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

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

For the Quarterly Period Ended June 30, 2004
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 ____

The number of shares of common stock, par value $0.01 per share, outstanding on August 4, 2004 was 23,282,547.

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 June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
	(Unaudited)		(Unaudited)	
Revenues:				
Products	$ 9,203	$ 6,932	$ 18,062	$ 13,531
Human tissue preservation services	6,054	8,615	12,279	17,745
Research grants	57	166	59	357
Total revenues	15,314	15,713	30,400	31,633
Costs and expenses:				
Products	1,894	2,006	3,841	3,647
Human tissue preservation services (Including write-downs of $1,508 for the three months and $5,158 for the six months ended June 30, 2004 and $1,131 for the three months and $1,428 for the six months ended June 30, 2003)	7,543	5,160	16,646	7,603
General, administrative, and marketing	9,693	23,539	19,841	35,131
Research and development	891	1,088	1,812	2,005
Interest expense	59	147	102	279
Interest income	(64)	(116)	(130)	(247)

Other expense, net	21	166	37	140
Total costs and expenses	20,037	31,990	42,149	48,558
Loss before income taxes	(4,723)	(16,277)	(11,749)	(16,925)
Income tax (benefit) expense	(1,371)	3,644	(1,371)	3,430
Net loss	$ (3,352)	$(19,921)	$(10,378)	$(20,355)
Net loss per share:				
Basic	$ (0.14)	$ (1.01)	$ (0.46)	$ (1.04)
Diluted	$ (0.14)	$ (1.01)	$ (0.46)	$ (1.04)
Weighted average shares outstanding:				
Basic	23,252	19,675	22,747	19,654
Diluted	23,252	19,675	22,747	19,654

See accompanying notes to summary consolidated financial statements.

Item 1. Financial Statements

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

	June 30, 2004	December 31, 2003
ASSETS	(Unaudited)	
Current Assets:		
Cash and cash equivalents	$ 19,966	$ 5,672
Marketable securities, at market	3,217	5,272
Restricted cash and securities	558	972
Trade receivables, net	7,625	6,377
Other receivables	2,231	1,865
Deferred preservation costs, net	7,382	8,811
Inventories	4,572	4,450
Prepaid expenses and other assets	4,494	2,344
Total current assets	50,045	35,763
Property and equipment, net	30,739	32,886
Patents, net	4,968	5,244
Other	1,999	1,134
TOTAL ASSETS	$ 87,751	$ 75,027
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 3,616	$ 2,171
Accrued expenses and other current liabilities	11,985	11,570
Accrued compensation	1,699	1,136
Accrued procurement fees	3,387	4,358
Note payable	2,385	--
Current maturities of capital lease obligations	1,513	1,738
Total current liabilities	24,585	20,973
Capital lease obligations, less current maturities	634	751
Other long-term liabilities	5,032	4,965
Total liabilities	30,251	26,689
Shareholders' Equity:		
Preferred stock	--	--
Common stock (24,637 issued shares in 2004 and 21,130 shares in 2003)	246	211
Additional paid-in capital	94,052	74,460
Retained deficit	(29,886)	(19,508)

Deferred compensation	(3)	(9)
Accumulated other comprehensive income	283	365
Less: Treasury stock at cost (1,372 shares in 2004 and 1,371 shares in 2003)	(7,192)	(7,181)
Total shareholders' equity	57,500	48,338
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 87,751	$ 75,027

See accompanying notes to summary consolidated financial statements.

Item 1. Financial Statements

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

	Six Months Ended June 30,	
	2004	2003
	(Unaudited)	
Net cash from operating activities:		
Net loss	$(10,378)	$(20,355)
Adjustments to reconcile net loss to net cash from operating activities:		
Gain on sale of marketable equity securities	--	(19)
Loss on sale of assets	19	--
Depreciation and amortization	2,711	2,774
Provision for doubtful accounts	48	48
Write-down of deferred preservation costs	5,158	1,428
Other non-cash adjustments to income	6	307
Deferred income taxes	--	4,410
Tax effect of nonqualified option exercises	11	19
Changes in operating assets and liabilities:		
Receivables	(1,795)	9,250
Deferred preservation costs and inventories	(3,851)	(6,605)
Prepaid expenses and other assets	1,287	856
Accounts payable, accrued expenses, and other liabilities	1,741	10,862
Net cash (used in) provided by operating activities	(5,043)	2,975
Net cash from investing activities:		
Capital expenditures	(439)	(333)
Other assets	125	173
Purchases of marketable securities	(558)	--
Sales and maturities of marketable securities	2,000	4,708
Net cash provided by investing activities	1,128	4,548
Net cash from financing activities:		
Principal payments of debt	--	(800)
Payment of obligations under capital leases	(342)	(320)
Principal payments on short-term note payable	(1,000)	(827)
Proceeds from exercise of stock options and issuance of common stock	241	325
Proceeds from private equity offering	19,364	--
Net cash provided by (used in) financing activities	18,263	(1,622)
Increase in cash and cash equivalents	14,348	5,901
Effect of exchange rate changes on cash	(54)	(31)
Cash and cash equivalents, beginning of period	5,672	10,277
Cash and cash equivalents, end of period	$ 19,966	$ 16,147

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 three and six months ended June 30, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004. 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, 2003.

The Company expects that its operations will continue to generate negative cash flows throughout the remainder of 2004 due to:

- The anticipated lower preservation revenues as compared to preservation revenues prior to the FDA Order, subsequent FDA activity, and related events (discussed in Note 2),
- The increase in cost of human tissue preservation services as a percent of revenue as a result of lower tissue processing volumes and changes in processing methods, and
- An expected use of cash related to the defense and resolution of lawsuits (discussed in Note 12).

The Company believes anticipated revenue generation, expense management, and the Company's existing cash, cash equivalents, and marketable securities will enable the Company to meet its liquidity needs through at least June 30, 2005.

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

- The Company's ability to return to the level of demand for its tissue services that existed prior to the FDA Order,
- The Company's ability to reestablish sufficient margins on its tissue preservation services in the face of increased processing costs,
- The Company's spending levels on its research and development activities, including research studies, to develop and support its service and product pipeline,
- The amount and the timing of the resolution of the remaining outstanding product liability claims (discussed in Note 12), and
- The outcome of other litigation against the Company (discussed in Note 12).

The Company 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 June 30, 2005. 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
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 "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 steps to ensure that the tissue was used for approved purposes and that patients were notified of risks associated with tissue use. The Agreement had a renewable 45-business day term and the final renewal expired on September 5, 2003. The Company is no longer shipping tissue subject to the recall (processed between October 3, 2001 and September 5, 2002). A renewal of the Agreement that expired on September 5, 2003 was not needed in order for the Company to continue to distribute non-valved cardiovascular, vascular, and orthopaedic tissues processed after September 5, 2002.

In addition, pursuant to the Agreement, the Company agreed to perform additional procedures in the processing of non-valved cardiac and vascular tissues and subsequently resumed processing these tissues. The Company also agreed to establish a corrective action plan within 30 days from September 5, 2002 with steps to validate processing procedures. The corrective action plan was submitted on October 5, 2002.

Accounting Treatment
As a result of the FDA Order, the Company evaluated multiple factors in determining the magnitude of impairment to deferred preservation costs, including the impact of the FDA Order, the possibility of continuing action by the FDA or other U.S. and foreign government agencies, and the possibility of

unfavorable actions by physicians, customers, procurement organizations, and others. As a result of its evaluation in the quarter ended June 30, 2002, the Company recorded a reduction to pretax income of $12.6 million comprised of a net $8.9 million increase to cost of human tissue preservation services, a $2.4 million reduction to revenues (and accounts receivable), and a $1.3 million accrual recorded in general, administrative, and marketing expenses. In the quarter ended September 30, 2002 the Company recorded a reduction to pretax income of $24.6 million comprised of a net $22.2 million increase to cost of human tissue preservation services, a $1.4 million write-down of goodwill, and a $1.0 million reduction to revenues (and accounts receivable).

As a result of the write-down of deferred preservation costs, the Company recorded $6.3 million in income tax receivables and $4.5 million in deferred tax assets as of December 31, 2002. A refund of approximately $8.9 million related to 2002 federal income taxes was generated through a carry back of operating losses and write-downs of deferred preservation costs. The Company filed its 2002 federal income tax returns in April of 2003 and received its tax refund during the second quarter of 2003. In addition, estimated tax payments for 2002 of $2.5 million were recorded as a receivable by the Company as of December 31, 2002 and were received in January 2003.

On September 3, 2002 the Company announced a reduction in employee force of approximately 105 employees. In the third quarter of 2002 the Company accrued restructuring costs of approximately $690,000, for severance and related costs of the employee force reduction. During the quarter ended March 31, 2003 the Company utilized $64,000 of the accrued restructuring costs and reversed the remaining accrual of $46,000 in unused restructuring costs. The Company has not incurred and does not expect to incur any additional restructuring costs associated with the employee force reduction subsequent to March 31, 2003.

In the quarter ended March 31, 2003 the Company recorded a favorable adjustment of $848,000 to the estimated tissue recall returns due to lower actual tissue returns under the FDA Order than were originally estimated in 2002. The adjustment increased cardiac tissue revenues by $92,000, vascular tissue revenues by $711,000, and orthopaedic tissue revenues by $45,000 in the first quarter of 2003. In the quarter ended September 30, 2003 the Company recorded a favorable adjustment of $52,000 to reverse the remaining unused portion of the estimated tissue recall returns due to lower overall actual tissue returns under the FDA Order than were estimated. Although vascular and orthopaedic returns were lower than expected, cardiac returns were higher than expected. Therefore, the $52,000 adjustment decreased cardiac tissue revenues by $7,000 and increased vascular tissue revenues by $41,000 and orthopaedic tissue revenues by $18,000 in the third quarter of 2003. Management determined that no additional accruals were necessary for tissue returns under the FDA Order. Therefore, as of September 30, 2003 and in subsequent periods there was no accrual for estimated return of tissues subject to recall by the FDA Order.

Other FDA Correspondence and Notices

FDA Form 483 Notices of Observations ("483") were issued in connection with the FDA inspections of the Company's facilities in February 2003, October 2003, and February 2004. The Company responded to the February 2003 483 in March 2003, responded to the October 2003 483 in October 2003, November 2003, and April 2004, and responded to the February 2004 483 in March 2004, April 2004, and June 2004. The Company continues 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 CryoValve® SG and that premarket approval marketing authorization should be obtained for the Company's 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 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 February 4, 2004 the Company received a letter from the FDA requesting that additional information be provided to support the 510(k) premarket notification for the CryoValve SG. The requested information may require that additional studies be undertaken. Clearance of the 510(k) premarket notification with the FDA will be required before the Company can resume distribution of SynerGraft processed cardiovascular tissue, including the CryoValve SG. The Company is still in discussions with the FDA regarding the type of submissions necessary for the CryoVein SG. The outcome of the discussions and filing with the FDA regarding the use of the SynerGraft process on human tissue, including the CryoValve SG and CryoVein SG, could result in an inability to distribute tissues with the SynerGraft technology until further submissions and FDA clearances are granted.

The Company suspended the use of the SynerGraft technology in the processing of allograft cardiovascular and vascular tissue and has suspended the distribution of tissues on hand that have been processed with the SynerGraft technology until the regulatory status of the CryoValve SG and CryoVein SG is resolved. Additionally, the Company discontinued labeling its vascular grafts for use as A-V access grafts. The FDA has not suggested that these tissues be recalled. Until such time as the issues surrounding the SynerGraft treated tissues are resolved, the Company will employ its traditional processing methods on these tissues. Distribution of allograft heart valves and vascular tissue processed using the Company's traditional processing protocols will continue. During the three months ended June 30, 2004, the Company wrote down $353,000 in SynerGraft processed cardiovascular and vascular tissues. As of June 30, 2004 the Company has no additional deferred preservation costs related to SynerGraft processed tissues on its Summary Consolidated Balance Sheet.

Note 3 – Cash Equivalents and Marketable Securities

The Company maintains cash equivalents, which consist primarily of highly liquid investments with maturity dates of 90 days or less at the time of acquisition, and marketable securities in several large, well-capitalized financial institutions. The Company's policy disallows investment in any securities rated less than "investment-grade" by national rating services.

Management determines the appropriate classification of debt securities at the time of purchase and reevaluates such designations as of each balance sheet date. 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. Debt securities not classified as held-to-maturity or trading and marketable equity securities not classified as trading are classified as available-for-sale. At December 31, 2003 all marketable securities were designated as available-for-sale. At June 30, 2004 $3.2 million of marketable securities were designated as available-for-sale and $558,000 of marketable securities were designated as held-to-maturity.

Available-for-sale securities are stated at their fair values, with the unrealized gains and losses, net of tax, reported in a separate component of shareholders' equity. Interest income, 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. Held-to-maturity securities are stated at amortized cost due to a contractual commitment to hold the security as pledged collateral relating to the Company's insurance product liability policy. The held-to-maturity securities mature on April 1, 2005 and are, therefore, classified as current assets.

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

June 30, 2004	Cost Basis	Unrealized Holding Gains/(Losses)	Estimated Market Value
		(Unaudited)	
Cash equivalents:			
Money market funds	$ 13,684	$ --	$ 13,684
Municipal obligations	775	--	775
	$ 14,459	$ --	$ 14,459
Marketable securities:			
Municipal obligations	$ 3,142	$ 75	$ 3,217
Debt securities	558	--	558
	$ 3,700	$ 75	$ 3,775

December 31, 2003	Cost Basis	Unrealized Holding Gains/(Losses)	Estimated Market Value
Cash equivalents:			
Money market funds	$ 1,079	$ --	$ 1,079
Municipal obligations	775	--	775
	$ 1,854	$ --	$ 1,854
Marketable securities:			
Municipal obligations	$ 5,148	$ 124	$ 5,272

Gross realized gains on sales of available-for-sale securities totaled zero as of June 30, 2004 and $19,000 as of December 31, 2003. Differences between cost and market listed above, consisting of a net unrealized holding gain less deferred taxes of $25,000 at June 30, 2004 and $42,000 at December 31, 2003, are included as a separate component of other comprehensive income in shareholders' equity.

At June 30, 2004 and December 31, 2003 approximately zero and $2.0 million, respectively, of marketable securities had a maturity date of less than 90 days, and approximately $3.8 million and $3.3 million, respectively, had a maturity date between 1 and 5 years.

Note 4 — Inventories

Inventories are comprised of the following (in thousands):

	June 30, 2004	December 31, 2003
	(Unaudited)	
Raw materials	$ 2,933	$ 2,906
Work-in-process	306	229
Finished goods	1,333	1,315
	$ 4,572	$ 4,450

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 activity, and reported tissue infections. The Company continued to generate deferred tax assets for the three and six months ended June 30, 2004 primarily as a result of operating losses. The Company periodically assesses the recoverability of 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.

The Company evaluated several factors to determine if a valuation allowance relative to its deferred tax assets was necessary during 2003. The Company reviewed its historic operating results, including the reasons for its operating losses in 2003 and 2002, uncertainties regarding projected future operating results due to the effects of the adverse publicity resulting from the FDA Order, subsequent FDA activity, and reported tissue infections, the changes in processing methods resulting from the FDA Order, and the uncertainty of the outcome of product liability claims. Based on the results of this analysis, the

Company determined that it was more likely than not that the Company's deferred tax assets would not be realized. Therefore, during 2003 the Company recorded valuation allowances totaling $13.7 million due to the effect of temporary differences between book and tax income, the net deferred tax assets generated in 2003, and the net deferred tax asset balance at December 31, 2002. For the three and six months ended June 30, 2004 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 June 30, 2004 the Company had a total of $18.4 million in valuation allowances against deferred tax assets and a net deferred tax asset balance of zero.

During the quarter ended June 30, 2004, the Company received income tax refunds of $2.4 million related to federal income tax losses from the year ended December 31, 2003 that were carried back to prior years and $1.4 million related to product liability expenses incurred in 2003. The Company did not record a receivable for this carryback related to product liability expenses in prior periods due to uncertainty regarding its realizability.

Note 6 – Debt

On April 25, 2000 the Company entered into a loan agreement permitting the Company to borrow up to $8 million under a line of credit. On June 1, 2001 the line of credit was converted to a term loan (the "Term Loan") to be paid in 60 equal monthly installments of principal plus interest computed at Adjusted LIBOR plus 1.5%. On August 15, 2003 the Company made a voluntary payment of $4.5 million to pay off the outstanding balance of the Term Loan. The Company also paid approximately $11,000 to the lender in fees associated with the Term Loan payoff. On August 15, 2003 in conjunction with the payoff of the outstanding balance of the Term Loan, the Company paid $199,000 to terminate the swap agreement related to the Term Loan. This $199,000 payment represented the estimated fair value of the interest rate swap, as estimated by the bank based on its internal valuation models, as of the day of the termination of the agreement.

In the quarter ended June 30, 2003 the Company entered into two agreements to finance $2.9 million in insurance premiums associated with the yearly renewal of certain of the Company's insurance policies. The amount financed accrued interest at a 3.75% rate and was payable in equal monthly payments through December 2003. As of June 30, 2004 the outstanding balance of the agreements was zero and there are no available borrowings under this agreement.

In April 2004 the Company entered into two agreements to finance approximately $1.9 million and $1.5 million in insurance premiums associated with the yearly renewal of certain of the Company's 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 June 30, 2004 the aggregate outstanding balance of the agreements was $2.4 million.

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 will be used for general corporate purposes. 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. 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.

Note 8 – Comprehensive Loss

Components of comprehensive loss consist of the following, net of tax (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
	(Unaudited)		(Unaudited)	
Net loss	$ (3,352)	$(19,921)	$(10,378)	$(20,355)
Unrealized loss on investments	(28)	(27)	(32)	(61)
Change in fair value of interest rate swap	--	159	--	172
Translation adjustment	11	127	(50)	(31)
Comprehensive loss	$ (3,369)	$(19,662)	$(10,460)	$(20,275)

The tax effect on the change in unrealized gain/loss on investments is a benefit of $15,000 and a benefit of $17,000 for the three months ended June 30, 2004 and 2003, respectively. The tax effect on the change in unrealized gain/loss on investments is a benefit of $17,000 and a benefit of $34,000 for the six months ended June 30, 2004 and 2003, respectively. The tax effect on the change in fair value of the interest rate swap is zero and $82,000 for the three months ended June 30, 2004 and 2003, respectively. The tax effect on the change in fair value of the interest rate swap is zero and $88,000 for the six months ended June 30, 2004 and 2003, respectively. The tax effect on the translation adjustment is zero for the three months ended June 30, 2004 and 2003, respectively. The tax effect on the translation adjustment is zero and $110,000 for the six months ended June 30, 2004 and 2003, respectively.

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

	June 30, 2004	December 31, 2003
	(Unaudited)	
Unrealized gain on investments	$ 53	$ 85
Translation adjustment	230	280

Total accumulated other comprehensive loss	$ 283	$ 365

Note 9 – Loss per Share

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
	(Unaudited)		(Unaudited)	
Numerator for basic and diluted earnings per share - loss available to common shareholders	$ (3,352)	$(19,921)	$(10,378)	$(20,355)
Denominator for basic earnings per share - weighted-average basis	23,252	19,675	22,747	19,654
Effect of dilutive stock options	--	--	--	--
Denominator for diluted earnings per share - adjusted weighted-average shares	23,252	19,675	22,747	19,654
Net loss per share:				
Basic	$ (0.14)	$ (1.01)	$ (0.46)	$ (1.04)
Diluted	$ (0.14)	$ (1.01)	$ (0.46)	$ (1.04)

Since the Company had a net loss for the three and six month periods ended June 30, 2004 and 2003, all potentially dilutive securities are anti-dilutive for those periods. During this period, the Company had outstanding stock options that are considered potentially dilutive securities and would have resulted in additional dilutive shares of 307,000 and 529,000 for the three months ended June 30, 2004 and 2003 respectively, and 363,000 and 446,000 for the six months ended June 30, 2004 and 2003, respectively, pursuant to the provisions of SFAS 128.

Note 10 – Stock-Based Compensation

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" as amended by SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure" requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, 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, no compensation expense is recognized.

Pro forma information regarding net loss and net loss per share is required by SFAS 148 and SFAS 123. The fair values for these options were estimated at the dates of grant using a Black-Scholes option-pricing model with the following weighted-average assumptions:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
	(Unaudited)		(Unaudited)	
Expected dividend yield	0%	0%	0%	0%
Expected stock price volatility	.594	.605	.598	.615
Risk-free interest rate	3.39%	2.13%	3.22%	2.41%
Expected life of options	4.2 Years	3.3 Years	3.9 Years	3.9 Years

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

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 June 30,	Six Months Ended June 30,

	2004	2003	2004	2003
	(Unaudited)		(Unaudited)	
Net loss--as reported	$ (3,352)	$(19,921)	$(10,378)	$(20,355)
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of tax	720	639	1,006	905
Net loss--pro forma	$ (4,072)	$(20,560)	$(11,384)	$(21,260)
Loss per share--as reported:				
Basic	$ (0.14)	$ (1.01)	$ (0.46)	$ (1.04)
Diluted	$ (0.14)	$ (1.01)	$ (0.46)	$ (1.04)
Loss per share--proforma:				
Basic	$ (0.18)	$ (1.04)	$ (0.50)	$ (1.08)
Diluted	$ (0.18)	$ (1.04)	$ (0.50)	$ (1.08)

Note 11 – Segment Information

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

The Implantable Medical Devices segment includes external revenue from product sales of BioGlue® Surgical Adhesive, bioprosthetic devices, including stentless porcine heart valves, SynerGraft treated porcine heart valves, and SynerGraft treated bovine vascular grafts. The Human Tissue Preservation Services segment includes external revenue from cryopreservation services 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 preservation services and products. 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 preservation services and products, and gross margins for the Company's operating segments (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
	(Unaudited)		(Unaudited)	
Revenue:				
Implantable medical devices	9,203	6,932	18,062	13,531
Human tissue preservation services	6,054	8,615	12,279	17,745
All other [a]	57	166	59	357
	$ 15,314	$ 15,713	$ 30,400	$ 31,633
Cost of Products and Preservation Services:				
Implantable medical devices	1,894	2,006	3,841	3,647
Human tissue preservation services	7,543	5,160	16,646	7,603
All other [a]	--	--	--	--
	9,437	7,166	20,487	11,250
Gross Margin (Loss):				
Implantable medical devices	7,309	4,926	14,221	9,884
Human tissue preservation services	(1,489)	3,455	(4,367)	10,142
All other [a]	57	166	59	357
	$ 5,877	$ 8,547	$ 9,913	$ 20,383

[a] The "All other" designation includes grant revenue.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
	(Unaudited)		(Unaudited)	
Revenue:				
BioGlue surgical adhesive	$ 8,962	$ 6,839	$ 17,605	$ 13,333
Other implantable medical devices	241	93	457	198
Human tissue preservation services:				
Cardiovascular tissue	2,831	5,036	6,261	9,761
Vascular tissue	2,649	3,299	5,135	7,554
Orthopaedic tissue	574	280	883	430
Total preservation services	6,054	8,615	12,279	17,745
Research grants	57	166	59	357
	$ 15,314	$ 15,713	$ 30,400	$ 31,633

Note 12 – 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 have been filed. As of August 4, 2004 the Company was aware of ten pending product liability lawsuits. The lawsuits are currently in the pre-discovery or discovery stages. Of these lawsuits, four allege product liability claims arising out of the Company's orthopaedic tissue services, four allege product liability claims arising out of the Company's allograft heart valve tissue services, one alleges product liability claims arising from BioGlue, and one alleges product liability claims arising out of the non-tissue products made by Ideas for Medicine, Inc. when it was a subsidiary of the Company.

Of the ten open lawsuits a total of four are covered by the Company's insurance coverage as follows: two lawsuits by the 2000/2001 insurance policy, one by the 2003/2004 insurance policy and one by the 2004/2005 insurance policy. For the 2000/2001 insurance policy year the Company maintained claims-made insurance policies which the Company believes to be adequate to defend against the suits filed during this period. As of June 30, 2004 the Company has an accrual of $100,000 for the remaining retention levels related to the 2000/2001 insurance policy year. The Company believes its 2003/2004 and 2004/2005 insurance policies to be adequate to defend against the covered suit filed during each of these time periods.

Of the ten open lawsuits the remaining six are not covered by the Company's insurance policies as either these lawsuits relate to the 2002/2003 insurance policy year for which the Company has used all of its insurance coverage, aggregating $25 million, or they were asserted in periods after the coverage in the related incident year had lapsed. 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 June 30, 2004 of the pending product liability claims based on settlement negotiations to date and advice from counsel. As of June 30, 2004 the Company had accrued a total of $5.6 million for pending product liability claims and recorded $1.2 million representing amounts to be recovered from the Company's insurance carriers. The $5.6 million accrual is included as a component of accrued expenses and other current liabilities and the $1.2 million amount recoverable is included as a component of other receivables on the June 30, 2004 Summary Consolidated Balance Sheet. These amounts represent the Company's estimate of the probable losses and anticipated recoveries related to six of the ten pending product liability claims. The Company has not recorded an accrual for the remaining four 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 cannot be made at this time. The amount recorded as a liability is reflective of estimated legal fees and settlement costs related to these claims and does not reflect actual settlement arrangements, actual judgments, including punitive damages, which may be assessed by the courts, or cash set aside for the purpose of making payments. The amount recorded as a receivable is reflective of the estimated amount recoverable from the Company's insurance carrier, based on the Company's estimate of the liability and analysis of the policy terms. The Company believes that these amounts are fully collectible. Prior to 2004, the Company recorded accruals for the uninsured portion of product liability claims for which the amount of probable loss was reasonably estimable. Had the Company recorded the total amounts of the reasonably estimable probable losses as a liability and recorded an asset for the estimated amount recoverable from the insurance carrier, the impact on the financial statements as of December 31, 2003 would not have been material. 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, 2004 the Company bound coverage for the 2004/2005 insurance policy year. This policy is a two-year claims made insurance policy, i.e. claims incurred during the period April 1, 2003 through March 31, 2005 and reported during the period April 1, 2004 through March 31, 2005 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 sold. The Company retained an independent actuarial firm to perform revised estimates of the unreported claims as of June 30, 2004. 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 million was selected for actuarial purposes in determining the liability per claim given the uncertainty in projecting claim losses in excess of $5 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 2004 would be lower than the Company experienced during the 2002/2003 policy year, but higher than the Company's historical claim frequency in prior policy years,
- The average cost per claim would be lower than the Company experienced during the 2002/2003 policy year, but higher than the Company's historical cost per claim in prior policy years,
- 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 10% lower than non-BioGlue claims per million dollars to adjust for the increase of BioGlue revenue as a percentage of total revenues since 2002 and the BioGlue claims history to date.

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 and uncertainties surrounding the assumptions used as well as due to Company specific conditions including the FDA Order, the Company's recent levels of litigation activity, the Company's low volume of 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.

Beginning April 1, 2004 and concurrent with signing the claims-made insurance policy for the policy year from April 1, 2004 to March 31, 2005, the Company implemented the provisions of Emerging Issues Task Force Issue 03-8, Accounting for Claims-Made Insurance and Retroactive Contracts by the Insured Entity ("EITF 03-8"). Pursuant to EITF 03-8, the Company continues to record an estimated liability for unreported product liability claims and has begun to record a related recoverable from insurance. Prior to the adoption of EITF 03-8, the Company did not record a recoverable from insurance related to the unreported product liability claims. Based on the actuarial valuation performed as of June 30, 2004, the Company estimated that its liability for unreported product liability claims was $8.0 million, and accrued this amount, representing the Company's best estimate of the total liability for unreported product liability claims related to services performed and products sold prior to June 30, 2004. The $8.0 million balance is included as a component of accrued expenses and other current liabilities of $4.0 million and other long-term liabilities of $4.0 million on the June 30, 2004 Summary Consolidated Balance Sheet. Further analysis indicated that the liability could be estimated to be as high as $14.2 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 June 30, 2004, $1.4 million of the accrual for unreported liability claims would be recoverable under the Company's insurance policies. The $1.4 million insurance recoverable is included as a component of other receivables of $500,000 and other assets of $900,000 on the June 30, 2004 Summary Consolidated Balance Sheet. These amounts represent management's estimate of the probable losses and anticipated recoveries related to unreported product liability claims related to services performed and products sold prior to June 30, 2004. 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, which principally alleges that the Company made misrepresentations and omissions relating to product safety and the Company's alleged lack of compliance with certain FDA regulations regarding the handling and processing of certain tissues and other product safety matters. The consolidated complaint seeks 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. At present, the case remains in the discovery phase. Although the Company carries directors' and officers' liability insurance policies, the directors' and officers' liability insurance carriers have issued reservation of rights letters reserving their rights to deny or rescind coverage under the policies. An adverse judgment in excess of the Company's available insurance coverage could have a material adverse effect on the Company's financial position, results of operations, and cash flows. At this time, the Company is unable to predict the outcome of this litigation. Therefore, the Company has not recorded any accruals for future expenses related to this case, as the Company is currently unable to estimate these amounts. As of June 30, 2004 the Company had accrued $346,000 for legal fees incurred but unpaid related to this case and recorded an asset of $346,000 representing the anticipated recovery of these fees from the Company's insurance carrier. The $346,000 accrual is included as a component of accrued expenses and other current liabilities and the $346,000 insurance receivable is included as a component of other receivables, net on the June 30, 2004 Summary Consolidated Balance Sheet. The Company believes that the receivable will be fully collectible.

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 names the Company as a nominal defendant, alleges 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 seek undisclosed damages, costs and attorney's fees, punitive damages, and prejudgment interest against the individual defendants derivatively on behalf of the Company. As previously disclosed, the Company's Board of Directors has established an independent committee to investigate the allegations of Ms. Lichtenberger and Mr. Frailey. The independent committee engaged independent legal counsel to assist in the investigation, which culminated in a report by the committee concluding that no officer or director breached any fiduciary duty. In October 2003 the two derivative suits were consolidated into one action in the Superior Court of Fulton County, and a consolidated amended complaint was filed. The independent committee, along with its independent legal counsel, evaluated the consolidated amended complaint and concluded that its prior report and determination addressed the material allegations contained in the consolidated amended complaint. The committee reiterated its previous conclusions and determinations, including that maintaining the derivative litigation is not in the best interests of the Company. Based on the report of the independent committee, the Company moved to dismiss the derivative litigation in May 2004. That motion remains pending. At this time, the Company is unable to predict the outcome of this litigation. Although the derivative suit is brought nominally on behalf of the Company, the Company expects to continue to incur defense costs and other expenses in connection with the derivative litigation.

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 into certain matters relating to the Company's August 14, 2002 announcement of the recall order issued by the FDA. 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 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. As of the date hereof, the SEC has had no discussions with CryoLife representatives as to whether or against whom it will seek relief, 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.

Other Litigation
In October 2003 an action was filed against multiple defendants, including the Company, titled Donald Payne and Candace Payne v. Community Blood Center, et al, in the Circuit Court of the State of Oregon, County of Multnomah, seeking noneconomic damages of $9.0 million and other damages of $4.7 million. The suit alleges that Mr. Payne received a tissue implant processed by one of the other defendants, and that he was subsequently diagnosed with an infection attributed to the implant. The claim against the Company asserts that CryoLife had processed tissue from the same donor and been notified that a recipient of that tissue had contracted the same virus, and further asserts that the Company had a duty to notify governmental authorities and two of the other defendants. A second action, titled L.L.R. and W.C.R. v. Community Blood Center, et al, was filed in October 2003 in the same court as the Payne case, against the same defendants, seeking the same amounts of damages. In this case the plaintiffs allege the recipient received an implant processed by the same co-defendant tissue processor, from the same donor as Mr. Payne, and contracted an infection. A trial date for these actions has been set for October 18, 2004. In late July 2004 a third action was filed against multiple defendants, including the Company, titled Anthony F. Spadaro v. Community Blood Center, et al, in the same court as the other two cases, seeking noneconomic damages of $6.0 million, $1.7 million in economic damages, and punitive and exemplary damages. This suit alleges that Mr. Spadaro received a tissue implant processed by the same defendant tissue processor that was named in the other two suits, and that he was subsequently diagnosed with an infection attributed to the implant. This claim also asserts that the Company had processed tissue from the same donor and been notified that a recipient of the tissue had contracted the same virus, and that the Company had a duty to notify governmental authorities and two of the other defendants. The Company does not have insurance coverage for these claims. The Company intends to vigorously defend against these claims, although the Company is presently unable to predict the outcome and accordingly has not recorded an accrual related to these potential losses.

PART I — FINANCIAL INFORMATION

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

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 "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 steps to ensure that the tissue was used for approved purposes and that patients were notified of risks associated with tissue use. The Agreement had a renewable 45-business day term, and the final renewal expired on September 5, 2003. The Company is no longer shipping tissue subject to the recall (processed between October 3, 2001 and September 5, 2002). A renewal of the Agreement that expired on September 5, 2003 was not needed in order for the Company to continue to distribute non-valved cardiovascular, vascular, and orthopaedic tissues processed after September 5, 2002.

In addition, pursuant to the Agreement, the Company agreed to perform additional procedures in the processing of non-valved cardiac and vascular tissues and subsequently resumed processing these tissues. The Company also agreed to establish a corrective action plan within 30 days from September 5, 2002 with steps to validate processing procedures. The corrective action plan was submitted on October 5, 2002.

Other FDA Correspondence and Notices

FDA Form 483 Notices of Observations were issued in connection with the FDA inspections of the Company's facilities in February 2003, October 2003, and February 2004. The Company responded to the February 2003 483 in March 2003, responded to the October 2003 483 in October 2003, November 2003, and April 2004, and responded to the February 2004 483 in March 2004, April 2004, and June 2004. The Company continues 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 CryoValve® SG and that premarket approval marketing authorization should be obtained for the Company's 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 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 February 4, 2004 the Company received a letter from the FDA requesting that additional information be provided to support the 510(k) premarket notification for the CryoValve SG. The requested information may require that additional studies be undertaken. Clearance of the 510(k) premarket notification with the FDA will be required before the Company can resume distribution of SynerGraft processed cardiovascular tissue, including the CryoValve SG. The Company is still in discussions with the FDA regarding the type of submissions necessary for the CryoVein SG. The outcome of the discussions and filing with the FDA regarding the use of the SynerGraft process on human tissue, including the CryoValve SG and CryoVein SG, could result in an inability to distribute tissues with the SynerGraft technology until further submissions and FDA clearances are granted.

The Company suspended the use of the SynerGraft technology in the processing of allograft cardiovascular and vascular tissue and has suspended the distribution of tissues on hand that have been processed with the SynerGraft technology until the regulatory status of the CryoValve SG and CryoVein SG is resolved. Additionally, the Company discontinued labeling its vascular grafts for use as A-V access grafts. The FDA has not suggested that these tissues be recalled. Until such time as the issues surrounding the SynerGraft treated tissues are resolved, the Company will employ its traditional processing methods on these tissues. Distribution of allograft heart valves and vascular tissue processed using the Company's traditional processing protocols will continue. During the three months ended June 30, 2004, the Company wrote down $353,000 in SynerGraft processed cardiovascular and vascular tissues. As of June 30, 2004 the Company has no additional deferred preservation costs related to SynerGraft processed tissues on its Summary Consolidated Balance Sheet.

Critical Accounting Policies

A summary of the Company's significant accounting policies is included in Note 1 to the consolidated financial statements, as filed in the Form 10-K for the fiscal year ended December 31, 2003. 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 consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States, 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.

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, freight-in charges, and fringe benefits, and indirect costs including allocations of costs from departments that support processing activities and facility allocations. Deferred preservation costs are stated, net of reserve, 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. 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 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 value of deferred preservation costs on the Company's balance sheet and the cost of preservation services, including the lower of cost or market write-down, on the Company's Summary Consolidated Statement of Operations.

During 2002 the Company recorded write-downs of deferred preservation costs totaling $32.7 million. These write-downs were recorded as a result of the FDA Order as discussed in "FDA Order on Human Tissue Preservation" above. 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 these tissues become available for distribution. The cost of human tissue preservation services has been favorably affected by tissue shipments that were related to previously written-down deferred preservation costs. The cost of human tissue preservation services may continue to be favorably affected depending on the future level of tissue shipments related to previously written-down deferred preservation costs, but such impact is not expected to be material. Management continues to evaluate the recoverability of the deferred preservation costs and will record additional write-downs if it becomes clear that additional impairments have occurred.

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 $1.2 million and $4.8 million, respectively, in the three and six months ended June 30, 2004 and $1.1 million and $1.4 million, respectively, in the three and six months ended June 30, 2003 as an increase to cost of preservation services to write-down the value of certain deferred tissue

preservation costs from tissues 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.

As of June 30, 2004 deferred preservation costs were $3.0 million for allograft heart valve tissues, $198,000 for non-valved cardiac tissues, $2.4 million for vascular tissues, and $1.8 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 activity, and reported tissue infections. The Company continued to generate deferred tax assets for the three and six months ended June 30, 2004 primarily as a result of operating losses and expects to do so throughout 2004. The Company periodically assesses the recoverability of 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.

The Company evaluated several factors to determine if a valuation allowance relative to its deferred tax assets was necessary during 2003. The Company reviewed its historic operating results, including the reasons for its operating losses in 2003 and 2002, uncertainties regarding projected future operating results due to the effects of the adverse publicity resulting from the FDA Order, subsequent FDA activity, and reported tissue infections, the changes in processing methods resulting from the FDA Order, and the uncertainty of the outcome of product liability claims. Based on the results of this analysis, the Company determined that it was more likely than not that the Company's deferred tax assets would not be realized. Therefore, during 2003 the Company recorded valuation allowances totaling $13.7 million due to the effect of temporary differences between book and tax income, the net deferred tax assets generated in 2003, and the net deferred tax asset balance at December 31, 2002. For the three and six months ended June 30, 2004 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 June 30, 2004 the Company had a total of $18.4 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 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 Company used a twelve-year period for the undiscounted future cash flows. This period of time was selected based upon the approximate remaining life of the primary assets of the asset groups, which are leasehold improvements. The undiscounted future cash flows related to these asset groups exceeded their carrying values as of December 31, 2003 and, therefore, management has 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.

Statement of Financial Accounting Standards ("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, 2003 the Company did not believe that an impairment existed related to the other intangible assets that were assessed in accordance with SFAS No. 144.

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 have been filed. As of August 4, 2004 the Company was aware of ten pending product liability lawsuits. The lawsuits are currently in the pre-discovery or discovery stages. Of these lawsuits, four allege product liability claims arising out of the Company's orthopaedic tissue services, four allege product liability claims arising out of the Company's allograft heart valve tissue services, one alleges product liability claims arising from BioGlue, and one alleges product liability claims arising out of the non-tissue products made by Ideas for Medicine, Inc. when it was a subsidiary of the Company.

Of the ten open lawsuits a total of four are covered by the Company's insurance coverage as follows: two lawsuits by the 2000/2001 insurance policy, one by the 2003/2004 insurance policy and one by the 2004/2005 insurance policy. For the 2000/2001 insurance policy year the Company maintained claims-made insurance policies, which the Company believes to be adequate to defend against the suits filed during this period. As of June 30, 2004 the Company has an accrual of $100,000 for the remaining retention levels related to the 2000/2001 insurance policy year. The Company believes its 2003/2004 and 2004/2005 insurance policies to be adequate to defend against the covered suit filed during each of these time periods.

Of the ten open lawsuits the remaining six are not covered by the Company's insurance policies as either these lawsuits relate to the 2002/2003 insurance policy year for which the Company has used all of its insurance coverage, aggregating $25 million, or they were asserted in periods after the coverage in the

related incident year had lapsed. 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 June 30, 2004 of the pending product liability claims based on settlement negotiations to date and advice from counsel. As of June 30, 2004 the Company had accrued a total of $5.6 million for pending product liability claims and recorded $1.2 million representing amounts to be recovered from the Company's insurance carriers. The $5.6 million accrual is included as a component of accrued expenses and other current liabilities and the $1.2 million amount recoverable is included as a component of other receivables on the June 30, 2004 Summary Consolidated Balance Sheet. These amounts represent the Company's estimate of the probable losses and anticipated recoveries related to six of the ten pending product liability claims. The Company has not recorded an accrual for the remaining four 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 cannot be made at this time. The amount recorded as a liability is reflective of estimated legal fees and settlement costs related to these claims, and does not reflect actual settlement arrangements, actual judgments, including punitive damages, which may be assessed by the courts, or cash set aside for the purpose of making payments. The amount recorded as a receivable is reflective of the estimated amount recoverable from the Company's insurance carrier, based on the Company's estimate of the liability and analysis of the policy terms. The Company believes that these amounts are fully collectible. Prior to 2004, the Company recorded accruals for the uninsured portion of product liability claims for which the amount of probable loss was reasonably estimable. Had the Company recorded the total amounts of the reasonably estimable probable losses as a liability and recorded an asset for the estimated amount recoverable from the insurance carrier, the impact on the financial statements as of December 31, 2003 would not have been material. 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, 2004 the Company bound coverage for the 2004/2005 insurance policy year. This policy is a two-year claims made insurance policy, i.e. claims incurred during the period April 1, 2003 through March 31, 2005 and reported during the period April 1, 2004 through March 31, 2005 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 sold. The Company retained an independent actuarial firm to perform revised estimates of the unreported claims as of June 30, 2004. 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 million was selected for actuarial purposes in determining the liability per claim given the uncertainty in projecting claim losses in excess of $5 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 2004 would be lower than the Company experienced during the 2002/2003 policy year but higher than the Company's historical claim frequency in prior policy years,
- The average cost per claim would be lower than the Company experienced during the 2002/2003 policy year but higher than the Company's historical cost per claim in prior policy years,
- 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 10% lower than non-BioGlue claims per million dollars to adjust for the increase of BioGlue revenue as a percentage of total revenues since 2002 and the BioGlue claims history to date.

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 and uncertainties surrounding the assumptions used as well as due to Company specific conditions including the FDA Order, the Company's recent levels of litigation activity, the Company's low volume of 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.

Beginning April 1, 2004 and concurrent with signing the claims-made insurance policy for the policy year from April 1, 2004 to March 31, 2005, the Company implemented the provisions of Emerging Issues Task Force Issue 03-8, Accounting for Claims-Made Insurance and Retroactive Contracts by the Insured Entity ("EITF 03-8"). Pursuant to EITF 03-8, the Company continues to record an estimated liability for unreported product liability claims and has begun to record a related recoverable from insurance. Prior to the effective date of EITF 03-8, the Company did not record a recoverable from insurance related to the unreported product liability claims. Based on the actuarial valuation performed as of June 30, 2004, the Company estimated that its liability for

unreported product liability claims was $8.0 million, and accrued this amount, representing the Company's best estimate of the total liability for unreported product liability claims related to services performed and products sold prior to June 30, 2004. The $8.0 million balance is included as a component of accrued expenses and other current liabilities of $4.0 million and other long-term liabilities of $4.0 million on the June 30, 2004 Summary Consolidated Balance Sheet. Further analysis indicated that the liability could be estimated to be as high as $14.2 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 June 30, 2004, $1.4 million of the accrual for unreported liability claims would be recoverable under the Company's insurance policies. The $1.4 million insurance recoverable is included as a component of other receivables of $500,000 and other assets of $900,000 on the June 30, 2004 Summary Consolidated Balance Sheet. These amounts represent management's estimate of the probable losses and anticipated recoveries related to unreported product liability claims related to services performed and products sold prior to June 30, 2004. Actual results may differ from this estimate.

New Accounting Pronouncements

There have been no recent accounting pronouncements applicable to the Company beyond those reported in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, as filed with the Securities and Exchange Commission on March 1, 2004.

Results of Operations
(In thousands)

Revenues

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Revenues	$ 15,314	$ 15,713	$ 30,400	$ 31,633

Revenues decreased 3% and 4%, respectively, for the three and six months ended June 30, 2004 as compared to the three and six months ended June 30, 2003. The 3% decrease in revenues for the three month period was primarily due to decreases in cardiovascular and vascular tissue preservation service revenues compared to the prior year quarter, partially offset by an increase in revenues from sales of BioGlue Surgical Adhesive. The 4% decrease in revenues for the six month period was primarily due to the inclusion of $848,000 in favorable adjustments to the estimated tissue recall returns for the period ended June 30, 2003 due to lower actual tissue returns under the FDA Order than were originally estimated and decreases in cardiovascular and vascular tissue preservation service revenues compared to the prior year period, partially offset by an increase in revenues from sales of BioGlue Surgical Adhesive.

Further discussion of the increase in BioGlue revenues and the decrease in cryopreservation service revenues for each of the three major tissue types processed by the Company continues in the detailed sections below.

BioGlue Surgical Adhesive

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Revenues	$ 8,962	$ 6,839	$ 17,605	$ 13,333
BioGlue revenues as a percentage of total revenue	59%	44%	58%	42%

Revenues from the sale of BioGlue Surgical Adhesive increased 31% and 32%, respectively, for the three and six months ended June 30, 2004 as compared to the three and six months ended June 30, 2003. The 31% increase in revenues for the three months ended June 30, 2004 was primarily due to an increase in average selling prices which increased revenues by 17%, and an increase in BioGlue sales volume as a result of an increase in foreign and domestic demand which increased revenues by 14%. The 32% increase in revenues for the six months ended June 30, 2004 was primarily due to an increase in BioGlue sales volume as a result of an increase in demand which increased revenues by 17%, and an increase in average selling prices which increased revenues by 15%.

The Company experienced volume increases in the 2ml, 5ml, and 10ml sizes as well as BioGlue applicator tips and delivery devices in the three and six months ended June 30, 2004. In addition the Company introduced a new BioGlue syringe product in the second quarter of 2004, which also resulted in volume growth. Price increases in the three and six months ended June 30, 2004 were largely due to a list price increase for BioGlue that went into effect on December 1, 2003. Domestic revenues accounted for 78% and 79%, respectively, of total BioGlue revenues for the three and six months ended June 30, 2004, compared to 77% and 78%, respectively, of total BioGlue revenues for the three and six months ended June 30, 2003.

The Company anticipates that revenues from BioGlue Surgical Adhesive will continue to grow for the full year 2004 when compared to 2003 due to increases in sales volume in domestic and foreign markets and due to the price increase that went into effect in late 2003.

Cardiovascular Preservation Services

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Revenues	$ 2,831	$ 5,036	$ 6,261	$ 9,761
Cardiovascular revenues as a percentage of total revenue	18%	32%	21%	31%

Revenues from cardiovascular preservation services decreased 44% and 36%, respectively, for the three and six months ended June 30, 2004 as compared to the three and six months ended June 30, 2003. The 44% decrease in revenues for the three months ended June 30, 2004 was due to a decrease in cardiovascular volume, which reduced revenues by 30%, and a decrease in average service fees, which reduced revenues by 14%. The 36% decrease in revenues for the six months ended June 30, 2004 was due to a decrease in cardiovascular volume, which reduced revenues by 22%, and a decrease in average service fees, which reduced revenues by 14%. Revenues for the six months ended June 30, 2003 include $92,000 in favorable adjustments to estimated tissue recall returns due to lower actual tissue returns under the FDA Order than were originally estimated in 2002.

Volume decreases were largely due to a decrease in shipments of cryopreserved heart valves, which declined 45% and 33%, respectively, for the three and six months ended June 30, 2004 over the prior year periods, partially offset by increases in shipments of non-valved cardiac tissues. The decrease in heart valve shipments is directly related to the reduced amount of tissues available for implantation due to a reduction in procurement levels during 2003 and 2004 as compared to prior to the FDA Order, the disposal of much of the Company's heart valve tissue processed prior to October 3, 2001, and increased tissue processing and release times and lower yields of implantable tissue per donor as a result of process changes implemented in the latter half of 2002 and during 2003. Price decreases were largely driven by lower average service fees due to a change in product mix as shipments of heart valves and non-valved cardiac tissues processed with the SynerGraft process decreased, while shipments of lower fee cardiac tissues processed using traditional processes increased. This was due to the Company's suspension of shipments of SynerGraft processed cardiac tissues in September 2003.

The Company's procurement of cardiac tissues during the three months ended June 30, 2004, from which heart valves and non-valved cardiac tissues are processed, decreased 3% as compared to the three months ended June 30, 2003. Procurement of cardiac tissues during the three months ended June 30, 2004 increased 5% as compared to the three months ended March 31, 2004. Procurement of cardiac tissues remains significantly below procurement in the second quarter of 2002, prior to the FDA Order.

The Company anticipates that cardiovascular service revenues will be lower for the full year 2004 as compared to 2003, if the Company continues to process and ship tissues using only its traditional cryopreservation process. The Company has implemented price increases effective July 2004 which is expected to be a factor in increasing revenues during the second half of 2004 as compared to the second half of 2003. Increases in cardiovascular revenues in the long term are contingent on the Company's ability to increase the amount of tissues available for implantation by decreasing tissue processing and release times and increasing yields of implantable tissue per donor and to resume processing and shipping tissues processed using SynerGraft technology.

As discussed in Other FDA Correspondence and Notices in February 2003, 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 June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Revenues	$ 2,649	$ 3,299	$ 5,135	$ 7,554
Vascular revenues as a percentage of total revenue	17%	21%	17%	24%

Revenues from vascular preservation services decreased 20% and 32%, respectively, for the three and six months ended June 30, 2004 as compared to the three and six months ended June 30, 2003. The 20% decrease in revenues for the three months ended June 30, 2004 was due to a decrease in vascular volume, which reduced revenues by 19% and a decrease in average service fees, which reduced revenues by 1%. The 32% decrease in revenues for the six months ended June 30, 2004 was due to a decrease in vascular volume, which reduced revenues by 32%. Revenues for the six months ended June 30, 2003 include $711,000 in favorable adjustments to estimated tissue recall returns due to lower actual tissue returns under the FDA Order than were originally estimated in 2002.

Volume decreases were largely due to a decrease in shipments of saphenous and femoral veins, which declined 15% and 35%, respectively, for the three and six months ended June 30, 2004 over the prior year periods. The decrease in vein shipments was directly related to the reduced amount of tissues available for implantation due to a reduction in procurement levels during 2003 and 2004 as compared to prior to the FDA Order, the disposal of much of the Company's vascular tissue processed prior to October 3, 2001, and increased tissue processing and release times and lower yields of implantable tissue per donor as a result of process changes implemented in the latter half of 2002 and during 2003.

The Company's procurement of vascular tissues during the three months ended June 30, 2004 decreased 25% as compared to the three months ended June 30, 2003. Procurement of vascular tissues during the three months ended June 30, 2004 decreased 13% as compared to the three months ended March 31, 2004. Procurement of vascular tissues remains significantly below procurement in the second quarter of 2002, prior to the FDA Order.

The Company anticipates that vascular service revenues will increase for the full year 2004 as compared to 2003 based on expected procurement levels, consumer demand, and an expected improvement in yields of implantable tissues. The Company has implemented price increases effective July 2004 which is expected to be a factor in increasing revenues during the second half of 2004 as compared to the second half of 2003. Increases in vascular revenues in the long term are contingent on the Company's ability to increase the amount of tissues available for implantation by decreasing tissue processing and release times and increasing yields of implantable tissue per donor and to increase the level of procurement as necessary based on customer demand and processing capacity.

As discussed in Other FDA Correspondence and Notices the Company has suspended the use of the SynerGraft technology in the processing of allograft vascular 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 CryoVein SG is resolved. Additionally, the Company has discontinued labeling its vascular grafts for use as A-V access grafts. At this time, the Company cannot estimate when or if it will resume processing allograft vascular tissue using the SynerGraft technology.

Orthopaedic Preservation Services

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Revenues	$ 574	$ 280	$ 883	$ 430
Orthopaedic revenues as a percentage of total revenue	4%	2%	3%	1%

Revenues from orthopaedic preservation services increased 105% and 129%, respectively, for the three and six months ended June 30, 2004 as compared to the three and six months ended June 30, 2003. Revenues in both periods were significantly below pre-FDA Order levels due to a severe reduction in processing and shipments of orthopaedic tissues following the FDA Order and subsequent FDA activity as discussed in "FDA Order on Human Tissue Preservation" and "Other FDA Correspondence and Notices" above. Revenues as reported for the six months ended June 30, 2003 include $45,000 in favorable adjustments to estimated tissue recall returns due to lower actual tissue returns under the FDA Order than were originally estimated in 2002.

During several periods in 2002 and 2003 the Company temporarily suspended the processing and distribution of all or portions of the Company's orthopaedic tissues as a result of the FDA Order, and subsequent system reviews. These suspensions of processing, combined with the disposal of much of the Company's orthopaedic tissue processed prior to October 3, 2001 in accordance with the FDA Order, resulted in low levels of orthopaedic tissues available for shipment in the latter half of 2002 and much of 2003. During the three and six months ended June 30, 2004, the Company distributed both boned and non-boned orthopaedic tissues.

The Company's procurement of orthopaedic tissues during the three months ended June 30, 2004 increased 72% as compared to three months ended June 30, 2003. Procurement of orthopaedic tissues during the three months ended June 30, 2004 increased 8% as compared to the three months ended March 31, 2004. Procurement of orthopaedic tissues remains significantly below procurement in the second quarter of 2002, prior to the FDA Order.

The Company anticipates that orthopaedic service revenues will show an increase for the full year 2004 as compared to 2003 based on expected procurement levels, consumer demand, an expected improvement in yields of implantable tissues, and the anticipated uninterrupted processing and shipping of orthopaedic tissue. Revenues from orthopaedic tissue services are still expected to be well below 2002 levels prior to the FDA Order. Increases in orthopaedic revenues in the long term are contingent on the Company's ability to increase the amount of tissues available for implantation by decreasing tissue processing and release times and increasing yields of implantable tissue per donor and to increase the level of procurement as necessary based on processing capacity and customer demand.

Grant Revenues

Grant revenues were $57,000 and $59,000, respectively, for the three and six months ended June 30, 2004 as compared to $166,000 and $357,000 for the three and six months ended June 30, 2003. Grant revenues in 2004 and 2003 were attributable to the Activation Control Technology ("ACT") research and development programs through AuraZyme Pharmaceuticals, Inc. ("AuraZyme") and the SynerGraft research and development programs. In February 2001 the Company formed the wholly owned subsidiary AuraZyme to foster the commercial development of ACT, a reversible linker technology that has potential uses in the areas of cancer therapy, fibrinolysis (blood clot dissolving), and other drug delivery applications.

The Company does not anticipate that significant amounts of grant revenue will be recognized during 2004.

Cost of Products

Cost of products aggregated $1.9 million and $3.8 million, respectively, for the three and six months ended June 30, 2004, representing 21% of total product revenues during such periods. Cost of products aggregated $2.0 million and $3.6 million, respectively, for the three and six months ended June 30, 2003, representing 29% and 27%, respectively, of total product revenues during such periods. The decrease in cost of products as a percentage of total product revenues for the three and six months ended June 30, 2004 was due to a favorable product mix that was affected by the increase in revenues from BioGlue Surgical Adhesive, which carries higher gross margins than bioprosthetic devices and by increasing margins on BioGlue Surgical Adhesive due to increased manufacturing throughput.

The Company anticipates cost of products will increase for the full year 2004 when compared to 2003, due to the projected increase in product revenues during 2004. The cost of products as a percentage of product revenues for the full year 2004 is expected to continue to be lower than 2003 due to favorable product mix.

Cost of Human Tissue Preservation Services

Cost of human tissue preservation services increased 46% to $7.5 million for the three months ended June 30, 2004 as compared to $5.2 million for the three months ended June 30, 2003, representing 125% and 60%, respectively, of total human tissue preservation service revenues during such periods. Cost of human tissue preservation services increased 119% to $16.6 million for the six months ended June 30, 2004 as compared to $7.6 million for the six months ended June 30, 2003, representing 136% and 43%, respectively, of total human tissue preservation service revenues during such periods.

Cost of human tissue preservation services for the three and six months ended June 30, 2004 includes an increase to cost of preservation services to adjust the value of certain deferred tissue preservation costs that exceeded market value of $1.2 million and $4.8 million, respectively, and $353,000 in costs related to the write-down of SynerGraft processed tissues. Cost of human tissue preservation services for the three and six months ended June 30, 2004 includes the favorable effect on gross margin of shipments of tissue with a zero cost basis of approximately $173,000 and $530,000, due to write-downs of deferred preservation costs in the second and third quarter of 2002. Cost of human tissue preservation services for the three and six months ended June 30, 2003 includes an increase to cost of preservation services to adjust the value of certain deferred tissue preservation costs that exceeded market value of $1.1 million and $1.4 million, respectively, and the favorable effect on gross margin of shipments of tissue with a zero cost basis of approximately $1.0 million and $3.4 million, respectively, due to write-downs of deferred preservation costs in the second and third quarter of 2002. Additionally, cost of human tissue preservation services was negatively impacted for the three and six months ended June 30, 2004 by higher overhead cost allocations associated with the decreased volume of tissues processed, changes in processing methods resulting from the FDA Order, and a decrease in tissue shipments of tissues treated with

the SynerGraft process as compared to traditional processing. These increases in cost of human tissue preservation services occurred during a period of decreased human tissue preservation service revenues, resulting in an increase in the cost of human tissue preservation services as a percentage of total human tissue preservation service revenues for the three and six months ended June 30, 2004 as compared to the three and six months ended June 30, 2003.

The Company anticipates cost of human tissue preservation services will increase for the full year 2004 when compared to 2003, due to increased costs due to changes in processing methods, increased tissue processing and release times, and decreased yields of implantable tissue per donor. In the second quarter of 2004, the Company has made changes to its processing methods, which has improved its yields of implantable tissue per donor in the second quarter of 2004 as compared to the first quarter of 2004. The Company will continue to make efforts to improve yields of implantable tissue per donor throughout the remainder of 2004. Continued improved yields of implantable tissue per donor as a result of these processing changes cannot be assured. The cost of human tissue preservation services as a percentage of preservation service revenues is expected to 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. Decreases in cost of human tissue preservation services as a percentage of preservation service revenues in the long term are contingent on the Company's ability to reestablish sufficient margins on its tissue preservation services by increasing the amount of tissues processed, decreasing tissue processing and release times, and increasing yields of implantable tissue per donor.

The cost of human tissue preservation services may continue to be favorably affected throughout 2004 by shipments of tissue with a cost basis that has previously been written-down to zero, but the impact is not expected to be material. 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.

General, Administrative, and Marketing Expenses

General, administrative, and marketing expenses decreased 59% to $9.7 million for the three months ended June 30, 2004, compared to $23.5 million for the three months ended June 30, 2003, representing 63% and 150%, respectively, of total revenues during such periods. General, administrative, and marketing expenses decreased 44% to $19.8 million for the six months ended June 30, 2004, compared to $35.1 million for the six months ended June 30, 2003, representing 65% and 111%, respectively, of total revenues during such periods. The decrease in expenses for the three and six months ended June 30, 2004 was primarily due to accruals in the prior year periods that did not recur in 2004 including $12.7 million and $13.2 million, respectively, for the three and six months ended June 30, 2003 for the estimated expense to resolve ongoing product liability claims in excess of insurance coverage and for estimated unreported product liability claims related to services performed and products sold prior to June 30, 2003, and due to a reduction in legal expenses of $800,000 in the current year periods. (See Legal Proceedings at Part II Item 1 for further discussion of these items.) The decrease in expenses was also due to a reduction in professional service fees (legal, consulting, and accounting) of approximately $1.0 million and $2.8 million, respectively, for the three and six months ended June 30, 2004 as compared to the three and six months ended June 30, 2003.

The Company expects to continue to incur significant legal costs and professional fees, as compared to pre-FDA Order periods, to defend and resolve lawsuits filed against the Company and to address FDA compliance requirements. Also, the Company adopted EITF 03-8 beginning April 1, 2004 and continues to report an estimated liability for product liability claims, and has begun to record a related recoverable from insurance.

Research and Development Expenses

Research and development expenses were $891,000 for the three months ended June 30, 2004, compared to $1.1 million for the three months ended June 30, 2003, representing 6% and 7%, respectively, of total revenues during such periods. Research and development expenses were $1.8 million for the six months ended June 30, 2004, compared to $2.0 million for the six months ended June 30, 2003, representing 6% of total revenues during such periods. Research and development spending in 2004 and 2003 was primarily focused on the Company's core tissue cryopreservation, SynerGraft, and Protein Hydrogel Technologies ("PHT"). PHT includes BioGlue and related products.

Other Costs and Expenses

Interest expense decreased to $59,000 for the three months ended June 30, 2004, compared to $147,000 for the three months ended June 30, 2003. Interest expense decreased to $102,000 for the six months ended June 30, 2004, compared to $279,000 for the six months ended June 30, 2003. Interest expense for the three and six months ended June 30, 2004 and 2003 included interest incurred related to the Company's capital leases. Interest expense for the six months ended June 30, 2003 also included interest incurred on the Company's Term Loan, which was paid in full in the third quarter of 2003.

Interest income decreased to $64,000 for the three months ended June 30, 2004, compared to $116,000 for the three months ended June 30, 2003. Interest income decreased to $130,000 for the six months ended June 30, 2004, compared to $247,000 for the six months ended June 30, 2003. Interest income in both periods was primarily due to interest earned on the Company's cash, cash equivalents, and marketable securities.

The Company's income tax benefit of $1.4 million for the three and six months ended June 30, 2004 was due to the receipt of tax refunds related to product liability expenses incurred in 2003. The Company's income tax expense of $3.6 million and $3.4 million, respectively, for the three and six months ended June 30, 2003 was due to the establishment of a valuation allowance against the Company's deferred tax assets of $9.0 million, partially offset by income tax benefits, recorded at an effective income tax rate of 33%.

Seasonality

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.

The demand for the Company's BioGlue Surgical Adhesive appears to experience some seasonality, 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. As BioGlue is a recently introduced product that has not fully penetrated the marketplace, the full nature of any seasonal trends in BioGlue sales may be obscured. The Company will continue to evaluate the seasonal nature of BioGlue sales.

The demand for the Company's human 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 June 30, 2004 net working capital (current assets of $50.0 million less current liabilities of $24.5 million) was $25.5 million, with a current ratio (current assets divided by current liabilities) of 2 to 1, compared to net working capital of $14.8 million, with a current ratio of 2 to 1 at December 31, 2003. 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 periods the Company's primary capital requirements arose out of working capital needs created by increasing costs of operations combined with lower tissue processing preservation revenues due to the effects 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. Operating results have also been negatively impacted by increases in general, administrative, and marketing costs over pre-FDA Order levels, as a result of increased legal and professional fees and litigation costs. For the three months ended June 30, 2004 the Company funded these requirements primarily through sales and maturities of marketable securities and the proceeds of its equity financing, as discussed below.

Overall Liquidity and Capital Resources

The Company expects that its operations will continue to generate negative cash flows throughout the remainder of 2004 due to:

- The anticipated lower preservation revenues as compared to preservation revenues prior to the FDA Order, subsequent FDA activity, and related events (discussed in "FDA Order on Human Tissue Preservation" and "Other FDA Correspondence and Notices"),
- The high cost of human tissue preservation services as a percent of revenue as a result of lower tissue processing volumes and changes in processing methods,
- An expected use of cash related to the defense and resolution of lawsuits, and
- The legal and professional costs related to ongoing FDA compliance.

The Company believes anticipated revenue generation, expense management, and the Company's existing cash, cash equivalents, and marketable securities will enable the Company to meet its liquidity needs through at least June 30, 2005.

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 will be used for general corporate purposes. 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. 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's long term liquidity and capital requirements will depend upon numerous factors, including:

- The Company's ability to return to the level of demand for its tissue services that existed prior to the FDA Order,
- The Company's ability to reestablish sufficient margins on its tissue preservation services in the face of increased processing costs,
- The Company's spending levels on its research and development activities, including research studies, to develop and support its service and product pipeline,
- The amount and the timing of the resolution of the remaining outstanding product liability claims (see Part II. Item 1. Legal Proceedings), and

- The outcome of other litigation against the Company (see Part II. Item 1. Legal Proceedings).

The Company 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 June 30, 2005. The Company may elect to obtain financing prior to that time depending on the availability and terms of the financing agreement. 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.

As discussed in Note 12 to the summary consolidated financial statements, as of June 30, 2004 the Company had accrued a total of $5.6 million for pending product liability claims and recorded a receivable of $1.2 million representing amounts to be paid by the Company's insurance carriers. The $5.6 million accrual less the $1.2 million receivable 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, including punitive damages, which may be assessed by the courts. The $5.6 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 settlements of these outstanding claims in order to minimize the potential cash payout. See additional discussion of these matters in Note 12 to the summary consolidated financial statements.

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.

In addition, as discussed in Note 12 to the summary consolidated financial statements; at June 30, 2004 the Company had $8.0 million remaining in an accrual for the estimated costs of unreported product liability claims related to services performed and products sold prior to June 30, 2004. The $8.0 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.

Net Cash from Operating Activities

Net cash used in operating activities was $5.0 million for the six months ended June 30, 2004, as compared to cash provided of $3.0 million for the six months ended June 30, 2003. The $5.0 million of cash used in the six months ended June 30, 2004 was primarily due to a decrease in revenues and an increase in cash expenditures, reflecting the long-term effect 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 and the Company's efforts to address the FDA's concerns. Spending, including the cost of employees and facilities was not sufficiently supported by cash received from revenues. Spending on general and administrative expenses also contributed to the cash shortfall in operations.

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. For the six months ended June 30, 2004, the Company's $10.4 million net loss from operations included significant recurring non-cash items that generated favorable and unfavorable adjustments to net loss. These adjustments included a favorable $2.7 million in depreciation and amortization, a favorable $5.2 million in write-downs for impairment of deferred preservation costs, an unfavorable $1.7 million due to the timing differences between the recording of receivables and the actual receipt of cash, and the receipt of income tax refunds of $2.4 million in the second quarter of 2004, an unfavorable $3.9 million due to the buildup of deferred preservation costs and inventories for which vendors and employees have already been paid, a favorable $1.7 million due to the timing differences between the recording of accounts payable, accrued expenses, and other current liabilities and the actual payment of cash, and a favorable $1.3 million primarily due to the timing differences associated with prepaid expenses and other assets.

The Company expects that its operations will continue to generate negative cash flows throughout the remainder of 2004. This cash used will primarily be a result of the Company's projected net loss for 2004. The Company does not currently expect that it will be required to record significant additional non-cash write-downs of deferred preservation costs and inventory or additional significant accruals related to product liabilities during 2004, but such items would not have a direct effect on net cash from operations. Significant additional cash payments related to settlements and tissue product costs, as discussed above, could have a negative impact on future cash flows.

Net Cash from Investing Activities

Net cash provided by investing activities was $1.1 million for the six months ended June 30, 2004, as compared to $4.5 million for the six months ended June 30, 2003. The $1.1 million in current year cash provided was primarily due to $1.4 million in cash generated from sales and maturities of marketable securities net of purchases, partially offset by $439,000 in capital expenditures.

Net Cash from Financing Activities

Net cash provided by financing activities was $18.3 million for the six months ended June 30, 2004, as compared to cash used of $1.6 million for the six months ended June 30, 2003. The $18.3 million in current year cash provided was primarily due to $19.4 million in proceeds from the Company's PIPE equity offering discussed above, partially offset by $1.3 million in principle payments on short-term notes payable and capital leases.

Scheduled Contractual Obligations and Future Payments

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

	Total	Remainder of 2004	2005	2006	2007	2008	Thereafter
Capital Lease Obligations	$ 2,372	$ 421	$ 843	$ 843	$ 265	$ --	$ --
Operating Leases	24,985	1,147	2,238	2,044	2,068	2,108	15,380
Purchase Commitments	655	574	61	20	--	--	--
Total Contractual Obligations	$28,012	$ 2,142	$3,142	$2,907	$2,333	$2,108	$15,380

The Company's capital lease obligations result from the financing of certain of the Company's equipment and leasehold improvements during the renovation of the corporate headquarters and manufacturing facilities in previous years. Due to cross default provisions included in the Company's Term Loan which was paid in full on August 15, 2003, the Company was in default of certain capital lease agreements maintained with the lender under the Term Loan as described in Note 6 to the summary consolidated financial statements. Therefore, the $1.3 million due under these capital leases is reflected as a current liability on the Summary Consolidated Balance Sheets as of June 30, 2004. Additional capital lease obligations result from the lease of a building related to Company's Ideas for Medicine, Inc. ("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 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 manufacturing, office, and warehouse space rented by the Company, leases on Company vehicles, and leases on a variety of office equipment.

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

Capital Expenditures

The Company expects that its capital expenditures for the full year 2004 will show a modest increase over its expenditures in 2003, which were approximately $1.0 million. Capital expenditures in 2003 were restricted due to the Company's cash position. The Company expects to have the flexibility to increase or decrease the majority of its planned capital expenditures depending on its ability to rebuild its tissue processing business and maintain adequate cash flows. The Company does not currently anticipate any major purchase of equipment as a result of the FDA inspections of its facilities.

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," "might," "will," "would," "shall," "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 below 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;
- 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 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;
- The impact of the FDA's Form 483 Notices 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 loss claims incurred but not reported;
- Future costs of human tissue preservation services;
- Changes in liquidity and capital resources;
- Statements regarding the expected 2004 performance relative to that of 2003;
- The Company's expectations regarding the adequacy of current financing arrangements;
- Product demand and market growth; 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, 2003 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 could have a material adverse effect on the Company's business, financial condition, results of operations, and cash flows include concerns that:

- The August 2002 FDA order on human tissue and subsequent FDA activity continue to adversely impact CryoLife's business, including demand for its services and processing costs;
- The FDA order and subsequent activity have had and continue to have an adverse impact on liquidity and capital resources;
- Potential inability to reduce costs of processing tissues and to obtain increased yields of implantable tissue;
- Revenue from orthopaedic tissue preservation services is minimal and may not return;
- 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 notices of observations;
- 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 U.S. 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;
- Funding for the ACT technology may not be available;
- CryoLife is dependent on its key personnel;
- The Company's consolidated financial statements as of and for the year ended December 31, 2001 and included in CryoLife's 10-K were audited by Arthur Andersen LLP, which has been found guilty of obstruction of justice and the subject of additional litigation;
- 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 services and products to become obsolete;
- Securities prices for CryoLife shares have been, and may continue to be, volatile;
- Anti-takeover provisions may discourage or make more difficult an attempt to obtain control of CryoLife;
- Dividends are not likely to be paid in the foreseeable future; and
- CryoLife may be unable to raise the funds needed to continue operations after June 30, 2005.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The Company's interest income and expense are sensitive to changes in the general level of U.S. interest rates. In this regard, changes in U.S. interest rates affect the interest earned on the Company's cash and cash equivalents of $20.0 million and short-term investments in municipal obligations of $3.2 million as of June 30, 2004. A 10% adverse change in interest rates affecting the Company's cash equivalents and short-term investments would not have a material impact on the Company's financial position, results of operations, and cash flows.

Item 4. Controls and Procedures.

The Company's management, including the Company's President and Chief Executive Officer ("CEO") and the Company's Vice President of Finance, Treasurer, 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 June 30, 2004, 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 U.S. Securities and Exchange Commission's rules and forms.

During the quarter ended June 30, 2004, 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.

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 have been filed. As of August 4, 2004 the Company was aware of ten pending product liability lawsuits. The lawsuits are currently in the pre-discovery or discovery stages. Of these lawsuits, four allege product liability claims arising out of the Company's orthopaedic tissue services, four allege product liability claims arising out of the Company's allograft heart valve tissue services, one alleges product liability claims arising from BioGlue, and one alleges product liability claims arising out of the non-tissue products made by Ideas for Medicine, Inc. when it was a subsidiary of the Company.

Of the ten open lawsuits a total of four are covered by the Company's insurance coverage as follows: two lawsuits by the 2000/2001 insurance policy, one by the 2003/2004 insurance policy and one by the 2004/2005 insurance policy. For the 2000/2001 insurance policy year the Company maintained claims-made insurance policies which the Company believes to be adequate to defend against the suits filed during this period. As of June 30, 2004 the Company has an accrual of $100,000 for the remaining retention levels related to the 2000/2001 insurance policy year. The Company believes its 2003/2004 and 2004/2005 insurance policies to be adequate to defend against the covered suit filed during each of these time periods.

Of the ten open lawsuits the remaining six are not covered by the Company's insurance policies as either these lawsuits relate to the 2002/2003 insurance policy year for which the Company has used all of its insurance coverage, aggregating $25 million, or they were asserted in periods after the coverage in the related incident year had lapsed. 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 June 30, 2004 of the pending product liability claims based on settlement negotiations to date and advice from counsel. As of June 30, 2004 the Company had accrued a total of $5.6 million for pending product liability claims and recorded $1.2 million representing amounts to be recovered from the Company's insurance carriers. The $5.6 million accrual is included as a component of accrued expenses and other current liabilities and the $1.2 million amount recoverable is included as a component of other receivables on the June 30, 2004 Summary Consolidated Balance Sheet. These amounts represent the Company's estimate of the probable losses and anticipated recoveries related to six of the ten pending product liability claims. The Company has not recorded an accrual for the remaining four 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 cannot be made at this time. The amount recorded as a liability is reflective of estimated legal fees and settlement costs related to these claims, and does not reflect actual settlement arrangements, actual judgments, including punitive damages, which may be assessed by the courts, or cash set aside for the purpose of making payments. The amount recorded as a receivable is reflective of the estimated amount recoverable from the Company's insurance carrier, based on the Company's estimate of the liability and analysis of the policy terms. The Company believes that these amounts are fully collectible. Prior to 2004, the Company recorded accruals for the uninsured portion of product liability claims for which the amount of probable loss was reasonably estimable. Had the Company recorded the total amounts of the reasonably estimable probable losses as a liability and recorded an asset for the estimated amount recoverable from the insurance carrier, the impact on the financial statements as of December 31, 2003 would not have been material. 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, 2004 the Company bound coverage for the 2004/2005 insurance policy year. This policy is a two-year claims made insurance policy, i.e. claims incurred during the period April 1, 2003 through March 31, 2005 and reported during the period April 1, 2004 through March 31, 2005 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 sold. The Company retained an independent actuarial firm to perform revised estimates of the unreported claims as of June 30, 2004. 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 million was selected for actuarial purposes in determining the liability per claim given the uncertainty in projecting claim losses in excess of $5 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 2004 would be lower than the Company experienced during the 2002/2003 policy year but higher than the Company's historical claim frequency in prior policy years,
- The average cost per claim would be lower than the Company experienced during the 2002/2003 policy year but higher than the Company's historical cost per claim in prior policy years,
- 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 10% lower than non-BioGlue claims per million dollars to adjust for the increase of BioGlue revenue as a percentage of total revenues since 2002 and the BioGlue claims history to date.

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 and uncertainties surrounding the assumptions used as well as due to Company specific conditions including the FDA Order, the Company's recent levels of litigation activity, the Company's low volume of 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.

Beginning April 1, 2004 and concurrent with signing the claims-made insurance policy for the policy year from April 1, 2004 to March 31, 2005, the Company implemented the provisions of Emerging Issues Task Force Issue 03-8, Accounting for Claims-Made Insurance and Retroactive Contracts by the Insured Entity ("EITF 03-8"). Pursuant to EITF 03-8, the Company continues to record an estimated liability for unreported product liability claims and has begun to record a related recoverable from insurance. Prior to the effective date of EITF 03-8, the Company did not record a recoverable from insurance related to the unreported product liability claims. Based on the actuarial valuation performed as of June 30, 2004, the Company estimated that its liability for unreported product liability claims was $8.0 million, and accrued this amount, representing the Company's best estimate of the total liability for unreported product liability claims related to services performed and products sold prior to June 30, 2004. The $8.0 million balance is included as a component of accrued expenses and other current liabilities of $4.0 million and other long-term liabilities of $4.0 million on the June 30, 2004 Summary Consolidated Balance Sheet. Further analysis indicated that the liability could be estimated to be as high as $14.2 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 June 30, 2004, $1.4 million of the accrual for unreported liability claims would be recoverable under the Company's insurance policies. The $1.4 million insurance recoverable is included as a component of other receivables of $500,000 and other assets of $900,000 on the June 30, 2004 Summary Consolidated Balance Sheet. These amounts represent management's estimate of the probable losses and anticipated recoveries related to unreported product liability claims related to services performed and products sold prior to June 30, 2004. 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, which principally alleges that the Company made misrepresentations and omissions relating to product safety and the Company's alleged lack of compliance with certain FDA regulations regarding the handling and processing of certain tissues and other product safety matters. The consolidated complaint seeks 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. At present, the case remains in the discovery phase. Although the Company carries directors' and officers' liability insurance policies, the directors' and officers' liability insurance carriers have issued reservation of rights letters reserving their rights to deny or rescind coverage under the policies. An adverse judgment in excess of the Company's available insurance coverage could have a material adverse effect on the Company's financial position, results of operations, and cash flows. At this time, the Company is unable to predict the outcome of this litigation. Therefore, the Company has not recorded any accruals for future expenses related to this case, as the Company is currently unable to estimate these amounts. As of June 30, 2004 the Company had accrued $346,000 for legal fees incurred but unpaid related to this case and recorded an asset of $346,000 representing the anticipated recovery of these fees from the Company's insurance carrier. The $346,000 accrual is included as a component of accrued expenses and other current liabilities and the $346,000 insurance receivable is included as a component of other receivables, net on the June 30, 2004 Summary Consolidated Balance Sheet. The Company believes that the receivable will be fully collectible.

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 names the Company as a nominal defendant, alleges 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 seek undisclosed damages, costs and attorney's fees, punitive damages, and prejudgment interest against the individual defendants derivatively on behalf of the Company. As previously disclosed, the Company's Board of Directors has established an independent committee to investigate the allegations of Ms. Lichtenberger and Mr. Frailey. The independent committee engaged independent legal counsel to assist in the investigation, which culminated in a report by the committee concluding that no officer or director breached any fiduciary duty. In October 2003 the two derivative suits were consolidated into one action in the Superior Court of Fulton County, and a consolidated amended complaint was filed. The independent committee, along with its independent legal counsel, evaluated the consolidated amended complaint and concluded that its prior report and determination addressed the material allegations contained in the consolidated amended complaint. The committee reiterated its previous conclusions and determinations, including that maintaining the derivative litigation is not in the best interests of the Company. Based on the report of the independent committee, the Company moved to dismiss the derivative litigation in May 2004. That motion remains pending. At this time, the Company is unable to predict the outcome of this litigation. Although the derivative suit is brought nominally on behalf of the Company, the Company expects to continue to incur defense costs and other expenses in connection with the derivative litigation.

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 into certain matters relating to the Company's August 14, 2002 announcement of the recall order issued by the FDA. 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 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. As of the date hereof, the SEC has had no discussions with CryoLife representatives as to whether or against whom it will seek relief, 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.

Other Litigation

In October 2003 an action was filed against multiple defendants, including the Company, titled Donald Payne and Candace Payne v. Community Blood Center, et al, in the Circuit Court of the State of Oregon, County of Multnomah, seeking noneconomic damages of $9.0 million and other damages of $4.7 million. The suit alleges that Mr. Payne received a tissue implant processed by one of the other defendants, and that he was subsequently diagnosed with an infection attributed to the implant. The claim against the Company asserts that CryoLife had processed tissue from the same donor and been notified that a recipient of that tissue had contracted the same virus, and further asserts that the Company had a duty to notify governmental authorities and two of the other defendants. A second action, titled L.L.R. and W.C.R. v. Community Blood Center, et al, was filed in October 2003 in the same court as the Payne case, against the same defendants, seeking the same amounts of damages. In this case the plaintiffs allege the recipient received an implant processed by the same co-defendant tissue processor, from the same donor as Mr. Payne, and contracted an infection. A trial date for these actions has been set for October 18, 2004. In late July 2004 a third action was filed against multiple defendants, including the Company, titled Anthony F. Spadaro v. Community Blood Center, et al, in the same court as the other two cases, seeking noneconomic damages of $6.0 million, $1.7 million in economic damages, and punitive and exemplary damages. This suit alleges that Mr. Spadaro received a tissue implant processed by the same defendant tissue processor that was named in the other two suits, and that he was subsequently diagnosed with an infection attributed to the implant. This claim also asserts that the Company had processed tissue from the same donor and been notified that a recipient of the tissue had contracted the same virus, and that the Company had a duty to notify governmental authorities and two of the other defendants. The Company does not have insurance coverage for these claims. The Company intends to vigorously defend against these claims, although the Company is presently unable to predict the outcome and accordingly has not recorded an accrual related to these potential losses.

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

(e) The following table provides information about purchases by the Company during the quarter ended June 30, 2004 of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act:

Issuer Purchases of Equity Securities

Period	Shares (or Units) Purchased	Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part Of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under The Plans or Programs
4/01/04-4/30/04	330	$ 6.00	--	--
5/01/04-5/31/04	--	--	--	--
6/01/04-6/30/04	--	--	--	--
Total:	330	$ 6.00	--	--

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

Item 3. Defaults Upon Senior Securities.

None

Item 4. Submission of Matters to a Vote of Security Holders.

(a) The Annual Meeting of Shareholders was held on June 29, 2004.

(b) Management's nominees for director were elected at the meeting by the holders of common stock. The election was uncontested.

Other matters voted on (both of which were approved) were:

- The Board's proposal to approve the CryoLife, Inc. 2004 Employee Stock Incentive Plan; and
- The Board's proposal to approve the CryoLife, Inc. Non-Employee Directors Stock Option Plan.

The following table shows the results of voting in the election of Directors:

	Shares Voted For	Authority Withheld	Abstained	Broker Non-Votes
Steven G. Anderson	21,805,894	648,090	--	--
John M. Cook	21,824,876	629,108	--	--
Ronald C. Elkins, M.D	21,824,876	629,108	--	--
Virginia C. Lacy	21,854,519	599,465	--	--
Ronald D. McCall, Esq	21,849,213	604,771	--	--
Bruce J. Van Dyne, M.D	21,824,076	629,908	--	--
Thomas F. Ackerman	21,858,876	595,108	--	--
Daniel J. Bevevino	21,872,719	581,268	--	--
CryoLife, Inc. 2004 Employee Stock Incentive Plan	10,459,040	1,892,818	121,271	9,980,855
CryoLife, Inc. Non-Employee Directors Stock Option Plan	10,795,554	1,539,853	137,121	10,692,858

Item 5. Other information.

None.

Item 6. Exhibits and Reports on Form 8-K.

(a) 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, as amended. (Incorporated by reference to Exhibit 3.2 to Form 10-Q for the quarter ended March 31, 2003.)
3.3	Articles of Amendment to the Certificate 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	Form of Stock Purchase Agreement between CryoLife, Inc. and Investors. (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Commission on January 26, 2004.)
10.2*	The CryoLife, Inc. 2004 Employee Stock Incentive Plan.

10.3*	The CryoLife, Inc. Non-Employee Directors Stock Option Plan.
10.4*	Commercial Premium Finance Agreement, dated April 13, 2004, by and between AFCO Premium Credit LLC and the Company.
10.5*	Commercial Premium Finance Agreement, dated May 5, 2004, by and between AFCO Premium Credit LLC and the Company.
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.

(b) Current Reports on Form 8-K.

The Registrant filed a Current Report on Form 8-K with the Commission on May 10, 2004 with respect to the Press Release dated May 10, 2004 announcing the registrant's results of operations for the quarter ended March 31, 2004.

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
Vice President, Treasurer, and
Chief Financial Officer
(Principal Financial and
Accounting Officer)

August __, 2004

DATE

EXHIBIT 10.2

CRYOLIFE, INC.
2004 EMPLOYEE STOCK INCENTIVE PLAN

SECTION 1

GENERAL

1.1 Purpose. The CRYOLIFE, Inc. 2004 Employee Stock Incentive Plan (the "Plan") has been established by CRYOLIFE, Inc. (the "Company") to (i) attract and retain persons eligible to participate in the Plan; (ii) motivate Participants (as defined in Section 1.2 below), by means of appropriate incentives, to achieve long-range goals; (iii) provide incentive compensation opportunities that are competitive with those of other similar companies; and (iv) further identify Participants' interests with those of the Company's stockholders through compensation that is based on the Company's common stock; and thereby promote the long-term financial interests of the Company and its Subsidiaries, as defined in Section 8(i), including the growth in value of the Company's equity and enhancement of long-term stockholder return. Pursuant to the Plan, Participants may receive Options, SARs, or Other Stock Awards, each as defined herein (collectively referred to as "Awards").

1.2 Participation. Subject to the terms and conditions of the Plan, the Committee (as defined in Section 5) shall determine and designate, from time to time, from among the Eligible Grantees, as defined in Section 8(f) (including transferees of Eligible Grantees to the extent the transfer is permitted by the Plan and the applicable Award Agreement), those persons who will be granted one or more Awards under the Plan, and thereby become "Participants" in the Plan. In the discretion of the Committee, a Participant may be granted any Award permitted under the provisions of the Plan, and more than one Award may be granted to a Participant. Awards may be granted as alternatives to or replacement of awards outstanding under the Plan, or any other plan or arrangement of the Company or a Subsidiary (including a plan or arrangement of a business or entity, all or a portion of which is acquired by the Company or a Subsidiary).

1.3 Operation, Administration, and Definitions. The operation and administration of the Plan, including the Awards made under the Plan, shall be subject to the provisions of Section 4 (relating to operation and administration). Capitalized terms in the Plan shall be defined as set forth in the Plan (including the definition provisions of Section 8 of the Plan).

SECTION 2

OPTIONS AND SARS

2.1 Definitions.

(a) The grant of an "Option" entitles the Participant to purchase shares of Stock at an Exercise Price established by the Committee. Options granted under this Section 2 may either be Incentive Stock Options ("ISOs") or Non-Qualified Options ("NQOs"), as determined in the discretion of the Committee. An "ISO" is an Option that is intended to satisfy the requirements applicable to an "incentive stock option" described in Section 422(b) of the Internal Revenue Code of 1986, as amended (the "Code"). An "NQO" is an Option that is not intended to be an "incentive stock option" as that term is described in Section 422(b) of the Code.

(b) A stock appreciation right (a "SAR") entitles the Participant to receive, in cash or Stock (as determined in accordance with subsection 2.5), value equal to (or otherwise based on) the excess of: (a) the Fair Market Value (as defined in Section 8) of a specified number of shares of Stock at the time of exercise; over (b) an Exercise Price established by the Committee.

2.2 Exercise Price. The Exercise Price of each Option and SAR granted under this Section 2 shall be not less than 100% of the Fair Market Value of a share of Stock on the date of grant of the Award. Unless a higher price is established by the Committee or determined by a method established by the Committee at the time the Option or SAR is granted, the Exercise Price for each Option and SAR

shall be equal to 100% of the Fair Market Value on the date of grant of the Award.

2.3 Exercise. An Option and a SAR shall be exercisable in accordance with such terms and conditions and during such periods as may be established by the Committee, before or after grant.

2.4 Payment of Option Exercise Price. The payment of the Exercise Price of an Option granted under this Section 2 shall be subject to the following:

(a) Subject to the following provisions of this subsection 2.4, the full Exercise Price for shares of Stock purchased upon the exercise of any Option shall be paid at the time of such exercise (except that, in the case of an exercise arrangement approved by the Committee and described in paragraph 2.4(c), payment may be made as soon as practicable after the exercise).

(b) The Exercise Price shall be payable in cash or by tendering (by actual delivery of shares) shares of Stock that are acceptable to the Committee, have been held by the participant for at least six months, and were valued at Fair Market Value as of the day the shares are tendered, or in any combination of cash or shares, as determined by the Committee.

(c) To the extent permitted by applicable law, a Participant may elect to pay the Exercise Price upon the exercise of an Option by irrevocably authorizing a third party to sell shares of Stock (or a sufficient portion of the shares) acquired upon exercise of the Option and remit to the Company a sufficient portion of the sale proceeds to pay the entire Exercise Price and any tax withholding resulting from such exercise.

2.5 Settlement of Award. Shares of Stock delivered pursuant to the exercise of an Option or a SAR shall be subject to such conditions, restrictions and contingencies as the Committee may establish in the applicable Award Agreement. Settlement of SARs may be made in shares of Stock (valued at their Fair Market Value at the time of exercise), in cash, or in a combination thereof, as determined in the discretion of the Committee. The Committee, in its discretion, may impose such conditions, restrictions and contingencies with respect to shares of Stock acquired pursuant to the exercise of an Option or a SAR as the Committee determines to be desirable.

SECTION 3

OTHER STOCK AWARDS

3.1 Definitions. The term "Other Stock Awards" means any of the following:

(a) A "Stock Unit" Award is the grant of a right to receive shares of Stock in the future.

(b) A "Performance Share" Award is a grant of a right to receive shares of Stock or Stock Units, which is contingent on the achievement of performance or other objectives during a specified period.

(c) A "Restricted Stock" Award is a grant of shares of Stock, and a "Restricted Stock Unit" Award is the grant of a right to receive shares of Stock in the future, with such shares of Stock or right to future delivery of such shares of Stock subject to a risk of forfeiture or other restrictions that will lapse upon the achievement of one or more goals relating to completion of service by the Participant, or achievement of performance or other objectives, as determined by the Committee.

3.2 Restrictions on Stock Awards. Each Stock Unit Award, Restricted Stock Award, Restricted Stock Unit Award and Performance Share Award shall be subject to the following:

(a) Any such Award shall be subject to such conditions, restrictions and contingencies as the Committee shall determine.

(b) The Committee may designate whether any such Awards being granted to any Participant are intended to be "performance-based compensation" as that term is used in Section 162(m) of the Code. Any such Awards designated as intended to be "performance-based compensation" shall be conditioned on the achievement of one or more "Performance Measures." The Performance Measures that may be used by the Committee for such Awards shall be based on any one or more of the following, as selected by the Committee: return on capital or increase in

pretax earnings of the Company and/or one or more divisions and/or subsidiaries, return on stockholders' equity of the Company, increase in earnings per share of the Company, sales of the Company and/or one or more divisions and/or subsidiaries, pretax earnings of the Company and/or one or more divisions and/or subsidiaries, net earnings of the Company and/or one or more divisions and/or subsidiaries, control of operating and/or non-operating expenses of the Company and/or one or more divisions and/or subsidiaries, margins of the Company and/or one or more divisions and/or subsidiaries, market price of the Company's securities, and, solely for an Award not intended to constitute "performance-based compensation" under Section 162(m) of the Code, other factors directly tied to the performance of the Company and/or one or more divisions and/or subsidiaries or other performance criteria. For Awards intended to be "performance-based compensation," the grant of the Awards and the establishment of the Performance Measures shall be made during the period required under Code Section 162(m).

SECTION 4

OPERATION AND ADMINISTRATION

4.1 Effective Date; Duration. The Plan shall be effective as of the date of its approval by the stockholders of the Company (the "Effective Date"). The Plan shall have a duration of ten years from the Effective Date; provided that in the event of Plan termination, the Plan shall remain in effect as long as any Awards under it are outstanding; provided further, however, that no Award may be granted under the Plan on a date that is more than ten years from the Effective Date.

4.2 Awards Subject to Plan. Awards granted under the Plan shall be subject to the following:

(a) Subject to the following provisions of this subsection 4.2, the maximum number of shares of Stock that may be delivered to Participants and their beneficiaries under the Plan shall be equal to the sum of: (i) 2.0 million shares of Stock; and (ii) up to 100,000 shares of stock tendered by Participants in connection with the exercise of Options granted under either the Plan, the 2002 Stock Incentive Plan, the 1998 Long-Term Incentive Plan, or the 1994 Employee Stock Incentive Plan.

(b) To the extent any shares of Stock covered by an Award are not delivered to a Participant or beneficiary because the Award is forfeited or canceled, or the shares of Stock are not delivered because the Award is settled in cash, such shares shall not be deemed to have been delivered for purposes of determining the maximum number of shares of Stock available for delivery under the Plan. The maximum number of shares of Stock available for delivery under the Plan shall not be reduced for shares subject to plans assumed by the Company in an acquisition of an interest in another company.

(c) Subject to adjustment in accordance with paragraphs 4.2(d) and 4.2(e), the following additional maximums are imposed under the Plan:

(i) Subject to the overall maximum number of shares of Stock that may be issued in accordance with Section 4.2(a) of the Plan, the maximum number of shares of Stock that may be issued pursuant to Options intended to be ISOs shall be up to 2.0 million shares;

(ii) The maximum number of shares of Stock that may be issued in conjunction with Other Stock Awards granted pursuant to Section 3 shall be up to 2.0 million shares;

(iii) The maximum number of shares of Stock that may be covered by Awards granted to any one individual pursuant to Section 2 (relating to Options and SARs) shall be 400,000 during any fiscal year; and

(iv) No more than 2.0 million shares of Stock may be subject to Stock Unit Awards, Restricted Stock Awards, Restricted Stock Unit Awards and Performance Share Awards that are intended to be "performance-based compensation" (as that term is used for purposes of Code Section 162(m)) granted to any one individual during any one fiscal-year period (regardless of when such shares are deliverable).

(d) If the outstanding shares of Stock are changed into or exchanged

for a different number or kind of shares or other securities of the Company by reason of any recapitalization, reclassification, stock split, stock dividend, combination, subdivision or similar transaction, or if the Company makes an extraordinary dividend or distribution to its stockholders (including without limitation to implement a spinoff) (each, a "Corporate Transaction") then, subject to any required action by the stockholders of the Company, the number and kind of shares of Company stock available under the Plan or subject to any limit or maximum hereunder shall automatically be proportionately adjusted, with no action required on the part of the Committee or otherwise. Subject to any required action by the stockholders, the number and kind of shares covered by each outstanding Award, and the price per share in each such Award, may, at the discretion of the Committee, be proportionately adjusted for any increase or decrease in the number of issued shares of the Company resulting from a Corporate Transaction or any other increase or decrease in the number of such shares, or any decrease in the value of such shares, effected without receipt of consideration by the Company. Notwithstanding the foregoing, no fractional shares shall be issued or made subject to an Option, SAR or Stock Award in making the foregoing adjustments. All adjustments made by the Committee under this Section shall be final, conclusive and binding upon the holders of Options, SARS and Stock Awards.

(e) If the Company merges or consolidates with another corporation, whether or not the Company is a surviving corporation, or if the Company is liquidated or sells or otherwise disposes of substantially all of its assets while unexercised Options or other Awards remain outstanding under this Plan, (A) subject to the provisions of clause (C) below, after the effective date of the merger, consolidation, liquidation, sale or other disposition, as the case may be, each holder of an outstanding Option or other Award shall be entitled, upon exercise of that Option or Award or in place of it, as the case may be, to receive, at the option of the Committee and in lieu of shares of Stock, (i) the number and class or classes of shares of Stock or other securities or property to which the holder would have been entitled if, immediately prior to the merger, consolidation, liquidation, sale or other disposition, the holder had been the holder of record of a number of shares of Stock equal to the number of shares of Stock as to which that Option may be exercised or are subject to the Award or (ii) shares of stock of the company that is the surviving corporation in such merger, consolidation, liquidation, sale or other disposition having a value, as of the date of payment under Subsection 4.2(e)(i) as determined by the Committee in its sole discretion, equal to the value of the shares of Stock or other securities or property otherwise payable under Subsection 4.2(e)(i); (B) if Options or other Awards have not already become exercisable under Section 5 hereof, the Board of Directors may waive any limitations set forth in or imposed pursuant to this Plan so that all Options or other Awards, from and after a date prior to the effective date of that merger, consolidation, liquidation, sale or other disposition, as the case may be, specified by the Board of Directors, shall be exercisable in full; and (C) all outstanding Options or SARs may be cancelled by the Board of Directors as of the effective date of any merger, consolidation, liquidation, sale or other disposition provided that any optionee or SAR holder shall have the right immediately prior to such event to exercise his or her Option or SAR to the extent such optionee or holder is otherwise able to do so in accordance with this Plan (including Section 5 hereof) or his individual Option or SAR agreement; provided, further, that any such cancellation pursuant to this Section 4.2(e) shall be contingent upon the payment to the affected Participants of an amount equal to (i) in the case of any out-of-the-money Option or SAR, cash, property or a combination thereof having an aggregate value equal to the value of such Option or SAR, as determined by the Committee or the Board of Directors, as applicable, in its sole discretion, and (ii) in the case of an in-the-money Option or SAR, cash, property or a combination thereof having an aggregate value equal to the excess of the value of the per-share amount of consideration paid pursuant to the merger, consolidation, liquidation, sale or other disposition, as the case may be, giving rise to such cancellation, over the exercise price of such Option or SAR multiplied by the number of shares of Stock subject to the Option or SAR.

(f) In the event of a change in the shares of the Company as presently constituted, which is limited to a change of all of its authorized shares with par value into the same number of shares with a different par value or without par value, the shares resulting from any such change shall be deemed to be the shares within the meaning of this Plan.

(g) Any adjustments pursuant to Section 4.2(e) shall be made by the Board or Committee, as the case may be, whose determination in that respect

shall be final, binding and conclusive, regardless of whether or not any such adjustment shall have the result of causing an ISO to cease to qualify as an ISO.

(h) Except as hereinbefore expressly provided in this Section 4, a Participant shall have no rights by reason of any subdivision or consolidation of shares of stock of any class or the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class or by reason of any dissolution, liquidation, merger, or consolidation or spin-off of assets or stock of another corporation, and any issue by the Company of shares of stock of any class, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Stock subject to an Award, unless the Committee shall otherwise determine.

(i) The grant of any Award pursuant to this Plan shall not adversely affect in any way the right or power of the Company (A) to make adjustments, reclassifications, reorganizations or changes of its capital or business structure, (B) to merge or consolidate, (C) to dissolve, liquidate or sell, or transfer all or any part of its business or assets or (D) to issue any bonds, debentures, preferred or other preference stock ahead of or affecting the Stock. If any action described in the preceding sentence results in a fractional share for any Participant under any Award hereunder, such fraction shall be completely disregarded and the Participant shall be entitled only to the whole number of shares resulting from such adjustment.

4.3 General Restrictions. Delivery of shares of Stock or other amounts under the Plan shall be subject to the following:

(a) Notwithstanding any other provision of the Plan, the Company shall have no liability to deliver any shares of Stock under the Plan or make any other distribution of benefits under the Plan unless such delivery or distribution would comply with all applicable laws (including, without limitation, the requirements of the Securities Act of 1933), and the applicable requirements of any securities exchange or similar entity.

(b) To the extent that the Plan provides for issuance of stock certificates to reflect the issuance of shares of Stock, the issuance may be effected on a non-certificated basis, to the extent not prohibited by applicable law or the applicable rules of any stock exchange.

4.4 Tax Withholding. All distributions under the Plan are subject to withholding of all applicable taxes, and the Committee may condition the delivery of any shares or other benefits under the Plan on satisfaction of the applicable withholding obligations. The Committee, in its discretion, and subject to such requirements as the Committee may impose prior to the occurrence of such withholding, may permit such withholding obligations to be satisfied through cash payment by the Participant, but only to the extent of the minimum amount required to be withheld under applicable law.

4.5 Use of Shares. Subject to the overall limitation on the number of shares of Stock that may be delivered under the Plan, the Committee may use available shares of Stock as the form of payment for compensation, grants or rights earned or due under any other compensation plans or arrangements of the Company or a Subsidiary, including the plans and arrangements of the Company or a Subsidiary assumed in business combinations.

4.6 Dividends and Dividend Equivalents. An Award (including without limitation an Option or SAR Award) may provide the Participant with the right to receive dividend payments or dividend equivalent payments with respect to Stock subject to the Award (both before and after the Stock subject to the Award is earned, vested, or acquired), which payments may be either made currently or credited to an account for the Participant, and may be settled in cash or Stock as determined by the Committee. Any such settlements, and any such crediting of dividends or dividend equivalents or reinvestment in shares of Stock, may be subject to such conditions, restrictions and contingencies as the Committee shall establish, including the reinvestment of such credited amounts in Stock equivalents.

4.7 Payments. Awards may be settled through cash payments, the delivery of shares of Stock, the granting of replacement Awards, or any combination thereof as the Committee shall determine. Any Award settlement, including payment deferrals, may be subject to such conditions, restrictions and contingencies as

the Committee shall determine. The Committee may permit or require the deferral of any Award payment, subject to such rules and procedures as it may establish, which may include provisions for the payment or crediting of interest, or dividend equivalents, including converting such credits into deferred Stock equivalents.

4.8 Transferability. Except as otherwise provided by the Committee, Awards under the Plan are not transferable except as designated by the Participant by will or by the laws of descent and distribution.

4.9 Form and Time of Elections. Unless otherwise specified herein, each election required or permitted to be made by any Participant or other person entitled to benefits under the Plan, and any permitted modification, or revocation thereof, shall be in writing filed with the Committee at such times, in such form, and subject to such restrictions and limitations, not inconsistent with the terms of the Plan, as the Committee shall require.

4.10 Agreement With Company. An Award under the Plan shall be subject to such terms and conditions, not inconsistent with the Plan, as the Committee shall, in its sole discretion, prescribe. The terms and conditions of any Award to any Participant shall be reflected in such form of written document as is determined by the Committee. A copy of such document shall be provided to the Participant, and the Committee may, but need not, require that the Participant sign a copy of such document. Such document is referred to in the Plan as an "Award Agreement" regardless of whether any Participant signature is required.

4.11 Action by Company or Subsidiary. Any action required or permitted to be taken by the Company or any Subsidiary shall be by resolution of its Board of Directors, or by action of one or more members of the Board (including a committee of the Board) who are duly authorized to act for the board, or (except to the extent prohibited by applicable law or applicable rules of any stock exchange) by a duly authorized officer of such company.

4.12 Gender and Number. Where the context admits, words in any gender shall include any other gender, words in the singular shall include the plural and the plural shall include the singular.

4.13 Limitation of Implied Rights.

(a) Neither a Participant nor any other person shall, by reason of participation in the Plan, acquire any right in or title to any assets, funds or property of the Company or any Subsidiary whatsoever, including, without limitation, any specific funds, assets, or other property which the Company or any Subsidiary, in its sole discretion, may set aside in anticipation of a liability under the Plan. A Participant shall have only a contractual right to the Stock or amounts, if any, payable under the Plan, unsecured by any assets of the Company or any Subsidiary, and nothing contained in the Plan shall constitute a guarantee that the assets of the Company or any Subsidiary shall be sufficient to pay any benefits to any person.

(b) The Plan does not constitute a contract of employment, and selection as a Participant will not give any participating employee the right to be retained in the employ of the Company or any Subsidiary, nor any right or claim to any benefit under the Plan, unless such right or claim has specifically accrued under the terms of the Plan. Except as otherwise provided in the Plan, no Award under the Plan shall confer upon the holder thereof any rights as a stockholder of the Company prior to the date on which the individual fulfills all conditions for receipt of such rights.

4.14 Evidence. Evidence required of anyone under the Plan may be by certificate, affidavit, document or other information which the person acting on it considers pertinent and reliable, and shall be signed, made or presented by the proper party or parties.

SECTION 5

COMMITTEE

5.1 Administration. The authority to control and manage the operation and administration of the Plan shall be vested in a committee (the "Committee") in accordance with this Section 5. The Committee shall be selected by the Board, and shall consist solely of two or more members of the Board who are

non-employee Directors within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934, as amended, and are outside Directors within the meaning of Code Section 162(m). If the Committee does not exist, or for any other reason determined by the Board, the Board may take any action under the Plan that would otherwise be the responsibility of the Committee. Unless otherwise determined by the Board, CRYOLIFE's Compensation Committee shall be designated as the "Committee" hereunder.

5.2 Powers of Committee. The Committee's administration of the Plan shall be subject to the following:

(a) Subject to the provisions of the Plan, the Committee will have the authority and discretion to select from among the Eligible Grantees those persons who shall receive Awards, to determine the time or times of receipt, to determine the types of Awards and the number of shares covered by the Awards, to establish the terms, conditions, performance criteria, restrictions, and other provisions of such Awards, and (subject to the restrictions imposed by Section 6) to cancel or suspend Awards, and to waive or otherwise modify any vesting or other restrictions contained in awards. The Committee may also, without obtaining stockholder approval, amend any outstanding award to provide the holder thereof with additional rights or benefits of the type otherwise permitted by the Plan, including without limitation, extending the term thereof; provided, however, that in no event may the term of any Option or SAR exceed ten years.

(b) To the extent that the Committee determines that the restrictions imposed by the Plan preclude the achievement of the material purposes of the Awards in jurisdictions outside the United States, the Committee will have the authority and discretion to modify those restrictions as the Committee determines to be necessary or appropriate to conform to applicable requirements or practices of jurisdictions outside the United States.

(c) The Committee will have the authority and discretion to interpret the Plan, to establish, amend, and rescind any rules and regulations relating to the Plan, to determine the terms and provisions of any Award Agreement made pursuant to the Plan, and to make all other determinations that may be necessary or advisable for the administration of the Plan.

(d) Any interpretation of the Plan by the Committee and any decision made by it under the Plan is final and binding on all persons.

(e) In controlling and managing the operation and administration of the Plan, the Committee shall take action in a manner that conforms to the certificate of incorporation and by-laws of the Company, and applicable state corporate law.

5.3 Delegation by Committee. Except to the extent prohibited by applicable law or the applicable rules of a stock exchange, the Committee may allocate all or any portion of its responsibilities and powers to any one or more of its members and may delegate all or any part of its responsibilities and powers hereunder, including without limitation, the power to designate Participants hereunder and determine the amount, timing and terms of Awards hereunder, to any person or persons selected by it, including without limitation, any executive officer of the Company. Any such allocation or delegation may be revoked by the Committee at any time.

5.4 Information to be Furnished to Committee. The Company and Subsidiaries shall furnish the Committee with such data and information as it determines may be required for it to discharge its duties. The records of the Company and Subsidiaries as to an employee's or Participant's employment, termination of employment, leave of absence, reemployment and compensation shall be conclusive unless the Committee determines such records to be incorrect. Participants and other persons entitled to benefits under the Plan must furnish the Committee such evidence, data or information as the Committee considers desirable to carry out the terms of the Plan.

SECTION 6

AMENDMENT AND TERMINATION

(a) The Plan may be terminated or amended by the Board of Directors at any time, except that the following actions may not be taken without stockholder

approval:

(i) any increase in the number of shares that may be issued under the Plan (except by certain adjustments provided for under the Plan);

(ii) any change in the class of persons eligible to receive Awards under the Plan;

(iii) any change in the requirements of Section 2.2 hereof regarding the Exercise Price;

(iv) any other amendment to the Plan that would require approval of the Company's stockholders under applicable law, regulation or rule.

Notwithstanding any of the foregoing, adjustments pursuant to paragraph 4.2(d) shall not be subject to the foregoing limitations of this Section 6.

(b) Options may not be granted under the Plan after the date of termination of the Plan, but Options granted prior to that date shall continue to be exercisable according to their terms.

(c) The Committee may not, without first obtaining stockholder approval, "reprice" outstanding Options or SARs as such term is used by the SEC or NYSE or otherwise lower their exercise or base prices.

SECTION 7

CHANGE IN CONTROL

Subject to the provisions of paragraph 4.2(d) (relating to the adjustment of shares), and except as otherwise provided in the Plan or the Award Agreement reflecting the applicable Award, upon the occurrence of a Change in Control as defined in Section 8:

(a) All outstanding Options (regardless of whether in tandem with SARs) shall become fully exercisable.

(b) All outstanding SARs (regardless of whether in tandem with Options) shall become fully exercisable.

(c) All Stock Units, Restricted Stock, Restricted Stock Units, and Performance Shares shall become fully vested.

SECTION 8

DEFINED TERMS

In addition to the other definitions contained herein, the following definitions shall apply:

(a) Affiliated Company. The term "Affiliated Company" means any company controlled by, controlling or under common control with the Company.

(b) Award. The term "Award" shall mean any award or benefit granted under the Plan, including, without limitation, the grant of Options, SARs, Stock Unit Awards, Restricted Stock Awards, Restricted Stock Unit Awards and Performance Share Awards.

(c) Board. The term "Board" shall mean the Board of Directors of the Company.

(d) Change in Control. The term "Change in Control" means a change in the beneficial ownership of the Company's voting stock or a change in the composition of the Board which occurs as follows:

(i) Any "person," including a "syndication" 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 the Company representing 20% or more of the combined voting power of the Company'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) The Company is merged or consolidated with another corporation and immediately after giving effect to the merger or consolidation less than 80% of the outstanding Voting Securities of the surviving or resulting entity are then beneficially owned in the aggregate by (x) the stockholders of the Company in their capacities as such immediately prior to such merger or consolidation, or (y) if a record date has been set to determine the stockholders of the Company entitled to vote on such merger or consolidation, the stockholders of the Company as of such record date;

(iii) If at any time the following do not constitute a majority of the Board of Directors of the Company (or any successor entity referred to in clause (ii) above): Persons who, prior to their election as a Director of the Company (or successor entity if applicable) were nominated, recommended or endorsed by a formal resolution of the Board of Directors of the Company or the Nominating and Corporate Governance Committee thereof; or

(iv) The Company transfers substantially all of its assets to another corporation which is a less than 80% owned subsidiary of the Company.

(e) Code. The term "Code" means the Internal Revenue Code of 1986, as amended. A reference to any provision of the Code shall include reference to any successor provision of the Code.

(f) Eligible Grantee. With respect to Awards other than ISOs, the term "Eligible Grantee" shall mean any employee of the Company or a Subsidiary. With respect to ISOs, the term "Eligible Grantee" shall mean any employee of the Company or a Subsidiary. An Award may be granted to an employee, in connection with hiring, retention or otherwise, prior to the date the employee first performs services for the Company or the Subsidiaries, provided that such Award shall not become vested prior to the date the employee first performs such services.

(g) Fair Market Value. For purposes of determining the "Fair Market Value" of a share of Stock as of any date, then the "Fair Market Value" as of that date shall be the closing sale price of the Stock on that date on the New York Stock Exchange.

(h) Individual Agreement. "Individual Agreement" means a written employment or similar agreement between a Participant and the Company or one of its Subsidiaries or a written Award grant agreement under the Plan.

(i) Subsidiaries. The term "Subsidiary" means any present or future subsidiary corporation of the Company within the meaning of Section 424(f) of the Code, and any present or future business venture designated by the Committee in which the Company has a significant interest, as determined in the discretion of the Committee.

(j) Stock. The term "Stock" shall mean shares of common stock of the Company.

SECTION 9

GOVERNING LAW

This Plan shall be governed by, and construed in accordance with, the laws of the State of Georgia, except to the extent that the Florida Business Corporation Act shall be applicable.

EXHIBIT 10.3

CRYOLIFE, INC.
2004 NON-EMPLOYEE DIRECTORS STOCK OPTION PLAN

This 2004 Non-Employee Directors Stock Option Plan (the "Plan") is established to attract, retain and compensate for service as members of the Board of Directors highly qualified individuals who are not current employees of CryoLife, Inc. (the "Company") and to enable them to increase their ownership in the Company's Common Stock. This Plan will be beneficial to the Company and its stockholders since it will allow these Directors to have a greater personal financial stake in the Company through the ownership of Common Stock of the Company, in addition to underscoring their common interest with stockholders in increasing the value of the Company over the longer term.

1. ELIGIBILITY. All members of the Company's Board of Directors who are not current employees of the Company or any of its subsidiaries ("Non-Employee Directors") are eligible to participate in this Plan.

2. OPTIONS. No stock options granted pursuant to this Plan ("Options") may be "incentive stock options" under Section 422 of the Internal Revenue Code of 1986, as amended.

3. SHARES AVAILABLE.

(a) Number of Shares Available. There are hereby reserved for issuance under this Plan an aggregate of 500,000 shares of Common Stock, $.01 par value per share, which shares may be authorized but unissued shares, treasury shares, or shares purchased on the open market or privately. To the extent any shares of Common Stock covered by an Option are not delivered to a grantee because the Option is forfeited or canceled, such shares shall not be deemed to have been delivered for purposes of determining the maximum number of shares of Common Stock available for delivery under the Plan. If the exercise price of any stock option granted under the Plan is satisfied by tendering shares of Common Stock to the Company (by actual delivery), only the number of shares of Stock issued net of the shares of Stock tendered shall be deemed delivered for purposes of determining the maximum number of shares of Stock available for delivery under the Plan up to a maximum of 100,000 shares.

(b) Recapitalization Adjustment. In the event of a reorganization, recapitalization, stock split, stock dividend, combination of shares, merger, consolidation, rights offering, or any other change in the corporate structure or shares of the Company, adjustments in the number and kind of shares authorized by this Plan, and in the number and kind of shares covered by outstanding Options under this Plan, and in the option price thereof, shall be made if, and in the same manner as, such adjustments are made to options issued under any of the Company's plans then in effect pursuant to which incentive stock options may be granted.

4. INITIAL AND ANNUAL GRANT OF STOCK OPTIONS.

(a) Each individual who is appointed or elected as a Director of the Company for the first time shall automatically receive an Option to purchase 10,000 shares of Common Stock on the next business day after such appointment or election (an "Initial Award Date"). This Option shall be in addition to any option granted pursuant to Section 4(b).

(b) On the first business day (an "Award Date") following the Company's 2004 Annual Meeting of Stockholders (the "2004 Meeting"), and following each succeeding Annual Meeting of Stockholders thereafter, each individual elected, reelected or continuing as a non-employee Director after such Annual Meeting shall automatically receive an Option to purchase 10,000 shares of Common Stock.

(c) Notwithstanding the foregoing, if, on an Initial Award Date or an Award Date, the Chief Executive Officer or Chief Financial Officer, in consultation with the legal counsel of the Company, determines, in his/her sole discretion, that the Company is in possession of material, undisclosed information about the Company, then that grant of Options to non-employee Directors shall be suspended until the second day after public dissemination of such information, and the price, exercisability dates and option period shall then be determined by reference to such later date. If Common Stock is not traded on the New York Stock Exchange or on any other securities exchange on any

date a grant would otherwise be awarded, then the grant shall be made the next day thereafter on which Common Stock is so traded. All Option grants pursuant to this Plan shall be evidenced by a written instrument consistent with the provisions hereof.

5. OPTION PRICE. The price of the Option shall be the closing price of the Company's Common Stock on the New York Stock Exchange on the Initial Award Date or Award Date, as the case may be.

6. OPTION PERIOD. Subject to the limitations set forth in this Plan, an Option granted under the Plan shall vest and become exercisable on the Option's respective Initial Award Date or Award Date. Subject to the limitations set forth in the Plan, the Option may be exercised at any time after its Initial Award Date or Award Date, as the case may be, provided that at the time of exercise all of the conditions set forth in the Plan have been met. Notwithstanding the foregoing, no Option may be exercised later than five years after the date of grant thereof.

7. PAYMENT. The Option exercise price shall be paid in cash in U.S. dollars at the time the Option is exercised or in shares of Common Stock of the Company having an aggregate value equal to the Option exercise price (determined as of the first business day prior to the date of exercise, pursuant to the formula set forth in paragraph 5 above) or by a combination of cash and Common Stock. In addition, to the extent permitted by applicable law and regulations, a grantee may elect to pay the exercise price upon the exercise of an Option by authorizing a third party to sell shares of Common Stock (or a sufficient portion of the shares) acquired upon exercise of the Option and remit to the Company a sufficient portion of the sale proceeds to pay the entire exercise price and any tax withholding resulting from such exercise.

8. CESSATION OF SERVICE. If a grantee leaves the Board of Directors while in good standing, for any reason, including, without limitation, resignation or death, such grantee's Options shall remain in effect and exercisable, and shall expire as if the grantee had remained a non-employee Director of the Company. Upon the death of a non-employee Director, his or her Options shall be exercisable by his/her legal representatives or heirs, but in no event may the Options be exercised beyond the last date which they could have been exercised had the non-employee Director not died.

9. ADMINISTRATION AND AMENDMENT OF THE PLAN. The Board may amend, alter, or discontinue this Plan, but, except as otherwise provided herein, no amendment, alteration, or discontinuation shall be made which would impair the rights of a grantee under an Option theretofore granted, without the grantee's consent, or which, without the approval of the Company's stockholders, would:

(i) increase the number of shares that may be issued under the Plan (except by certain adjustments provided for under the Plan);

(ii) change the class of persons eligible to receive Options under the Plan;

(iii) change the requirements of Section 5 hereof regarding the Exercise Price;

(iv) amend the Plan in a manner that would require approval of the Company's stockholders under applicable law, regulation or rule.

Notwithstanding any of the foregoing, adjustments pursuant to Section 3, paragraph (b) shall not be subject to the foregoing limitations of this Section 9.

Options may not be granted under the Plan after the date of termination of the Plan, but Options granted prior to that date shall continue to be exercisable according to their terms.

Subject to the above provisions, the Board shall have broad authority to amend this Plan to take into account changes in applicable securities and tax laws and accounting rules, as well as other developments.

The Board of Directors may not, without first obtaining stockholder approval, "reprice" outstanding Options or SARs as such term is used by the SEC

or NYSE or otherwise lower their exercise or base prices.

10. TRANSFERABILITY. Except as otherwise provided in this paragraph 10, the Options granted under this Plan are not transferable other than as designated by the grantee by will or by the laws of descent and distribution, and during the grantee's life, may be exercised only by the grantee. However, the grantee may transfer the Option for no consideration to or for the benefit of the grantee's Immediate Family (including, without limitation, to a trust for the benefit of the grantee's Immediate Family or to a partnership or limited liability company for one or more members of the grantee's Immediate Family or to an IRA for the benefit of one or more members of his Immediate Family), subject to such limits as the Board may establish, and the transferee shall remain subject to all the terms and conditions applicable to such Option prior to such transfer. The foregoing right to transfer the Option shall apply to the right to consent to amendments to the grant agreement and shall also apply to the right to transfer ancillary rights associated with the Option. The term "Immediate Family" shall mean the grantee's spouse, parents, children, stepchildren, adoptive relationships, sisters, brothers and grandchildren (and, for this purpose, shall also include the grantee).

11. MISCELLANEOUS. Except as provided in this Plan, no non-employee Director shall have any claim or right to be granted an Option under this Plan. Neither this Plan nor any actions hereunder shall be construed as giving any Director any right to be retained in the service of the Company.

12. EFFECTIVE DATE AND TERM OF PLAN. This Plan shall be effective only if stockholder approval of this Plan is obtained at the Company's 2004 Annual Meeting of Stockholders. If stockholder approval is not obtained at the 2004 Annual Meeting of Stockholders, no grants shall be made under this Plan. The first grants made under this Plan shall be the grants made on the first business day after the 2004 Annual Meeting to non-employee Directors pursuant to Section 4 above. This Plan shall remain in effect through the fifth annual meeting of stockholders following the 2004 Annual Meeting (the "Fifth Meeting"). Assuming the Company continues to convene and hold its regularly scheduled annual meetings, the Company's 2009 Annual Meeting of Stockholders will be the Fifth Meeting. Grants made on the first business day after the Fifth Meeting pursuant to Section 4 may be made under this Plan.

EXHIBIT 10.4

Commercial Premium Finance Agreement
AFCO PREMIUM CREDIT LLC
A Joint Venture of AFCO Credit Corporation and Marsh USA Inc.

2951 FLOWERS ROAD SOUTH, SUITE #132, ATLANTA, GA 30341
TEL NOS. (770) 455-4850 (800) 288-5410

Agent (Name and Address) 63-10-01006-0	Insured (Name and Address as shown on the policy)
MARSH USA INC. Attn: NICK MCKLOSKEY 3475 PIEDMONT ROAD STE. 1200 ATLANTA, GA 30305 (404) 760-0112	CRYOLIFE, INC. Attn: MR. ASHLEY LEE 1655 ROBERTS BLVD. NW KENNESAW, GA 30144 (770) 419-3355

A) Total Premiums	B) Down Payment	C) Amount Financed	D) Finance Charge	(E) Total Payments
2,442,950.00	500,000.00	1,942,950.00	26,407.50	1,969,357.50
F) Annual Percentage Rate	**No. of Payments**	**Amount of Payments**	**First Installment Due**	**Installment Due Dates**
3.250%	9 (Monthly)	218,817.50	05/01/2004	1st

SCHEDULE OF POLICIES

Policy Prefix and Numbers	Effective Date of Policy/Inst.	Name of Insurance Company and Name and Address of General or Policy Issuing Agent or Intermediary	Type of Coverage	Months Covered	Premiums $
	04/01/2004	SEE ATTACHED ADDENDA A&B The terms of this Agreement are continued on Addenda A & B. annexed hereto and made a part hereof. Insured's Initials X_____	MISC	12	2,442,950.00

(1) DEFINITIONS: The above named insured ("the insured") is the debtor. AFCO Premium Credit LLC ("AFCO"), a joint venture of AFCO Credit Corporation and Marsh USA Inc., is the lender to whom the debt is owed. "Insurance company" or "company", "insurance policy" or "policy" and "premium" refer to those items listed under the "Schedule of Policies". Singular words mean plural and vice-versa as may be required in order to give the agreement meaning. For New York insureds, services for which any charge pursuant to Insurance Law, Section 2119, is imposed are in connection with obtaining and servicing the policies listed herein. NOTICE: 1. Do not sign this agreement before you read it or if it contains any blank space. 2. You are entitled to a completely filled in copy of this agreement. 3. Under the law, you have the right to pay off in advance the full amount due and under certain conditions to obtain a partial refund of the service charge.

INSURED AGREES TO THE TERMS SET FORTH ABOVE AND
ON THE LAST PAGE OF THIS AGREEMENT

CryoLife, Inc.	/s/ D.A. Lee	VP & CFO	4/13/04
INSURED'S NAME	SIGNATURE OF INSURED OR AUTHORIZED REPRESENTATIVE	TITLE	DATE

04212004GAcgexdxibxxdxdbabxxd

AGENT OR BROKER REPRESENTATIONS

The undersigned warrants and agrees: 1. The policies are in full force and

effect and the information in the Schedule of Policies and the premiums are correct. 2. The insured has authorized this transaction and recognizes the security interest assigned herein and has received a copy of this agreement. 3. To hold in trust for AFCO any payments made or credited to the insured through or to the undersigned, directly or indirectly, actually or constructively by the insurance companies or AFCO and to pay the monies as well as any unearned commissions to AFCO upon demand to satisfy the outstanding indebtedness of the insured. Any lien the undersigned has or may acquire in the return premiums arising out of the listed insurance policies is subordinated to AFCO's lien or security interest therein. 4. The policies comply with AFCO's eligibility requirements. 5. No audit or reporting form policies, policies subject to retrospective rating or minimum earned premium are induced. The deposit or provisional premiums are not less than anticipated premiums to be earned for the full term of the policies. 6. The policies can be cancelled by the insured and the unearned premiums will be computed on the standard short-rate or pro-rata table. 7. The undersigned represents that a proceeding in bankruptcy, receivership, or insolvency has not been instituted by or against the named insured.

IF THERE ARE ANY EXCEPTIONS TO THE ABOVE STATEMENTS PLEASE LIST BELOW:

THE UNDERSIGNED FURTHER WARRANTS THAT IT HAS RECEIVED THE DOWN PAYMENT AND ANY OTHER SUMS DUE AS REQUIRED BY THE AGREEMENT AND IS HOLDING SAME OR THEY ARE ATTACHED TO THIS AGREEMENT

_____	X_____	_____	_____
AGENT OR BROKER	SIGNATURE OF AGENT OR BROKER	TITLE	DATE

(2) ASSIGNMENT OF AGREEMENT: This agreement will be assigned and transferred to and serviced by AFCO Credit Corporation.

(3) LIMITED POWER OF ATTORNEY: The insured irrevocably appoints AFCO as its attorney in fact with full authority to cancel the insurance policies for the reasons stated in paragraph (15), and to receive all sums assigned to AFCO or in which it has granted AFCO a security interest. AFCO may execute and deliver on the insured's behalf all documents, instruments of payment, forms, and notices of any kind relating to the insurance policies in furtherance of this agreement.

(4) PROMISE OF PAYMENT: The insured requests that AFCO pay the premiums in the Schedule of Policies. The insured promises to pay to AFCO the amount stated in Block E above according to the payment schedule, subject to the remaining terms of this agreement.

(5) SECURITY INTEREST: The insured assigns to AFCO as security for the total amount payable in this agreement any and all unearned premiums and dividends which may become payable under the insurance policies for whatever reason and loss payments which reduce the unearned premiums subject to any mortgagee or loss payee interests. The insured gives to AFCO a security interest in all items mentioned in this paragraph. The insured further grants to AFCO its interest which may arise under any state insurance guarantee fund relating to any policy shown in the Schedule of Policies.

(6) WARRANTY OF ACCURACY: The insured warrants to AFCO that the insurance policies listed in the Schedule have been issued to the insured and are in full force and effect and that the insured has not assigned any interest in the policies except for the interest of mortgagees and loss payees. The insured authorizes AFCO to insert or correct on this agreement, if omitted or incorrect, the insurer's name, the policy numbers, and the due date of the first installment. AFCO is permitted to correct any obvious errors. In the event of any change or insertion, AFCO will give the insured written notice of those changes or corrections made in accordance with this provision.

(7) REPRESENTATION OF SOLVENCY: The insured represents that the insured is not insolvent or presently the subject of any insolvency proceeding.

(8) ADDITIONAL PREMIUMS: The money paid by AFCO is only for the premium as

determined at the time the insurance policy is issued. The insured agrees to pay the company any additional premiums which become due for any reason. AFCO may assign the company any rights it has against the insured for premiums due the company in excess of the premiums returned to AFCO.

(9) SPECIAL INSURANCE POLICIES: If the insurance policy issued to the insured is auditable or is a reporting form policy or is subject to retrospective rating, then the insured promises to pay to the insurance company the earned premium computed in accordance with the policy provisions which is in excess of the amount of premium advanced by AFCO which the insurance company retains.

(10) NAMED INSURED: If the insurance policy provides that the first named insured in the policy shall be responsible for payment of premiums and shall act on behalf of all other insureds with respect to any actions relating to the policy, then the same shall apply to this agreement. If such is not the case, then all insureds' names must be shown on this agreement unless a separate agreement specifies one insured to act in all matters for the others.

(11) FINANCE CHARGE: The finance charge shown in Block D begins to accrue as of the earliest policy effective date unless otherwise indicated in the Schedule of Policies.

(12) AGREEMENT BECOMES A CONTRACT: This agreement becomes a binding contract when AFCO mails a written acceptance to the insured.

(13) DEFAULT CHARGES: If the insured is late in making an installment payment to AFCO by more than the number of days specified by law the insured will pay to AFCO a delinquency charge not to exceed the maximum charge permitted by law.

(14) DISHONORED CHECK: If an insured's check is dishonored for any reason and if permitted by law, the insured will pay to AFCO a fee for expenses in processing that check not to exceed the amount permitted by law.

(15) CANCELLATION: AFCO may cancel the insurance policies after giving any required statutory notice and the unpaid balance due to AFCO shall be immediately payable by the insured if the insured does not pay any installment according to the terms of this agreement. AFCO at its option may enforce payment of this debt without recourse to the security given to AFCO. If cancellation occurs, the borrower agrees to pay a finance charge on the balance due at the contract rate of interest until that balance is paid in full or until such other date as required by law.

(16) CANCELLATION CHARGES: If AFCO cancels any insurance policy in accordance with the terms of this agreement, then the insured will pay AFCO a cancellation charge. If permitted, up to the limit specified by law.

(17) MONEY RECEIVED AFTER NOTICE OF CANCELLATION: Any payments made to AFCO after AFCO's notice of cancellation of the insurance policy has been mailed may be credited to the insured's account without affecting the acceleration of this agreement and without any liability or obligation on AFCO's part to request reinstatement of a cancelled insurance policy. Any money AFCO receives from an insurance company shall be credited to the amount due AFCO with any surplus being paid over to whomever is entitled to the money. No refund of less than $1.00 shall be made. In the event that AFCO does request, on the insured's behalf, a reinstatement of the policy, such request does not guarantee that coverage under the policy will be reinstated or continued.

(18) ATTORNEY FEES - COLLECTION EXPENSE: If, for collection, this agreement is placed in the hands of an attorney who is not a salaried employee of AFCO, then the insured agrees to pay reasonable attorney fees and costs including those in the course of appeal as well as other expenses, as permitted by law or granted by the court.

(19) REFUND CREDITS: The insured will receive a refund credit of the finance charge if the account is voluntarily prepaid in full prior to the last installment due date as required or permitted by law. Any minimum or fully earned fees will be deducted as permitted by law.

(20) INSURANCE AGENT OR BROKER: The insurance agent or broker named in this agreement is the insured's agent, not AFCO's, and AFCO is not legally bound by anything the agent or broker represents to the insured orally or in writing.

(21) NOT A CONDITION OF OBTAINING INSURANCE: This agreement is not required as a condition of the insured obtaining insurance coverage.

(22) SUCCESSORS AND ASSIGNS: All legal rights given to AFCO shall benefit AFCO's successors and assigns. The insured will not assign the policies without AFCO's written consent except for the interest of mortgagees and loss payees.

(23) LIMITATION OF LIABILITY: The insured agrees that AFCO's liability for breach of any of the terms of this agreement or the wrongful exercise of any of its powers shall be limited to the amount of the principal balance outstanding except in the event of gross negligence or willful misconduct.

(24) ENTIRE DOCUMENT - GOVERNING LAW: This document is the entire agreement between AFCO and the insured and can only be changed in writing and signed by both parties except as stated in paragraph (6). The laws of the state indicated in the insured's address as set forth in the Schedule will govern this agreement unless stated in that Schedule.

INSURED'S INITIAL

/s/

ADDENDUM A CRYOLIFE INC.

The policies set forth below were placed by Marsh USA Inc. on behalf of the insured.

Marsh USA Inc. makes the Broker Representations set forth on the facing page of the Premium Finance Agreement to which this Attachment A is attached, as the same may have been modified or amended by agreement between Marsh USA Inc. and AFCO Credit Corporation, only with respect to the policies listed below.

SCHEDULE OF POLICIES

EFF. DATE	INSURANCE CO.	POLICY NUMBER	COVERAGE	TERM	PREMIUM
4/1/04	Federal Ins Co	81796424	Epl	12	70,200
4/1/04	Columbia Casualty Co	ADT20549892 61-1	Products	12	1,388,750
			Tax		55,550
4/1/04	Federal Ins Co	7163-89-98	Wc	12	303,450
4/1/04	Service Placement Fee		Misc	12	125,000
	TOTAL				$1,942,950

MARSH USA INC.

SIGNATURE: /s/ David M.

TITLE: Vice President

DATE: 4-14-04

ADDENDUM B CRYOLIFE INC

The policies set forth below were placed by Marsh Global Broking (Bermuda) Ltd. on behalf of the insured. By its signature below, Marsh Global Broking (Bermuda) Ltd. makes the Agent or Broker Representations set forth on the facing page of the Commercial Premium Finance Agreement to which this Attachment B is attached, as the same may have been modified or amended by agreement between Marsh USA Inc. and AFCO Credit Corporation, only with respect to the policies listed below.

SCHEDULE OF POLICIES

EFF. DATE	INSURANCE CO.	POLICY NUMBER	COVERAGE	TERM	PREMIUM
4/1/04	Max Re	3816-317-CLM-2004	Umb	12	500,000
	TOTAL				$500,000

GLOBAL BROKING BERMUDA

SIGNATURE: /s/ Elizabeth

TITLE: AVP

DATE: 4/12/04

AFCO	2951 FLOWERS RD. SOUTH ATLANTA GA 30341 TEL 770-455-4850/800-288-5410		REFER TO THIS ACCOUNT NO. IN ALL CORRESPONDENCE 63-09301-7

NOTICE OF ACCEPTANCE

TOTAL PREMIUMS	DOWN PAYMENT	AMOUNT FINANCED	FINANCE CHARGE	TOTAL OF PAYMENTS	ANNUL PER-CENTAGE RATE
2,442,950.00	500,000.00	1,942,950.00	26,407.50	1,969,357.50	3.25%

INSURED (NAME AND ADDRESS)		AGENT OR BROKER SUBMITTING AGREEMENT (NAME AND ADDRESS)		
CRYOLIFE INC		MARSH USA INC		
ATTN: MR ASHLEY LEE		ATTN: NICK MCKLOSKEY		
1655 ROBERTS BLVD NW		3475 PIEDMONT ROAD STE 1200		
KENNESAW	GA 30144	ATLANTA	GA 30305	

					AMOUNT OF INSTALLMENT 9@ 218,817.50
DATE OF NOTICE & ACCEPT		FINAL PAYMENT DUE	DAY DUE	NO. & FREQ.	
04/15/04		MO. 01 YR. 05	1	OF INSTS.	

9 (MTH)

SCHEDULE OF POLICIES

POLICY PREFIX AND NUMBER	EFFECTIVE DATE OF POLICY OR ANNUAL INSTALLMENT	FULL NAME OF INSURER AND GENERAL AGENT(S) OTHER THAN SUBMITTING PRODUCER TO WHOM COPY OF THIS NOTICE WAS SENT	COVERAGE FIRE, AUTO	POLICY TERM IN MONTHS COVERED BY PREM.	PREMIUM FINANCED
81796424	04/01/04	FEDERAL INS CO	PL	12	70,200.00
7163-89-98	04/01/04	FEDERAL INS CO	WC	12	303,450.00
	04/01/04	COLUMBIA CASUALTY COMPANY	PROD	12	1,388,750.00
		TAX			55,550.00
		SERVICE PLACEMENT FEES			125,000.00
3816-317-CLM-2004	04/01/04	MAX RE LTD/MARSH GLOBAL BROKING	UMB	12	500,000.00

TO THE INSURED: YOUR PREMIUM FINANCE AGREEMENT HAS BEEN ACQUIRED BY AFCO CREDIT CORP.

We are pleased to notify you that we have accepted your premium finance agreement subject to verification by the insurance companies. We have credited the down payment to your account.

We urge you to read your premium finance agreement so that you are aware of your rights and duties under that agreement as well as possible penalties that might be assessed against you in the event that the terms of the agreement are not complied with.

|_| If this is a regular monthly payment plan, your coupons are enclosed.

|X| If your payment is other than monthly or on a special monthly advance billing, we will remind you of your installment payments.

PLEASE SEND THE PROPER NOTICE AND WRITE YOUR ACCOUNT NUMBER ON YOUR CHECK OR MONEY ORDER TO INSURE PROMPT CREDITING OF THE PAYMENT TO YOUR ACCOUNT.

If you have any questions, please contact our processing center for assistance

4501 COLLEGE BLVD., SUITE 320
LEAWOOD, KS 66211-2328
TEL 800-288-6901

PLEASE NOTE: IF THE PREMIUMS BEING FINANCED ARE FOR THE PURCHASE OF INSURANCE FOR PERSONAL, FAMILY OR HOUSEHOLD PURPOSES (NOT BUSINESS) YOUR INSURANCE AGENT SHOULD HAVE GIVEN YOU A NOTICE TITLED "REQUIRED FEDERAL TRUTH-IN-LENDING DISCLOSURES FOR PERSONAL LINES INSURANCE". IF YOU DID NOT RECEIVE THIS NOTICE, PLEASE CONTACT AFCO AT ONCE SO THAT WE CAN GIVE YOU THE REQUIRED NOTICE.

AVOID JEOPARDIZING YOUR INSURANCE PROTECTION BY MAILING ALL PAYMENTS IN TIME TO REACH AFCO ON OR BEFORE THE DUE DATE OF YOUR INSTALLMENTS.

Mellon AFCO CAFO

May 6, 2004

CRYOLIFE INC
ATTN: MR ASHLEY LEE
1655 ROBERTS BLVD NW
KENNESAW, GA 30144

RE: AFCO ACCOUNT NO.: 63-09301-7
RETURN PREMIUM: $83,864.00
INTEREST ADJUSTMENT ALLOWED: $994.72
FIRST REVISED PAYMENT AMOUNT: $208,210.16
REVISED PAYMENT DUE DATE: 06/01/04

We recently received the captioned refund from your insurance carrier applicable to the policy(ies) indicated above.

This return premium has been applied to your outstanding loan balance, including outstanding late charges, if any, and an interest adjustment allowed. Your future payment(s) has been revised as a result of this action, beginning with the above "first revised payment." Payments due prior to this month remain due at the previously scheduled amount.

Please retain this letter for your records.

If you receive monthly billing notices, future notices will reflect the revised amount due. If you have coupons, revised coupons are attached.

If you have any questions concerning this matter, please contact our office.

Sincerely,
Customer Services

cc: MARSH USA INC
ATTN: NICK MCKLOSKEY
3475 PIEDMONT ROAD STE 1200
ATLANTA, GA 30305

50th
A N N I V E R S A R Y
We Put a Premium on Performance

4501 College Blvd, Ste 320, Leawood, KS 66211
PO Box 8440 Kansas City, MO 64114
(913) 491-6700, (800) 288-6901, (913) 491-6638 Fax

EXHIBIT 10.5

COMMERCIAL PREMIUM FINANCE AGREEMENT
AFCO PREMIUM CREDIT LLC
A Joint Venture of AFCO Credit Corporation and Marsh USA Inc.
2951 FLOWERS ROAD SOUTH, SUITE #132, ATLANTA, GA 30341
TEL. NOS. (770) 455-4850 (800) 288-5410

Agent (Name and Address)	63-10-01006-0	Insured (Name and Address as shown on the policy)
MARSH USA INC Attn: NICK MCKLOSKEY 3475 PIEDMONT ROAD STE 1200 ATLANTA, GA 30305 (404) 760-0112		CRYOLIFE, INC. Attn: MR. ASHLEY LEE 1655 ROBERTS BLVD NW KENNESAW, GA 30144 (770) 419-3355

A) Total Premiums	B) Down Payment	C) Amount Financed	D) Finance Charge	E) Total Payments
1,907,500.00	381,500.00	1,526,000.00	18,656.56	1,544,656.56

F) Annual Percentage Rate	No. of Payments	Amount of Payments	First Installment Due	Installment Due Dates
3.250%	8 (Monthly)	193,082.07	06/01/2004	1st

SCHEDULE OF POLICIES

Policy Prefix and Numbers	Effective Date of Policy/Inst.	Name of Insurance Company and Name and Address of General or Policy Issuing Agent or Intermediary	Type of Coverage	Months Covered	Premium $
00426825 3	05/01/2004	NATIONAL UNION FIRE INSURANCE	DO	12	757,500.00
ELU08604 8-04	05/01/2004	XL SPECIALTY INS CO	XSDO	12	875,000.00
ELU08604	05/01/2004	XL SPECIALTY			
INS CO 9-04		XSDO	12	275,000.00	

(1) DEFINITIONS: The above named insured ("the insured") is the debtor. AFCO Premium Credit LLC ("AFCO"), a joint venture of AFCO Credit Corporation and Marsh USA Inc., is the lender to whom the debt is owed. "Insurance company" or "company", "insurance policy" or "policy" and "premium" refer to those items listed under the "Schedule of Policies". Singular words mean plural and vice-versa as may be required in order to give the agreement meaning. For New York insureds, services for which any charge pursuant to Insurance Law, Section 2119, is imposed, are in connection with obtaining and servicing the policies listed herein.

NOTICE: 1. DO NOT SIGN THIS AGREEMENT BEFORE YOU READ IT OR IF IT CONTAINS ANY BLANK SPACE. 2. YOU ARE ENTITLED TO A COMPLETELY FILLED IN COPY OF THIS AGREEMENT. 3. UNDER THE LAW, YOU HAVE THE RIGHT TO PAY OFF IN ADVANCE THE FULL AMOUNT DUE AND UNDER CERTAIN CONDITIONS TO OBTAIN A PARTIAL REFUND OF THE SERVICE CHARGE.

INSURED AGREES TO THE TERMS SET FORTH ABOVE AND
ON THE LAST PAGE OF THIS AGREEMENT

INSURED NAME	X /s/ D.A. Lee SIGNATURE OF INSURED OR AUTHORIZED REPRESENTATIVE	VP & CFO TITLE	5/5/04 DATE

05212004GAchaxdbibxxdxebabxxd

AGENT OR BROKER REPRESENTATIONS

The undersigned warrants and agrees: 1. The policies are in full force and effect and the information in the Schedule of Policies and the premiums are correct. 2. The insured has authorized this transaction and recognizes the security interest assigned herein and has received a copy of this agreement. 3. To hold in trust for AFCO any payments made or credited to the insured through or to the undersigned, directly or indirectly, actually or constructively by the insurance companies or AFCO and to pay the monies as well as any unearned commissions to AFCO upon demand to satisfy the outstanding indebtedness of the insured. Any lien the undersigned has or may acquire in the return premiums arising out of the listed insurance policies is subordinated to AFCO's lien or security interest therein. 4. The policies comply with AFCO's eligibility requirements. 5. No audit or reporting form policies, policies subject to retrospective rating or minimum earned premium are included. The deposit or provisional premiums are not less than anticipated premiums to be earned for the full term of the policies. 6. The policies can be cancelled by the insured and the unearned premiums will be computed on the standard short-rate or pro-rata table. 7. The undersigned represents that a proceeding in bankruptcy, receivership, or insolvency has not been instituted by or against the named insured.

IF THERE ARE ANY EXCEPTIONS TO THE ABOVE STATEMENTS PLEASE LIST BELOW:

THE UNDERSIGNED FURTHER WARRANTS THAT IT HAS RECEIVED THE DOWN PAYMENT AND ANY OTHER SUMS DUE AS REQUIRED BY THE AGREEMENT AND IS HOLDING SAME OR THEY ARE ATTACHED TO THIS AGREEMENT.

	X		
AGENT OR BROKER	SIGNATURE OF AGENT OR BROKER	TITLE	DATE

ZZJV(10/00-win)c.2000Afco Premium Credit LL
7N7TZGQNP7ULRQLibor042604052504010100

(2) ASSIGNMENT OF AGREEMENT: This agreement will be assigned and transferred to and serviced by AFCO Credit Corporation.
(3) LIMITED POWER OF ATTORNEY: The insured irrevocably appoints AFCO as its attorney in fact with full authority to cancel the insurance policies for the reasons stated in paragraph (15), and to receive all sums assigned to AFCO or in which it has granted AFCO a security interest, AFCO may execute and deliver on the insured's behalf all documents, instruments of payment, forms, and notices of any kind relating to the insurance policies in furtherance of this agreement.
(4) PROMISE OF PAYMENT: The insured requests that AFCO pay the premiums in the Schedule of Policies. The insured promises to pay to AFCO the amount stated in Block E above according to the payment schedule, subject to the remaining terms of this agreement.
(5) SECURITY INTEREST: The insured assigns to AFCO as security for the total amount payable in this agreement any and all unearned premiums and dividends which may become payable under the insurance policies for whatever reason and loss payments which reduce the unearned premiums subject to any mortgagee or loss payee interests. The insured gives to AFCO a security interest in all items mentioned in this paragraph. The insured further grants to AFCO its interest which may arise under any state insurance guarantee fund relating to any policy shown in the Schedule of Policies.
(6) WARRANTY OF ACCURACY: The insured warrants to AFCO that the insurance policies listed in the Schedule have been issued to the insured and are in full force and effect and that the insured has not assigned any interest in the policies except for the interest of mortgagees and loss payees. The insured authorizes AFCO to insert or correct on this agreement, if omitted or incorrect, the insurer's name, the policy numbers, and the due date of the first installment. AFCO is permitted to correct any obvious errors. In the event of any change or insertion, AFCO will give the insured written notice of those changes or corrections made in accordance with this provision.
(7) REPRESENTATION OF SOLVENCY: The insured represents that the insured is not

insolvent or presently the subject of any insolvency proceeding.
(8) ADDITIONAL PREMIUMS: The money paid by AFCO is only for the premium as determined at the time the insurance policy is issued. The insured agrees to pay the company any additional premiums which become due for any reason. AFCO may assign the company any rights it has against the insured for premiums due the company in excess of the premiums returned to AFCO.
(9) SPECIAL INSURANCE POLICIES: If the insurance policy issued to the insured is auditable or is a reporting form policy or is subject to retrospective rating, then the insured promises to pay to the insurance company the earned premium computed in accordance with the policy provisions which is in excess of the amount of premium advanced by AFCO which the insurance company retains.
(10) NAMED INSURED: If the insurance policy provides that the first named insured in the policy shall be responsible for payment of premiums and shall act on behalf of all other insureds with respect to any actions relating to the policy, then the same shall apply to this agreement. If such is not the case, then all insureds' names must be shown on this agreement unless a separate agreement specifies one insured to act in all matters for the others.
(11) FINANCE CHARGE: The finance charge shown in Block D begins to accrue as of the earliest policy effective date unless otherwise indicated in the Schedule of Policies.
(12) AGREEMENT BECOMES A CONTRACT: This agreement becomes a binding contract when AFCO mails a written acceptance to the insured.
(13) DEFAULT CHARGES: If the insured is late in making an installment payment to AFCO by more than the number of days specified by law the insured will pay to AFCO a delinquency charge not to exceed the maximum charge permitted by law.
(14) DISHONORED CHECK: If an insured's check is dishonored for any reason and if permitted by law, the insured will pay to AFCO a fee for expenses in processing that check not to exceed the amount permitted by law.
(15) CANCELLATION: AFCO may cancel the insurance policies after giving any required statutory notice and the unpaid balance due to AFCO shall be immediately payable by the insured if the insured does not pay any installment according to the terms of this agreement. AFCO at its option may enforce payment of this debt without recourse to the security given to AFCO. If cancellation occurs, the borrower agrees to pay a finance charge on the balance due at the contract rate of interest until that balance is paid in full or until such other date as required by law.
(16) CANCELLATION CHARGES: If AFCO cancels any insurance policy in accordance with the terms of this agreement, then the insured will pay AFCO a cancellation charge, if permitted, up to the limit specified by law.
(17) MONEY RECEIVED AFTER NOTICE OF CANCELLATION: Any payments made to AFCO after AFCO's notice of cancellation of the insurance policy has been mailed may be credited to the insured's account without affecting the acceleration of this agreement and without any liability or obligation on AFCO's part to request reinstatement of a cancelled insurance policy. Any money AFCO receives from an insurance company shall be credited to the amount due AFCO with any surplus being paid over to whomever is entitled to the money. No refund of less than $1.00 shall be made. In the event that AFCO does request, on the insured's behalf, a reinstatement of the policy, such request does not guarantee that coverage under the policy will be reinstated or continued.
(18) ATTORNEY FEES - COLLECTION EXPENSE: If, for collection, this agreement is placed in the hands of an attorney who is not a salaried employee of AFCO, then the insured agrees to pay reasonable attorney fees and costs including those in the course of appeal as well as other expenses, as permitted by law or granted by the court.
(19) REFUND CREDITS: The insured will receive a refund credit of the finance charge if the account is voluntarily prepaid in full prior to the last installment due date as required or permitted by law. Any minimum or fully earned fees will be deducted as permitted by law.
(20) INSURANCE AGENT OR BROKER: The insurance agent or broker named in this agreement is the insured's agent, not AFCO's, and AFCO is not legally bound by anything the agent or broker represents to the insured orally or in writing.
(21) NOT A CONDITION OF OBTAINING INSURANCE: This agreement is not required as a condition of the insured obtaining insurance coverage.
(22) SUCCESSORS AND ASSIGNS: All legal rights given to AFCO shall benefit AFCO's successors and assigns. The insured will not assign the policies without AFCO's written consent except for the interest of mortgagees and loss payees.
(23) LIMITATION OF LIABILITY: The insured agrees that AFCO's liability for breach of any of the terms of this agreement or the wrongful exercise of any of its powers shall be limited to the amount of the principal balance outstanding except in the event of gross negligence or willful misconduct.
(24) ENTIRE DOCUMENT - GOVERNING LAW: This document is the entire agreement between AFCO and the insured and can only be changed in writing and signed by both parties except as stated in paragraph (6). The laws of the state indicated in the insured's address as set forth in the Schedule will govern this agreement unless stated in that Schedule.

INSURED'S INITIALS
/s/

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 quarterly 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 quarterly 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)) 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;

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: August 6, 2004

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

Exhibit 31.2

I, David Ashley Lee, Vice President, Treasurer, 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 quarterly 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 quarterly 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)) 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;

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: August 6, 2004

/s/ DAVID ASHLEY LEE
Vice President, Treasurer, 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 June 30, 2004, 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 Vice President, Treasurer, 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
August 6, 2004

/s/ DAVID ASHLEY LEE
DAVID ASHLEY LEE
Vice President, Treasurer, and
Chief Financial Officer
August 6, 2004