with respect to any claim or of any fault, liability, wrongdoing, or damage whatsoever, or any infirmity in the defenses that Defendants have asserted. Defendants' decision to settle the Litigation was based on the conclusion that further conduct of the Litigation would be protracted and expensive, that it is desirable that the Litigation be fully and finally settled in the manner and upon the terms and conditions set forth in this Stipulation, the uncertainty and risks inherent in any litigation, especially in complex cases like this Litigation, and the determination that it is desirable and beneficial that the Litigation be settled in the manner and upon the terms and conditions set forth in this Stipulation.

III. CLAIMS OF LEAD PLAINTIFFS AND BENEFITS OF SETTLEMENT

Lead Plaintiffs believe that the claims asserted in the Litigation have merit. Plaintiffs' Co-Lead Counsel, however, recognize and acknowledge the expense and length of continued proceedings necessary to prosecute the Litigation against Defendants through trial and appeals. Plaintiffs' Co-Lead Counsel also have taken into account the uncertain outcome and the risk of any litigation, especially in complex actions such as this Litigation, as well as the difficulties and delays inherent in such litigation. Plaintiffs' Co-Lead Counsel also are mindful of the inherent problems of proof under and possible defenses to the violations asserted in the Litigation. Plaintiffs' Co-Lead Counsel believe that the Settlement set forth in this Stipulation confers substantial benefits upon the Class. Based on their evaluation, Plaintiffs' Co-Lead Counsel have determined that the Settlement set forth in the Stipulation is in the best interests of the Lead Plaintiffs and the Class.

IV. TERMS OF STIPULATION AND AGREEMENT OF SETTLEMENT

NOW, THEREFORE, IT IS HEREBY STIPULATED AND AGREED by and among Lead Plaintiffs (for themselves and the Class Members) and Defendants, by and through their respective counsel of record, that, subject to the approval of the Court, the Litigation and the Released Claims shall be finally and fully compromised, settled, and released, and the Litigation shall be dismissed with prejudice, as to all Settling Parties, upon and subject to the terms and conditions of the Stipulation, as follows:

1. Definitions

As used in the Stipulation, the following terms have the meanings specified below:

1.1 "Actions" means the Litigation and *Morley v. CryoLife, Inc., et al.*, Civil Action No. 1:02-CV-1868-BBM; *Haghjoo v. CryoLife, Inc., et al.*, Civil Action No. 1:02-CV-1917-TWT; *Kaptur v. CryoLife, Inc., et al.*, Civil Action No. 1:02-CV-1934-BBM; *Narwani v. CryoLife, Inc., et al.*, Civil Action No. 1:02-CV-1946-BBM; *Richard and Sheila Korschein Trust v. CryoLife, Inc., et al.*, Civil Action No. 1:02-CV-1953-BBM; *Doerter v. CryoLife, Inc., et al.*, Civil Action No. 1:02-CV-2097-BBM; *Mancuso v. CryoLife, Inc., et al.*, Civil Action No. 1:02-CV-2125-BBM; *Wurster v. CryoLife, Inc., et al.*, Civil Action No. 1:02-CV-2126-BBM; *Ridge v. CryoLife, Inc., et al.*, Civil Action No. 1:02-CV-2323; and *Ward v. CryoLife, Inc., et al.*, Civil Action No. 1:02-CV-2342-BBM.

1.2 "Authorized Claimant" means any Class Member whose claim for recovery has been allowed pursuant to the terms of the Stipulation and who submits a timely and valid Proof of Claim form to the Claims Administrator.

1.3 "Claims Administrator" means the firm of Heffler, Radetich & Saitta L.L.P., 1515 Market Street, Suite 1700, Philadelphia, PA 19102.

1.4 "Class" means all Persons and entities who purchased or otherwise acquired the common stock of CryoLife between April 2, 2001 and August 14, 2002, inclusive, and who were damaged thereby. Excluded from the Class is anyone named as a Defendant in this action; members of the immediate family of any such Defendant; any entity in which any such Defendant or family member has or had a controlling interest; the officers and directors of CryoLife, Inc.; or the legal affiliates, representatives, controlling persons, predecessors in interest, heirs, assigns, or any other successors in interest of any such excluded party. Also excluded from the Class are those Persons who timely and validly request exclusion from the Class pursuant to the "Notice of Pendency of Class Action and Proposed Settlement, Motion for Attorneys' Fees and Settlement Fairness Hearing" to be sent to potential Class Members.

1.5 "Class Member" or "Member of the Class" means a Person who falls within the definition of the Class.

1.6 "Class Period" means the period commencing on April 2, 2001 and ending on August 14, 2002, inclusive.

1.7 "CryoLife," or the "Company," means CryoLife, Inc.

1.8 "Defendants" means CryoLife, Steven G. Anderson, Albert E. Heacox, D. Ashley Lee, and James C. Vander Wyk.

1.9 "Effective Date" means the first date by which all of the events and conditions specified in ¶ 7.1 of the Stipulation have been met and have occurred.

1.10 "Escrow Agent" means the law firm of Chitwood Harley Harnes LLP.

1.11 "Individual Defendants" means Steven G. Anderson, Albert E. Heacox, David Ashley Lee, and James C. Vander Wyk.

1.12 "Lead Plaintiffs" means Peter and Alison Hilbig, Richard Lippe, and Stanley R. Levine. By Order dated December 16, 2003, the Lead Plaintiffs were appointed as Class Representatives of the Class.

1.13 "Order and Final Judgment" means the judgment to be rendered by the Court, substantially in the form attached hereto as Exhibit B.

1.14 "Person" means an individual, corporation, limited liability corporation, professional corporation, limited liability partnership, partnership, limited partnership, association, joint stock company, estate, legal representative, trust, unincorporated association, government or any political subdivision or agency thereof, any business or legal entity and all of their respective spouses, heirs, beneficiaries, executors, administrators, predecessors, successors, representatives, or assignees.

1.15 "Plaintiffs" means all of the Plaintiffs that have appeared in the Litigation.

1.16 "Plaintiffs' Co-Lead Counsel" means Chitwood Harley Harnes LLP and Berger & Montague, P.C.

1.17 "Plaintiffs' Counsel" means counsel who have appeared for any of the Plaintiffs in the Litigation.

1.18 "Plan of Allocation" means a plan or formula of allocation of the Settlement Fund whereby the Settlement Fund shall be distributed to Authorized Claimants after payment of expenses of notice and administration of the settlement, Taxes and Tax Expenses and such attorneys' fees, costs, expenses and interest as may be awarded by the Court. Any Plan of Allocation is not part of the Stipulation, and Defendants shall have no responsibility or liability with respect thereto.

1.19 "Released Claims" means any and all claims (including "Unknown Claims" as defined in subsection 1.26 below), debts, demands, rights or causes of action or liabilities whatsoever (including, but not limited to, any claims for damages, interest, attorneys' fees, expert or consulting fees, and any other costs, expenses or liability whatsoever), whether based on federal, state, local, statutory or common law or any other law, rule or regulation, whether fixed or contingent, accrued or unaccrued, liquidated or unliquidated, at law or in equity, matured or unmatured, whether class or individual in nature, including both known claims and unknown claims that relate to the purchase, acquisition, or ownership of the securities of CryoLife during the Class Period and that: (i) have been asserted in the Actions by the Class Members or any of them against any of the Released Parties; or (ii) could have been asserted in any forum by the Class Members or any of them against any of the Released Parties which arise out of, are based upon, or are in any way related to the allegations, transactions, facts, matters or occurrences, representations or omissions involved, set forth, or referred to in the complaints which were filed in each of the Actions or in the Consolidated Amended Complaint.

1.20 "Released Parties" means any and all of the Defendants, their past or present subsidiaries, parents, successors and predecessors, officers, directors, agents, employees, attorneys, advisors, insurers, and investment advisors, auditors, accountants and any person, firm, trust, corporation, officer, director, or other individual or entity in which any Defendant has a controlling interest or which is related to or affiliated with any of the Defendants, and the legal representatives, heirs, successors in interest or assigns of Defendants.

1.21 “Settlement" means the settlement of the Actions as set forth in this Stipulation.

1.22 “Settlement Amount” means the principal amount of twenty three million two hundred fifty thousand dollars ($23,250,000), to be provided in cash and/or stock, as provided herein.

1.23 “Settled Defendants’ Claims” means all claims, demands, losses, rights, and causes of action of any nature whatsoever, that have been or could have been asserted in the Action or any forum by the Released Parties or any of them or the successors and assigns of any of them against any of the Lead Plaintiffs, Class Members, Plaintiffs’ Co-Lead Counsel or Plaintiffs’ Counsel, which arise out of or relate in any way to the institution, prosecution, assertion, settlement, or resolution of the Litigation (except for claims to enforce the Settlement); provided, however, that “Settled Defendants’ Claims” shall not include any rights or claims of Defendants against their insurers, or their insurers’ subsidiaries, predecessors, successors, assigns, affiliates, or representatives, or any rights or claims of their insurers against Defendants, under or related to any policies of insurance.

1.24 “Settlement Fund” shall mean the Settlement Amount, plus any interest that may accrue thereon as provided for herein.

1.25 “Settling Parties” means, collectively, each of the Defendants and the Lead Plaintiffs on behalf of themselves and the Members of the Class.

1.26 “Unknown Claims” means any Released Claim which any Class Member does not know or suspect to exist in such party’s favor at the time of the release of the Released Parties which, if known by such party, might have affected such party’s settlement with and release of the Released Parties, or might have affected such party’s decision not to object to this Settlement. With respect to any and all Released Claims, upon the Effective Date, the Class Members shall expressly, and by operation of the Order and Final Judgment shall have expressly waived, the provisions, rights and benefits of California Civil Code §1542, which provides:

> ***A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor.***

The Class Members by operation of the Order and Final Judgment shall have expressly waived any and all provisions, rights and benefits conferred by any law of any state or territory of the United States, or principle of common law, which is similar, comparable or equivalent to California Civil Code §1542. The Class Members may hereafter discover facts in addition to or different from those which such party now knows or believes to be true with respect to the subject matter of the Released Claims, but the Class Members, upon the Effective Date, by operation of the Order and Final Judgment shall have fully, finally, and forever settled and released any and all Released Claims, known or unknown, suspected or unsuspected, contingent or non-contingent, whether or not concealed or hidden, that now exist, or heretofore have existed, upon any theory of law or equity now existing or coming into existence in the future, including, but not limited to, conduct that is negligent, reckless, intentional, with or without malice, or a breach of any duty, law or rule, without regard to the subsequent discovery or existence of such different or additional facts.

2. The Settlement

a. Payment Terms

2.1 Defendants shall pay or cause to be paid to the Class, in settlement of the claims against them, the sum of $23,250,000 as follows:

(a) Within thirty (30) days of the entry of and order from the Court preliminarily approving the Stipulation, Defendants shall deposit or cause to be deposited $19,500,000 in cash into an escrow account to be established by Plaintiffs’ Co-Lead Counsel.

(b) On or before the Effective Date, CryoLife shall deposit into an escrow account to be established by Plaintiffs’ Co-Lead Counsel the balance of the Settlement Amount of $3,750,000 in cash less the amount, if any, paid in common stock as described in 2(c) below.

(c) Defendants shall have the option of funding the remaining balance of the Settlement Amount ($3,750,000) with CryoLife common stock or cash. Should Defendants fund any portion of the Settlement Amount with shares of CryoLife common stock (the “Settlement Shares”), the number of shares of CryoLife common stock needed to fund that portion of the Settlement Amount shall be determined by the average per share closing price of CryoLife common stock during the ten trading days immediately preceding the Effective Date. The Settlement Shares shall be unrestricted, freely tradeable and either registered, or exempt from registration under the Securities Act pursuant to Section 3(a)(10) of the Securities Act, 15 U.S.C. § 77c(a)(10) in that the Settlement Shares will be issued to or for the benefit of Members of the Class in exchange for their release of claims against the Defendants under the terms of this Stipulation. Pursuant to Section 3(a)(10) the Court’s judgment of the fairness of the Settlement may serve as a substitute for the registration requirements of the Securities Act with regard to any Settlement Shares used to fund the Settlement Amount. At the Settlement Hearing (¶ 7.4) the Court will be asked to find with regard to the Settlement Shares being issued as part of the Settlement Amount that: (1) the terms and conditions of the proposed issuance are fair to all those who will receive securities in the proposed exchange; and (2) the terms and conditions of, and the procedures for, the proposed issuance are fair. In the alternative, CryoLife, in its sole discretion, shall have the right to file a registration statement with the Securities and Exchange Commission covering the issuance of the Settlement Shares.

(d) Defendants shall provide written notice to Plaintiffs’ Co-Lead Counsel whether they intend to exercise their right to fund the Settlement Amount with up to $3,750,000 in CryoLife common stock on or before the Effective Date and fund this portion of the Settlement Amount either in stock or cash on or before the Effective Date. The actual amount of the Settlement Amount funded with Settlement Shares is hereinafter referred to as the “Stock Settlement Amount.” The actual amount of the Settlement Amount funded with cash is hereinafter referred to as the “Cash Settlement Amount.” The Settlement Shares, if any, shall be issued as directed by Plaintiffs’ Co-Lead Counsel in bulk certificates initially in the names of Plaintiffs’ Co-Lead Counsel as nominees for the Class. Should Defendants determine to fund any amount of the $3,750,000 in cash, such cash shall by deposited by Defendants into the escrow account established as provided in Section 2.1(a) herein.

(e) Should Defendants fund the remaining balance of the Settlement ($3,750,000) in whole or in part through the issuance of Settlement Shares, Plaintiffs’ Co-Lead Counsel shall hold the Settlement Shares as fiduciaries for the benefit of the Members of the Class prior to the distribution of such Settlement Shares to the Members of the Class. At anytime after the Effective Date, and prior to the date of distribution of the Settlement Shares to the Members of the Class, Plaintiffs’ Co-Lead Counsel shall have the option, in their sole discretion but consistent with their fiduciary duties to the Class Members, of selling all or any portion of the Settlement Shares for the benefit of the Members of the Class; provided that the proceeds of any such sale shall be placed in the “Gross Settlement Fund” (as hereinafter defined).

(f) Neither the Plaintiffs, the Class Members, nor any of the Released Parties shall have a claim against Plaintiffs’ Co-Lead Counsel or the Lead

Plaintiffs, or any of their agents, based on the disposition of said Settlement Shares or the distributions made in accordance with the Stipulation and Agreement of Settlement.

(g) The Cash Settlement Amount and any interest earned thereon and the Stock Settlement Shares, and any proceeds from the sale of any such shares, shall be the "Gross Settlement Fund."

b. The Escrow Agent

2.2 The Escrow Agent shall invest any funds in excess of $100,000 deposited into the Settlement Fund pursuant to ¶ 2.1 above in short-term United States Agency or Treasury Securities (or a mutual fund invested solely in such instruments) and shall collect and reinvest all interest accrued thereon. Any funds held in escrow in an amount of less than $100,000 may be held in an interest bearing bank account insured by the FDIC.

2.3 The Escrow Agent shall not disburse the Settlement Fund except as provided in the Stipulation, by an order of the Court, or with the prior written agreement among counsel for Defendants, Defendants' insurers, and Plaintiffs' Co-Lead Counsel.

2.4 Subject to further order and/or direction as may be made by the Court, the Escrow Agent is authorized to execute such transactions on behalf of the Class Members as are consistent with the terms of the Stipulation.

2.5 All funds held by the Escrow Agent shall be deemed and considered to be in *custodia legis*, and shall remain subject to the jurisdiction of the Court, until such time as such funds shall be distributed pursuant to the Stipulation and/or further order(s) of the Court.

2.6 Plaintiffs' Co-Lead Counsel may pay from the Cash Settlement Amount, without further approval from Defendants or the Court, the reasonable costs and expenses associated with identifying members of the Class and effecting mail Notice and publication notice to the Class, and the administration of the Settlement, including, without limitation, the actual costs of publication, printing and mailing the Notice, reimbursements to nominee owners for forwarding notice to their beneficial owners, and the administrative expenses incurred and fees charged by the Claims Administrator in connection with providing notice and processing the submitted claims, provided that the foregoing costs and expenses shall not exceed $200,000. To the extent the foregoing costs and expenses do exceed $200,000, Plaintiffs' Co-Lead Counsel shall apply to the Court for an order allowing for reimbursement of the foregoing costs and expenses in excess of $200,000.

c. Taxes

2.7 The Settling Parties and their counsel agree that the Settlement Fund is intended to be a "qualified settlement fund" within the meaning of Treas. Reg. §1.468B-1. The Settling Parties and their counsel agree that the Settlement Fund should be treated as being at all times a "qualified settlement fund" within the meaning of Treas. Reg. §1.468B-1. In addition, the Escrow Agent shall timely make such elections as necessary or advisable to carry out the provisions of this ¶ 2.7, including the "relation-back election" (as defined in Treas. Reg. §1.468B-1) back to the earliest permitted date. Such elections shall be made in compliance with the procedures and requirements contained in such regulations. It shall be the responsibility of the Escrow Agent to timely and properly prepare and deliver the necessary documentation for signature by all necessary parties, and thereafter to cause the appropriate filing to occur.

(a) For the purpose of § 468B of the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder, the "administrator" shall be the Escrow Agent. The Escrow Agent shall timely and properly file all informational and other tax returns necessary or advisable with respect to the Settlement Fund (including, without limitation, the returns described in Treas. Reg. § 1.468B-2(k)). Such returns (as well as the election described in this ¶ 2.7) shall be consistent with this ¶ 2.7 and in all events shall reflect that all Taxes as defined in subsection (b) below (including any estimated Taxes, interest or penalties) on the income earned by the Settlement Fund shall be paid out of the Settlement Fund as provided in ¶ 2.7(b) hereof.

(b) All (i) taxes (including any estimated taxes, interest or penalties) arising with respect to the income earned by the Settlement Fund, including any taxes or tax detriments that may be imposed upon the Defendants or their insurers with respect to any income earned by the Settlement Fund for any period during which the Settlement Fund does not qualify as a "qualified settlement fund" for federal or state income tax purposes ("Taxes"), and (ii) expenses and costs incurred in connection with the operation and implementation of this ¶ 2.7 (including, without limitation, expenses of tax attorneys and/or accountants and mailing and distribution costs and expenses relating to filing (or failing to file) the returns described in this ¶ 2.7) ("Tax Expenses"), shall be paid out of the Settlement Fund; in all events Defendants (including without limitation Defendants' insurers) shall have no liability or responsibility for the Taxes or the Tax Expenses. The Escrow Agent shall indemnify and hold each of the Defendants and their insurers harmless for Taxes and Tax Expenses (including, without limitation, Taxes payable by reason of any such indemnification). Further, Taxes and Tax Expenses shall be treated as, and considered to be, a cost of administration of the Settlement Fund and shall be timely paid by the Escrow Agent out of the Settlement Fund without prior order from the Court, and the Escrow Agent shall be obligated (notwithstanding anything herein to the contrary) to withhold from distribution to Authorized Claimants any funds necessary to pay such amounts, including the establishment of adequate reserves for any Taxes and Tax Expenses (as well as any amounts that may be required to be withheld under Treas. Reg. §1.468B-2(1)(2)); Defendants or their insurers are not responsible nor shall they have any liability therefore. The Settling Parties hereto agree to cooperate with the Escrow Agent, each other, and their tax attorneys and accountants to the extent reasonably necessary to carry out the provisions of this ¶ 2.7.

d. Termination of Settlement

2.8 In the event that the Stipulation is not approved, or is terminated, canceled, or fails to become effective for any reason, including, without limitation, in the event the Order and Final Judgment is reversed or vacated following any appeal taken therefrom, or is successfully collaterally attacked, the Settlement Fund (including accrued interest) less reasonable expenses actually incurred or due and owing from the Settlement Fund for the notice and administration of the Settlement pursuant to ¶ 2.6 above, shall be refunded to CryoLife and its insurers in the amount paid by each of them plus accrued interest attributable to that amount by wire transfer in accordance with the instructions to be provided by counsel for Defendants within five (5) business days of the availability of the monies from the investments authorized herein or as otherwise agreed upon in writing by counsel for Defendants.

3. Notice Order and Settlement Hearing

3.1 Promptly after execution of the Stipulation, the Settling Parties shall submit the Stipulation together with its Exhibits to the Court and Plaintiffs' Co-Lead Counsel shall apply for entry of an order (the "Notice Order"), substantially in the form and content of Exhibit A attached hereto, requesting, *inter alia*, the preliminary approval of the settlement set forth in the Stipulation, and approval for the mailing of a settlement notice (the "Notice") and publication of a summary notice, substantially in the forms of Exhibits A-1 and A-3 attached hereto. The Notice shall include the general terms of the Settlement set forth in the Stipulation, the proposed Plan of Allocation, the general terms of the Fee and Expense Application as defined in ¶ 6.1 below and the date of the Settlement Hearing as defined below (¶ 7.4).

3.2 The Settling Parties request that, after Notice is given, the Court hold a Settlement Hearing and approve the Settlement of the Litigation as set forth herein. At or after the Settlement Hearing, Plaintiffs' Co-Lead Counsel also will request that the Court approve the proposed Plan of Allocation and the Fee and Expense Application.

3.3 Except for their obligation to pay or cause payment of the Settlement Amount into Escrow as set forth herein, and to cooperate in the production of information with respect to the identification of Class Members from CryoLife's shareholder transfer records, as provided herein, Defendants shall have no liability, obligation or responsibility for the administration of the Settlement or disbursement of the Net Settlement Fund, as defined below in Section 5.1(d).

4. Releases

4.1 Upon the Effective Date, the Lead Plaintiffs, and each of the Class Members shall be deemed to have, and by operation of the Order and Final Judgment shall have, fully, finally, and forever released, relinquished and discharged all Released Claims against any Released Parties, and shall forever be enjoined from prosecuting the Released Claims, regardless of whether such Class Member executes and delivers a Proof of Claim and Release.

4.2 Upon the Effective Date, each of the Released Parties shall be deemed to have, and by operation of the Order and Final Judgment shall have, fully, finally, and forever released, relinquished and discharged all Settled Defendants' Claims, and shall forever be enjoined from prosecuting the Settled Defendants' Claims.

5. Administration and Calculation of Claims, Final Awards, and Supervision and Distribution of Settlement Fund

5.1 The Claims Administrator, subject to such supervision and direction of the Court and/or Plaintiffs' Co-Lead Counsel as may be necessary or as circumstances may require, shall administer and calculate the claims submitted by Class Members and shall oversee distribution of the Net Settlement Fund (defined below) to Authorized Claimants. The Settlement Fund shall be applied as follows:

(a) to pay all the costs and expenses reasonably and actually incurred in connection with providing Notice, locating Class Members, soliciting Class claims, assisting with the filing of claims, administering and distributing the Settlement Fund to Authorized Claimants, processing Proof of Claim and Release forms, and paying escrow fees and costs, if any;

(b) to pay the Taxes and Tax Expenses described in ¶ 2.7 above;

(c) to pay to Plaintiffs' Counsel attorneys' fees, expenses, and costs with interest thereon (the "Fee and Expense Award"), if and to the extent allowed by the Court; and

(d) to distribute the balance of the Settlement Fund (the "Net Settlement Fund") to Authorized Claimants as allowed by the Stipulation, the Plan of Allocation, or the Court.

5.2 Upon the Effective Date and thereafter, and in accordance with the terms of the Stipulation, the Plan of Allocation, or such further approval and further order(s) of the Court as may be necessary or as circumstances may require, the Net Settlement Fund shall be distributed to Authorized Claimants, subject to and in accordance with the following:

(a) Each Class Member shall be required to submit a Proof of Claim (see attached Exhibit 2 to Exhibit A), supported by such documents as are designated therein, including proof of the transactions claimed and the losses incurred thereon, or such other documents or proof as the Claims Administrator, in its discretion, may deem acceptable;

(b) All Proofs of Claim must be submitted by the date specified in the Notice unless such period is extended by order of the Court. Any Class Member who fails to submit a Proof of Claim by such date shall be forever barred from receiving any payment pursuant to this Stipulation (unless, by order of the Court, a later-submitted Proof of Claim by such Class Member is approved), but shall in all other respects be bound by all of the terms of this Stipulation and the Settlement including the terms of the Order and Final Judgment to be entered in the Litigation and the releases provided for herein, and will be barred from bringing any action against the Released Parties concerning the Released Claims. Provided that it is received before the motion for the Class Distribution Order is filed, a Proof of Claim shall be deemed to have been submitted when posted, if received with a postmark indicated on the envelope and if mailed by first-class mail and addressed in accordance with the instructions thereon. In all other cases, the Proof of Claim shall be deemed to have been submitted when actually received by the Claims Administrator;

(c) Each Proof of Claim shall be submitted to and reviewed by the Claims Administrator, who shall determine in accordance with this Stipulation and the approved Plan of Allocation the extent, if any, to which each claim shall be allowed, subject to review by the Court pursuant to subparagraph (e) below;

(d) Proofs of Claim that do not meet the submission requirements may be rejected. Prior to rejection of a Proof of Claim, the Claims Administrator shall communicate with the Claimant in order to remedy the curable deficiencies in the Proofs of Claim submitted. The Claims Administrator shall notify, in a timely fashion and in writing, all Claimants whose Proofs of Claim it proposes to reject in whole or in part, setting forth the reasons therefor, and shall indicate in such notice that the Claimant whose claim is to be rejected has the right to a review by the Court if the Claimant so desires and complies with the requirements of subparagraph (e) below;

(e) If any Claimant whose claim has been rejected in whole or in part desires to contest such rejection, the Claimant must, within twenty (20) days after the date of mailing of the notice required in subparagraph (d) above, serve upon the Claims Administrator a notice and statement of reasons indicating the Claimant's grounds for contesting the rejection along with any supporting documentation, and requesting a review thereof by the Court. If a dispute concerning a claim cannot be otherwise resolved, Plaintiffs' Co-Lead Counsel shall thereafter present the request for review to the Court;

(f) The administrative determinations of the Claims Administrator accepting and rejecting claims shall be presented to the Court, with notice to Defendants' Counsel, for approval by the Court in the Class Distribution Order; and

(g) The Net Settlement Fund shall be distributed to the Authorized Claimants substantially in accordance with a Plan of Allocation described in the Notice and approved by the Court.

5.3 Except for their obligation to pay or cause payment of the Settlement Amount into Escrow as set forth herein, and to cooperate in the production of information with respect to the identification of Class Members from CryoLife's shareholder transfer records, as provided herein, Defendants shall have no responsibility for, interest in, or liability whatsoever with respect to the investment or distribution of the Settlement Fund, the Plan of Allocation, the determination, administration, or calculation of claims, the payment or withholding of Taxes, or any losses incurred in connection therewith.

5.4 No Person shall have any claim against Plaintiffs' Counsel or any claims administrator, or Defendants or their counsel based on distributions made substantially in accordance with the Stipulation and the settlement contained herein, the Plan of Allocation, or further orders of the Court.

5.5 If there is any balance remaining in the Net Settlement Fund after six months from the date of distribution of the Net Settlement Fund (whether by reason of tax refunds, uncashed checks, or otherwise), then, after the Claims Administrator has made reasonable and diligent efforts to have Class Members who are entitled to participate in the distribution of the Net Settlement Fund cash their distributions, any balance remaining shall be re-distributed among Authorized Claimants in an equitable and economic manner and any remainder donated to an appropriate non-profit organization selected by Plaintiffs' Co-Lead Counsel and approved by the Court.

5.6 It is understood and agreed by the Settling Parties that any proposed Plan of Allocation of the Net Settlement Fund including, but not limited to, any adjustments to an Authorized Claimant's claim set forth therein, is not a necessary term of the Stipulation and is to be considered by the Court separately from the Court's consideration of the fairness, reasonableness, and adequacy of the Settlement set forth in the Stipulation, and any order or proceedings relating to the Plan of Allocation shall not operate to terminate or cancel the Stipulation or affect the finality of the Court's Order and Final Judgment approving the Stipulation and the Settlement set forth herein, or any other orders entered pursuant to the Stipulation.

6. Plaintiffs' Counsel's Attorneys' Fees and Reimbursement of Expenses

6.1 Plaintiffs' Co-Lead Counsel may submit an application or applications (the "Fee and Expense Application") for distributions to them from the Settlement Fund for: (a) an award of attorneys' fees to be paid from the Settlement Fund; plus (b) reimbursement of expenses and costs incurred in connection with prosecuting the Litigation, plus any interest on such attorneys' fees, costs, and expenses at the same rate and for the same periods as earned by the Settlement Fund. Plaintiffs' Co-Lead Counsel reserve the right to make additional applications for fees and expenses incurred.

6.2 The attorneys' fees, expenses and costs, including the fees of experts and consultants, as awarded by the Court, shall be paid to Plaintiffs' Co-Lead Counsel from the Settlement Fund, as ordered, immediately after the Court executes an order awarding such fees and expenses. Plaintiffs' Co-Lead Counsel shall thereafter allocate, subject to the conditions below, the attorneys' fees amongst Plaintiffs' Counsel in a manner in which they in good faith believe reflects the contributions of such counsel to the prosecution and settlement of the Litigation. In the event that the Effective Date does not occur, or the Order and Final Judgment or the order making the Fee and Expense Award is reversed or modified, or the Stipulation is cancelled or terminated for any other reason, and in the event that the Fee and Expense Award has been paid to any extent, then Plaintiffs' Counsel, including their law firm, partners, and/or shareholders, shall within ten (10) days from receiving notice from Defendants' Counsel or from a court of appropriate jurisdiction, refund to the Settlement Fund, the fees, expenses and costs previously paid to them from the Settlement Fund plus interest thereon at the same rate as earned on the Settlement Fund in an amount consistent with such reversal or modification. Each such Plaintiffs' Counsel's law firm, as a condition of receiving such fees and expenses, on behalf of itself and each partner and/or shareholder of it, agrees that the law firm and its partners and/or shareholders are subject to the jurisdiction of the Court for the purpose of enforcing the provisions of this paragraph.

6.3 Any appeal from any order relating to the Fee and Expense Application or reversal or modification thereof, shall not operate to terminate or cancel the Stipulation, or affect or delay the finality of the Order and Final Judgment approving the Stipulation and the settlement of the Litigation set forth herein.

6.4 Defendants shall have no responsibility for, and no liability whatsoever with respect to, any payment to Plaintiffs' Counsel from the Settlement Fund.

7. Conditions of Settlement, Effect of Disapproval, Cancellation or Termination

7.1 The Effective Date of the Stipulation shall be conditioned on the occurrence of all of the following events:

(a) Defendants have made or caused the contributions to be made to the Settlement Fund as required by ¶ 2.1 above;

(b) the Court has entered the Notice Order, or an order substantially in the form of Exhibit A attached hereto;

(c) the Court has approved this Stipulation of Settlement, following notice to the Class Members and a hearing, as prescribed by Rule 23 of the Federal Rules of Civil Procedure;

(d) the Court has entered the Order and Final Judgment, and (i) any an appeal of such judgment has been finally affirmed, the time for a petition for or a denial of a writ of certiorari to review the judgment has expired or, if certiorari is granted, the judgment following review pursuant to that grant has been finally affirmed; or (ii) any appeal from the judgment or any proceeding on certiorari to review the judgment has been finally dismissed; or (iii) if no appeal is filed, the time for the filing or noticing of any appeal from the Court's judgment approving the Stipulation substantially in the form of Exhibit B attached hereto has expired, *i.e*., thirty (30) days after entry of the judgment, such that the judgment represents a final and binding judgment with respect to the Litigation, provided that any proceeding or order, or any appeal or petition for a writ of certiorari pertaining solely to any plan of allocation and/or application for attorneys' fees, costs or expenses, shall not in any way delay or preclude the judgment from becoming final and binding with respect to the Litigation; and

(e) the Settlement shall not have been terminated by any of the parties hereto.

7.2 Upon the occurrence of all of the events referenced in ¶ 7.1 above, any and all remaining interest or right of Defendants in or to the Settlement Fund, if any, shall be absolutely and forever extinguished.

7.3 The Settling Parties shall have the right to terminate the Settlement and this Stipulation by providing written notice of their election to do so ("Termination Notice") to all other parties hereto within thirty (30) days of: (a) the Court's declining to enter the Notice Order in any material respect; (b) the Court's refusal to approve this Stipulation or any material part of it; (c) the Court's declining to enter the Order and Final Judgment in any material respect; (d) the date upon which the Order and Final Judgment is modified or reversed in any material respect by the Court of Appeals or the Supreme Court; or (e) as otherwise set forth in the Settling Parties' Supplemental Agreement, as provided below.

7.4 A hearing (the "Settlement Hearing") shall be held at a date and time convenient to the Court, at the United States District Court for the Northern District of Georgia, Atlanta Division, 75 Spring Street, Atlanta, GA 30303, to determine whether the proposed settlement of the litigation on the terms and conditions provided for in this Stipulation is fair, just, reasonable, and adequate as to the Class and should be approved by the Court; whether an Order and Final Judgment as provided in ¶ 1.12 should be entered herein; whether the proposed Plan of Allocation should be approved; and to determine the amount of fees and expenses that should be awarded to Plaintiffs' Counsel. If prior to the Settlement Hearing, Persons who otherwise would be Members of the Class have submitted timely requests for exclusion ("Requests for Exclusion") from the Class in accordance with the provisions of the Notice Order and the notice given pursuant thereto, and if the aggregate number of shares of CryoLife common stock purchased by such Class Members during the Class Period equals or

exceeds the amount specified in a separate supplemental agreement ("Supplemental Agreement") between the Settling Parties, Defendants shall have the option to terminate the Stipulation in accordance with the procedures set forth in the Supplemental Agreement. The Supplemental Agreement and all of its terms are hereby incorporated into this Stipulation (and vice versa); however, the Supplemental Agreement will not be filed with the Court unless and until a dispute among the parties concerning its interpretation or application arises. Copies of all Requests for Exclusion received and copies of all written revocations of Requests for Exclusion received shall be sent to counsel for Defendants and to Plaintiffs' Co-Lead Counsel within a reasonable time of receipt.

7.5 Unless otherwise ordered by the Court, in the event the Stipulation is terminated, or is cancelled, or shall not become effective for any reason, within five (5) business days after written notification of such event is sent by counsel for Defendants or Plaintiffs' Co-Lead Counsel to the Escrow Agent, the Settlement Fund (including accrued interest), less any expenses and any costs that have either been properly disbursed pursuant to ¶ 2.6 or ¶ 2.7 herein, or are determined to be chargeable to the Settlement Fund for the notice and administration of the Settlement pursuant to ¶ 2.6 herein, shall be refunded by the Escrow Agent to CryoLife and its insurers in the amount paid by each of them plus accrued interest attributable to that amount by wire transfer pursuant to written instructions from counsel for Defendants. At the request of counsel for Defendants, the Escrow Agent or its designee shall apply for any tax refund owed to the Settlement Fund and pay the proceeds, after deduction of any fees or expenses reasonably incurred in connection with such application(s) for refund to Defendants.

7.6 In the event that the Stipulation is not approved by the Court or the Settlement set forth in the Stipulation is terminated or fails to become effective in accordance with its terms, the Settling Parties shall be restored to their respective positions in the Litigation immediately prior to the execution of this Stipulation. In such event, the terms and provisions of the Stipulation, with the exception of ¶¶ 7.4-7.6 herein, shall have no further force and effect with respect to the Settling Parties and shall not be used in the Litigation or in any other proceeding for any purpose, and any judgment or order entered by the Court in accordance with the terms of the Stipulation shall be treated as vacated, nunc pro tunc. No order of the Court or modification or reversal on appeal of any order of the Court concerning the Plan of Allocation or the amount of any attorneys' fees, costs, expenses, and interest awarded by the Court to the Plaintiffs or any of their counsel shall constitute grounds for cancellation or termination of the Stipulation. If the Effective Date does not occur, or if the Stipulation is terminated pursuant to its terms, neither the Lead Plaintiffs nor any of their counsel shall have any obligation to repay any amounts actually and properly disbursed from the Settlement Fund for the notice and administration of the Settlement pursuant to ¶ 2.6 hereof. In addition, any expenses already incurred and properly chargeable to the Settlement Fund for the notice and administration of the Settlement pursuant to ¶ 2.6 hereof at the time of such termination or cancellation but which have not been paid, shall be paid by the Escrow Agent in accordance with the terms of the Stipulation prior to the balance being refunded in accordance with ¶ 7.5 above.

8. No Admission of Wrongdoing

8.1 This Stipulation, whether or not consummated, and any proceedings taken pursuant to it:

(a) shall not be offered or received against the Defendants as evidence of or construed as or deemed to be evidence of any presumption, concession, or admission by any of the Defendants with respect to the truth of any allegations by any of the Plaintiffs in the Actions, or of any liability, negligence, fault, or wrongdoing of the Defendants;

(b) shall not be offered or received against Defendants as evidence of a presumption, concession or admission of any fault, misrepresentation or omission with respect to any statement or written document approved or made by any Defendant;

(c) shall not be construed as or received in evidence as an admission, concession or presumption against Plaintiffs or any of the Class Members that any of their claims are without merit, or that any defenses asserted by Defendants have any merit, or that damages recoverable under the complaints would not have exceeded the Gross Settlement Fund.

9. Miscellaneous Provisions

9.1 If a case is commenced in respect of any Defendant under Title 11 of the United States Code (Bankruptcy), or a trustee, receiver or conservator is appointed under any similar law, and in the event of the entry of a final order of a court of competent jurisdiction determining the transfer of money to the Settlement Fund, or any portion thereof, by or on behalf of such Defendant to be a preference, voidable transfer, fraudulent transfer or similar transaction and any portion thereof is required to be returned, and such amount is not promptly deposited to the Settlement Fund by other Defendants, then, at the election of Plaintiffs' Co-Lead Counsel, the parties shall jointly move the Court to vacate and set aside the releases given and Order and Final Judgment entered in favor of the Defendants pursuant to this Stipulation, which releases and Order and Final Judgment shall be null and void, and the parties shall be restored to their respective positions in the Litigation immediately prior to the execution of this Stipulation and any cash amounts in the Settlement Fund shall be returned as provided in ¶ 7.5 above.

9.2 The Settling Parties: (a) acknowledge that it is their intent to consummate this agreement; and (b) agree to cooperate to the extent reasonably necessary to effectuate and implement all terms and conditions of the Stipulation and to exercise their best efforts to accomplish the foregoing terms and conditions of the Stipulation.

9.3 The Settling Parties intend this Settlement to be a final and complete resolution of all disputes between them with respect to the Litigation. The Settlement compromises all claims that were contested and shall not be deemed an admission by any Settling Party as to the merits of any claim or defense. The Order and Final Judgment will contain a statement that, during the course of the Litigation, the Settling Parties and their respective counsel at all times complied with the requirements of Federal Rule of Civil Procedure 11. The Settling Parties agree that the amount paid to the Settlement Fund and the other terms of the Settlement were negotiated in good faith by the Settling Parties, and reflect a settlement that was reached voluntarily after consultation with competent legal counsel.

9.4 All of the Exhibits to the Stipulation are material and integral parts hereof and are fully incorporated herein by this reference.

9.5 The Stipulation may be amended or modified only by a written instrument signed by or on behalf of all Settling Parties or their respective successors-in-interest.

9.6 Plaintiffs' Co-Lead Counsel, on behalf of the Class, are expressly authorized by Lead Plaintiffs to take all appropriate actions required or permitted to be taken by the Class pursuant to the Stipulation to effectuate its terms and also are expressly authorized to enter into any modifications or amendments to the Stipulation on behalf of the Class that they deem appropriate.

9.7 Each counsel or other Person executing the Stipulation or any of its Exhibits on behalf of any party hereto hereby warrants that such Person has the full authority to do so.

9.8 The Stipulation may be executed in one or more counterparts. All executed counterparts and each of them shall be deemed to be one and the same instrument. A complete set of executed counterparts shall be filed with the Court.

9.9 The Stipulation shall be binding upon, and inure to the benefit of, the successors and assigns of the Settling Parties.

9.10 The Court shall retain jurisdiction with respect to implementation and enforcement of the terms of the Stipulation, and the Settling Parties submit to the jurisdiction of the Court for purposes of implementing and enforcing the Settlement embodied in the Stipulation.

9.11 The Stipulation and the Exhibits attached hereto and the Supplemental Agreement shall be considered to have been negotiated, executed and delivered, and to be wholly performed, in the State of Georgia, and the rights and obligations of the parties to the Stipulation shall be construed and enforced in accordance with, and governed by, the internal, substantive laws of the State of Georgia without giving effect to that State's choice of law principles.

9.12 The headings herein are used for the purpose of convenience only and are not meant to have legal effect.

9.13 The waiver by one party of any breach of this Stipulation by any other party shall not be deemed a waiver of any other prior or subsequent breach of this Stipulation.

9.14 This Stipulation shall not be construed more strictly against one party than another merely by virtue of the fact that it, or any part of it, may have been prepared by counsel for one of the parties, it being recognized that it is the result of arm's-length negotiations between the parties and all parties have contributed substantially and materially to the preparation of this Stipulation.

IN WITNESS WHEREOF, the Settling Parties hereto have caused the Stipulation to be executed, by their duly authorized attorneys, dated as of August 29, 2005.

Respectfully submitted,

CHITWOOD HARLEY HARNES LLP

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Counsel for Defendants

Exhibit 31.1

CERTIFICATIONS

I, Steven G. Anderson, Chairman, President, and Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CryoLife, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 3, 2005

/s/ STEVEN G. ANDERSON
Chairman, President, and
Chief Executive Officer

Exhibit 31.2

I, David Ashley Lee, Executive Vice President, Chief Operating Officer, and Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CryoLife, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 3, 2005

/s/ DAVID ASHLEY LEE
Executive Vice President,
Chief Operating Officer, and
Chief Financial Officer

Exhibit 32

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of CryoLife Inc. (the "Company") on Form 10-Q for the quarter ending September 30, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of Steven G. Anderson, the Chairman, President, and Chief Executive Officer of the Company, and David Ashley Lee, the Executive Vice President, Chief Operating Officer, and Chief Financial Officer of the Company, hereby certifies, pursuant to and for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ STEVEN G. ANDERSON
STEVEN G. ANDERSON
Chairman, President, and
Chief Executive Officer
November 3, 2005

/s/ DAVID ASHLEY LEE
DAVID ASHLEY LEE
Executive Vice President,
Chief Operating Officer, and
Chief Financial Officer
November 3, 2005