UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2007

OR

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

For the transition period from to

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 N.W., Kennesaw, GA 30144
(Address of principal executive offices) (zip code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, $.01 par value	**New York Stock Exchange**
Preferred Share Purchase Rights	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 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 ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K Section 229.405 of this chapter is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐

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

As of June 30, 2007, the aggregate market value of the voting stock of the Registrant held by non-affiliates of the registrant was $330,152,012, computed using the closing price of $13.01 per share of Common Stock on June 29, 2007, the last trading day of the registrant's most recently completed second fiscal quarter, as reported by the New York Stock Exchange, based on management's belief that Registrant has no affiliates other than its directors and executive officers.

As of February 15, 2008 the number of outstanding shares of Common Stock of the registrant was 27,625,643.

Documents Incorporated By Reference

Document	Parts Into Which Incorporated
Proxy Statement for the Annual Meeting of Shareholders to be filed within 120 days after December 31, 2007.	Part III

PART I

Item 1. Business.

Overview

CryoLife, Inc. ("CryoLife", the "Company", "we", or "us"), incorporated January 19, 1984 in Florida, develops and commercializes biomaterials and implantable medical devices and preserves and distributes human tissues for cardiac and vascular transplant applications. The Company's biomaterials and implantable medical devices include BioGlue® Surgical Adhesive ("BioGlue"), CryoLife-O'Brien® Stentless Porcine Aortic Bioprosthesis, and ProPatch™ Soft Tissue Repair Matrix ("ProPatch"). Additionally, the Company distributes CardioWrap® for MAST BioSurgery, Inc ("MAST"). The Company's products are often sold in international markets several years before they can be marketed in the U.S. In 2007 international revenues were 14% of total revenues.

Products and Preservation Services

Tissue Preservation Services. CryoLife distributes preserved human cardiac, vascular, and orthopaedic tissue to implanting institutions throughout the U.S., Canada, and Europe, although distribution of orthopaedic tissue is being phased out. CryoLife preserves cardiac and vascular human tissue using special freezing techniques, or cryopreservation. Management believes the human tissues it distributes offer specific advantages over mechanical, synthetic, and animal-derived alternatives. Depending on the alternative, these advantages include more natural blood flow properties for its preserved human heart valves, the elimination of a long-term need for drug therapy to prevent excessive blood clotting, and a reduced risk of catastrophic failure, thromboembolism (stroke), or calcification. On February 7, 2008 the Company received a Section 510(k) ("510(k)") clearance from the FDA for its CryoValve® SG pulmonary human heart valve processed with the Company's proprietary SynerGraft technology. CryoLife has begun using the SynerGraft technology for the majority of its pulmonary valve processing and anticipates that the first CryoValve SG may be available for shipment late in the first quarter of 2008.

BioGlue. CryoLife's proprietary product BioGlue, designed for cardiac, vascular, pulmonary, and general surgical applications, is a polymer based on bovine blood protein and an agent for cross-linking proteins. CryoLife is authorized to distribute BioGlue throughout the U.S. and in more than 70 other countries for designated applications. In the U.S. BioGlue is U.S. Food and Drug Administration ("FDA") approved as an adjunct to sutures and staples for use in adult patients in open surgical repair of large vessels. CryoLife distributes BioGlue under Conformité Européene ("CE") Mark product certification in the European Economic Area ("EEA") for soft tissue repair procedures (which include cardiac, vascular, pulmonary, and additional soft tissue repair procedures). CryoLife has also received approval and distributes BioGlue for soft tissue repair in Canada and Australia. Additional marketing approvals have been granted for specified applications in several other countries in Central and South America, and Asia.

CardioWrap. In 2007 CryoLife began exclusive distribution of CardioWrap, a product of MAST, in the U.S. and the United Kingdom. CardioWrap is a bioresorbable sheet used to replace the pericardium in cardiac reconstruction and other cardiac surgeries where the patient may face re-operation within six months.

CryoLife-O'Brien Stentless Porcine Aortic Bioprosthesis. CryoLife distributes a porcine heart valve, the CryoLife-O'Brien Stentless Porcine Aortic Bioprosthesis, in Europe. This valve contains minimal amounts of synthetic material compared to other glutaraldehyde-fixed porcine valves, which management believes decreases the risk of endocarditis, a debilitating and potentially fatal infection.

ProPatch. In December 2006 CryoLife received 510(k) clearance from the FDA for its ProPatch. ProPatch, developed from bovine pericardial tissue, is used to reinforce weakened soft tissues and provides a resorbable scaffold that is replaced by the patient's own soft tissue. CryoLife is seeking commercialization for ProPatch, which may include partnering with third parties as well as obtaining clinical data to support applications to be marketed directly by the Company.

Research and Development

Through its continuing research and development activities, CryoLife endeavors to use its expertise in protein chemistry, biochemistry, and cell biology, and its understanding of the cardiac and vascular surgery medical specialties, to acquire and develop useful implantable products and technologies. CryoLife seeks to identify market areas that can benefit from preserved living tissues, implantable medical devices, and other related technologies, to develop innovative techniques and

products within these areas, to secure their commercial protection, to establish their efficacy, and then to market these techniques and products. In order to expand CryoLife's service and product offerings, the Company is in the process of developing or investigating several technologies and products. The products in development have not been subject to completed clinical trials and have not received FDA or other regulatory approval, so CryoLife may not derive any revenues from them. CryoLife generally performs significant research and development work before offering its services and products, building on either existing proprietary and non-proprietary knowledge or acquired technology and know-how. The Company's current tissue preservation services were developed internally. The Company developed its BioGlue product from a substance originally developed by a third party and acquired by CryoLife.

BioGlue is the first product to be developed from the Company's Protein Hydrogel Technology ("PHT"). CryoLife's PHT is the base for several potential products in development. CryoLife is researching the use of derivatives of PHT for use in trauma surgery and is undertaking clinical evaluations to determine its utility as a nucleus pulposus replacement in spinal disc repair. Potential product line extensions include modifications to the BioGlue delivery system.

Risk Factors

CryoLife's business is subject to a number of risks, including the possibility of FDA actions, additional expenses and losses from product recalls, possible losses from product liability, securities, and other litigation, other regulatory actions, adverse publicity, and lower demand for CryoLife products resulting from product recalls and other FDA activity, the possible inability to obtain sufficient insurance coverage, the possible inability to protect the Company's intellectual property rights, the possible inability to obtain necessary regulatory approvals, and possible future lack of adequate capital. See Part I, Item 1A, "Risk Factors" below.

2007 and 2008 Events

SynerGraft Processed Human Pulmonary Heart Valve 510(k) Clearance

On February 7, 2008 CryoLife received 510(k) clearance from the Food and Drug Administration ("FDA") for its CryoValve ® SG pulmonary human heart valve processed with the Company's proprietary SynerGraft technology. CryoLife's proprietary SynerGraft technology is designed to remove donor cells and cellular remnants from the valve without compromising the integrity of the underlying collagen matrix. The CryoValve SG pulmonary human heart valve is indicated for the replacement of diseased, damaged, malformed, or malfunctioning native pulmonary valves. The valve can be used in conjunction with right ventricular outflow tract reconstruction procedures (RVOT), commonly performed in children with congenital heart defects. In addition, the valve can be used for pulmonary valve replacement during the Ross Procedure, an operation in which a patient's defective aortic valve is removed and replaced with his own pulmonary valve. The CryoValve SG is then surgically implanted in place of the removed native pulmonary valve.

At the FDA's request, CryoLife is planning a post-clearance study to seek evidence for the potential and implied long-term benefits of the SynerGraft process. Data to be collected is expected to include long-term safety and hemodynamic function, immune response, and explant analysis. CryoLife believes that this information may help it ascertain whether the SynerGraft process reduces the immune response of the transplanted heart valve and allows for the collagen matrix to recellularize with the recipient's own cells.

CryoLife has begun using the SynerGraft technology for the majority of its pulmonary valve processing and anticipates that the first CryoValve SG may be available for shipment late in the first quarter of 2008.

Trophic Solutions License Agreement

On January 8, 2008 CryoLife announced that it had signed an exclusive license agreement with Trophic Solutions, LLC ("Trophic") to develop and market products related to the cold storage and preservation of internal organs prior to transport. Under terms of the agreement, the Company will license from Trophic the right to develop, manufacture, and market products and processes derived from a patent owned by Trophic, which relates to solutions containing purified antimicrobial polypeptides and/or cell surface receptor binding proteins for use in the storage and preservation of internal organs prior to transplant. In early animal and human studies, the Trophic technology has shown that kidneys may be stored for up to six days prior to transplant without compromising graft function rather than three days using present technology. These studies also indicate that the solution may reduce or eliminate the need for pumping kidneys, which may reduce the cost of maintaining and transporting kidneys for transplant. The agreement gives CryoLife the exclusive right to determine if a commercial product can be developed using the process covered by the patent for a period of one year, which may be extended for an additional ninety days.

Proxy Biomedical Distribution Agreement

On September 17, 2007 CryoLife announced that it had signed a distribution agreement allowing Proxy Biomedical Limited ("Proxy") to include BioGlue in a hernia repair kit. In addition to BioGlue, the kit includes a surgical mesh from Proxy's line of proprietary synthetic polymer surgical meshes. Initially, Proxy will distribute the kits in Ireland, the United Kingdom, and Germany. Currently, the most common methods of hernia mesh fixation include sutures and tacking systems. Between 10% and 20% of patients complain of pain resulting from hernia repair, most often associated with the fixation method. It is anticipated that the use of BioGlue, designed to replace sutures and tacking systems, will help minimize this incidence of postoperative pain.

Automatic Conversion of Preferred Stock

On June 4, 2007 CryoLife announced that it was exercising its right to automatically convert the remaining shares of its 6% convertible preferred stock (the "Preferred Stock") into common stock. On June 25, 2007 the Company automatically converted the remaining 278,000 shares of its Preferred Stock into 1,726,000 shares of common stock at the conversion rate of approximately 6.2189 shares of common stock per share of Preferred Stock. The Company also issued 69,000 shares of common stock to preferred shareholders to satisfy the amount of dividends that would have accrued through April 1, 2008 ("the Dividend Make-Whole Payment") in accordance with the terms of the automatic conversion. The value of the Dividend Make-Whole Payment was $878,000 based on the share price of $12.71 on the date of conversion.

CardioWrap Distribution Agreement

CryoLife entered into two three-year agreements with MAST in 2007. One agreement was signed in January 2007 for the exclusive rights to distribute CardioWrap in the U.S. and the other agreement was signed in May 2007 for the exclusive rights to distribute CardioWrap in the United Kingdom. CardioWrap is a bioresorbable sheet used to replace the pericardium in cardiac reconstruction and other cardiac surgeries in which the patient may face re-operation within six months. CardioWrap is made from polylactic acid, a polymer composed of lactic acid, similar to that which occurs naturally in the human body. CardioWrap maintains its strength during the healing process while slowly breaking down into lactic acid molecules. These molecules are ultimately metabolized into carbon dioxide and water and released from the body through the lungs. Available in several sizes and thicknesses, sheets of CardioWrap can be cut or shaped with scissors to the desired size, allowing CardioWrap to conform to most anatomical needs.

FDA Correspondence and Notices

September 2007 FDA Inspection

An FDA Form 483 Notice of Observations was issued in August 2005 in connection with the FDA inspections of the Company's facilities in July 2005. Since August 2005 the Company and FDA have corresponded regarding the observations noted and the adequacy of the Company's responses. In September 2007 the FDA re-inspected the Company and no FDA Form 483 Notice of Observations was issued.

Strategy

In 2006 the Company's management and Board of Directors completed a process with the assistance of a financial advisor to identify and evaluate potential strategies to enhance shareholder value. As a result of this process, the Company announced that it would continue to focus on growing its business and leveraging its strengths and expertise in its core marketplaces to generate revenue and earnings growth. The key elements of the Company's strategy related to growing its business and leveraging its strengths and expertise in its core marketplaces to generate revenue and earnings growth are:

- *Expand Distribution of BioGlue and Develop Derivative Products* . The Company intends to increase the market penetration of its BioGlue by (i) expanding awareness of the clinical advantages of BioGlue through continuing educational and marketing efforts directed to physicians, (ii) pursuing additional indications or product line extensions for the BioGlue technology in either the U.S. or internationally, (iii) pursuing indications for derivatives of the BioGlue technology in either the U.S. or internationally, and (iv) continuing to seek additional marketing approvals in other countries.

- *Expand Distribution of Preserved Tissue*. The Company intends to increase the market penetration of its CryoLife preserved human heart valves, non-valved conduits, and vascular grafts by (i) expanding awareness of clinical

advantages of preserved human tissues through continuing educational efforts directed to physicians and tissue procurement agencies, (ii) improving and expanding its relationships with the approximately 75 tissue banks and organ procurement agencies across the U.S. which have recovered and sent tissue to the Company for preservation, (iii) increasing the number of tissue banks and organ procurement agencies that work with CryoLife, (iv) expanding its physician training activities, and (v) resuming the application of its SynerGraft technology to human pulmonary heart valves and investigating whether the SynerGraft technology can be applied to other tissues.

- *Broaden Application of Preservation Services.* The Company will continue to collect, monitor, and evaluate implant data to (i) develop expanded uses for the human tissues currently preserved by the Company and (ii) identify new human tissues as candidates for preservation.

Additionally, the Company announced that it will pursue three additional key strategies designed to generate revenue and earnings growth. These three strategies include:

- *Identify and evaluate acquisition opportunities of complementary product lines and companies.* The Company intends to leverage its current distribution channel and its expertise in the cardiac and vascular medical specialties by selectively pursuing the potential acquisition, distribution, or licensing of additional technologies that complement existing services and products. As a part of this strategy, in January 2007 the Company signed a three-year agreement to exclusively distribute CardioWrap, a bioresorbable sheet used to replace the pericardium in cardiac reconstruction and other cardiac surgeries where the patient may face re-operation within six months. In January 2008 the Company entered into an exclusive agreement with Trophic to develop and market products related to the cold storage and preservation of internal organs prior to transport.

- *License Company technology to third parties for non-competing uses.* The Company intends to increase the market penetration of its current technology platforms, including its PHT and its SynerGraft technologies, in medical specialties other than cardiac and vascular surgery by pursuing through strategic alliances additional indications or product line extensions for the PHT or SynerGraft technologies in either the U.S. or internationally. The Company will consider licensing opportunities for other existing products or for products in its research and development pipeline if the Company determines that licensing opportunities could enhance shareholder value. As part of this strategy, in October 2006 the Company signed a licensing and distribution agreement with BioForm Medical, Inc. ("BioForm") for the development and commercialization of BioGlue for use in cosmetic and plastic surgery indications. The agreement calls for BioForm to fund the clinical development and regulatory approval process for commercializing BioGlue for use in cosmetic and plastic surgery indications in the U.S., Canada, and various countries in Europe. The clinical development of BioGlue for use in cosmetic and plastic surgery indications is ongoing. Additionally, in September 2007 the Company signed a distribution agreement allowing Proxy to include BioGlue in a hernia repair kit.

- *Analyze and identify underperforming assets for potential sale or disposal.* The Company intends to continue to analyze and identify underperforming assets not complementary to the strategies identified above for potential sale or disposal. As a part of this strategy, the Company entered into an exchange and service agreement with Regeneration Technologies, Inc. ("RTI Agreement") in December 2006 as discussed below in "—Products and Services".

Products and Services

BioGlue and Related Products

The effective closure of internal wounds following surgical procedures is critical to the restoration of the function of tissue and to the ultimate success of the surgical procedure. Failure to effectively seal surgical wounds can result in leakage of air in lung surgeries, cerebral spinal fluids in neurosurgeries, blood in cardiac surgeries, and gastrointestinal contents in abdominal surgeries. Air and fluid leaks resulting from surgical procedures can lead to significant post-operative morbidity resulting in prolonged hospitalization, higher levels of post-operative pain, and a higher mortality rate.

Sutures and staples facilitate healing by joining wound edges and allowing the body to heal naturally. However, because sutures and staples do not have inherent sealing capabilities, they cannot consistently eliminate air and fluid leakage at the wound site. This is particularly the case when sutures and staples are used to close tissues containing air or fluids under pressure, such as the lobes of the lung, the dural membrane surrounding the brain and spinal cord, blood vessels, and the gastrointestinal tract. In addition, in minimally invasive surgical procedures where the physician must operate through small

access devices, it can be difficult and time consuming for the physician to apply sutures and staples. The Company believes that the use of surgical adhesives and sealants with or without sutures and staples could enhance the efficacy of these procedures through more effective and rapid wound closure.

In order to address the inherent limitations of sutures and staples, the Company developed and commercialized its BioGlue product. BioGlue is a polymeric surgical adhesive based on bovine blood protein and an agent for cross-linking proteins. BioGlue has a tensile strength that is four to five times that of fibrin sealants. BioGlue begins to polymerize within 20 to 30 seconds and reaches its bonding strength within 2 minutes. BioGlue is dispensed by a controlled delivery system that consists of either a reusable delivery device and disposable syringe or a disposable syringe and an assortment of applicator tips (standard size tips, 12mm and 16mm spreader tips, and 10cm and 27cm extender tips). BioGlue is pre-filled in 2ml, 5ml and 10ml volumes.

The Company estimates that aggregate U.S. sales for surgical adhesives and glues were approximately $280 million in 2007. CryoLife is authorized to distribute BioGlue throughout the U.S. and in more than 70 other countries for designated applications. In the U.S. BioGlue is FDA approved as an adjunct to sutures and staples for use in adult patients in open surgical repair of large vessels. CryoLife distributes BioGlue under CE Mark product certification in Europe, the Middle East, and Africa ("EMEA") for soft tissue repair procedures (which include cardiac, vascular, pulmonary, and additional soft tissue repair procedures). CryoLife has also received approval and distributes BioGlue for soft tissue repairs in Canada and Australia. Additional marketing approvals have been granted for specified applications in several other countries in Central and South America, and Asia. Revenues from BioGlue represented 46%, 49%, and 55% of total revenues in 2007, 2006, and 2005, respectively.

BioGlue is the first product to be developed from the Company's Protein Hydrogel Technology platform. PHT is based on a bovine protein that mirrors an array of amino acids that perform complex functions in the human body. Together with glutaraldehyde, the protein forms a hydrogel, a water based biomaterial in some ways similar to human tissue. Materials and implantable replacement devices created with PHT may have the potential to provide structure, form, and function similar to certain human body tissue.

The Company is currently developing other products from its PHT platform. The Company has completed a pilot study in Europe and has filed for a CE Mark for BioDisc™ as a nucleus pulposus replacement in spinal disc repair. The Company is conducting preclinical research with BioFoam ® for use in wound sealing in trauma surgery and parenchymal resection.

Tissue Preservation Services

The Company's proprietary preservation process involves the recovery of tissue from deceased human donors by tissue bank and organ procurement organizations, the timely and controlled delivery of such tissue to the Company, the screening, dissection, disinfection, and preservation of the tissue by the Company, the storage and shipment of the preserved tissue, and the controlled thawing of the tissue. Thereafter, the tissue is surgically implanted into a human recipient.

The transplant of human tissue that has not been preserved must be accomplished within extremely short time limits (for example less than eight hours for transplants of the human heart). Prior to the advent of human tissue cryopreservation, these time constraints resulted in the inability to use much of the tissue donated for transplantation. The application of the Company's cryopreservation technologies to donated tissue expands the amount of human tissue available to physicians for transplantation. Cryopreservation also expands the treatment options available to physicians and their patients by offering alternatives to implantable mechanical, synthetic, and animal-derived devices. The tissues presently preserved by the Company include human heart valves, non-valved conduits, and vascular tissue.

CryoLife maintains and collects clinical data on the use and effectiveness of implanted human tissues that it has preserved and shares this data with implanting physicians and the procurement organizations from which it receives tissue. The Company also uses this data to help direct its continuing efforts to improve its preservation services through ongoing research and development. Its clinical research staff and technical representatives assist physicians by providing educational materials, seminars, and clinics on methods for handling and implanting the tissue preserved by the Company and the clinical advantages, indications, and applications for those tissues. The Company has ongoing efforts to train and educate physicians on the indications for and uses of the human tissues preserved by the Company, as well as its programs whereby surgeons train other surgeons in best-demonstrated techniques. The Company also assists organ procurement agencies and tissue banks through training and development of protocols and provides materials and grants to improve their tissue recovery techniques and, thereby, increase the yield of usable tissue.

Human Cardiac Tissue. The human heart valves and conduits preserved by the Company are used in reconstructive heart valve replacement surgery. CryoLife shipped approximately 65,500 preserved human heart valves and conduits from 1984 through 2007, including approximately 2,900 shipments in 2007. Revenues from human heart valve and conduit preservation services accounted for 23%, 20%, and 20% of total revenues in 2007, 2006, and 2005, respectively. Based on CryoLife's records of documented implants, management believes that the acceptance of the Company's preserved human heart valve is due in part to physicians' recognition of the longevity and natural functionality of the Company's preserved human tissues, the Company's documented clinical data, and the support of the Company's technical representatives, including its direct technical service representatives and customer service department. Management believes the Company offers advantages in the areas of clinical data and technical service as compared to other human tissue processors and that the Company's tissues offer advantages in certain areas over mechanical, porcine, and bovine heart valve alternatives. The Company currently preserves human aortic and pulmonary heart valves for implantation by cardiac surgeons. In addition the Company provides preserved human non-valved conduit and patch tissue to surgeons who wish to perform certain specialized cardiac repair procedures. Each of these preserved human heart valves, non-valved conduits, and patches maintains a tissue structure which more closely resembles and performs like the patient's own tissue than non-human tissue alternatives.

As discussed above at "—2007 and 2008 Events", on February 7, 2008 CryoLife received 510(k) clearance from the Food and Drug Administration for its CryoValve® SG pulmonary human heart valve processed with the Company's proprietary SynerGraft technology. CryoLife has begun using the SynerGraft technology for the majority of its pulmonary valve processing and anticipates that the first CryoValve SG may be available for shipment late in the first quarter of 2008.

The Company estimates that in 2007 the total annual heart valve and non-valved conduit replacement market in the U.S. was in excess of $550 million. Management believes that approximately 102,000 heart valve replacement surgeries were conducted in the U.S. in 2007. Of this total number of heart valve and conduit surgeries, approximately 22,000 or 22%, involved mechanical heart valves, and approximately 80,000 or 78%, involved tissue heart valves, including porcine, bovine, and preserved human tissues.

Management believes preserved human heart valves and non-valved conduits have characteristics that make them the preferred replacement option for many patients. Specifically, human heart valves, such as those preserved by the Company, allow for more normal blood flow and provide higher cardiac output than stented porcine, bovine, and mechanical heart valves. Human heart valves are not as susceptible to progressive calcification, or hardening, as are traditional glutaraldehyde-fixed porcine and bovine heart valves, and do not require anti-coagulation drug therapy, as do mechanical valves. The synthetic sewing rings contained in mechanical and stented porcine and bovine valves may harbor bacteria leading to endocarditis. Furthermore, prosthetic valve endocarditis can be difficult to treat with antibiotics, and this usually necessitates the surgical removal of these valves at considerable cost, morbidity, and risk of mortality. Consequently, for many physicians, human heart valves are the preferred alternative to mechanical and animal derived tissue valves for patients who have or are at risk to contract endocarditis.

The following table sets forth the characteristics of alternative heart valve implants that management believes make preserved human heart valves the preferred replacement for certain patient populations:

	Cryopreserved Human	Porcine		Mechanical	Bovine Pericardial
		Stented	Stentless		
Materials:	human tissue	glutaraldehyde-fixed pig tissue and synthetic sewing ring	glutaraldehyde-fixed pig tissue	pyrolitic carbon bi-leaflet and synthetic sewing ring	glutaraldehyde-fixed cow tissue and synthetic sewing ring
Blood Flow Dynamics:	normal	moderate elevation	nearly normal	high elevation	moderate elevation
Mode of Failure:	gradual	gradual	expected to be gradual	catastrophic	gradual
Longevity:	15-20 years	10-15 years	expected to exceed stented porcine valves	15-20 years	10-15 years
Increased Risk of Bleeding or Thromboembolic Events (strokes or other clotting):	no	occasional	occasional	yes	occasional
Anti-Coagulation Drug Therapy Required:	none	short-term	short-term	chronic	short-term
Effectiveness in the Treatment of Endocarditis:	high	low	moderate	low	low

While the clinical benefits of preserved human heart valves discussed above are relevant to all patients, they are particularly important for (i) pediatric patients (newborn to 17 years) who are prone to calcification of porcine and bovine tissue, (ii) young or otherwise active patients who face an increased risk of severe blood loss or even death due to side effects associated with the anti-coagulation drug therapy required with mechanical valves, and (iii) women in their childbearing years for whom anti-coagulation drug therapy is contraindicated.

Human Vascular Tissue. The Company preserves human saphenous veins for use in vascular surgeries that require small diameter conduits (3mm to 6mm), such as peripheral vascular reconstructions and coronary bypass surgery. Failure to bypass or revascularize an obstruction in such cases may result in death or the loss of a limb. The Company also preserves femoral veins and arteries and aortoiliac arteries for use as vascular grafts. The Company shipped approximately 48,900 human vascular tissues from 1986 through 2007, including approximately 3,300 shipments in 2007. Revenues from human vascular preservation services accounted for 24%, 21%, and 17% of total revenues in 2007, 2006, and 2005, respectively.

A surgeon's first choice for replacing diseased or damaged vascular tissue is generally the patient's own tissue. However, in cases of advanced vascular disease, the patient's tissue is often unusable and the surgeon may consider using synthetic grafts or preserved human vascular tissue. Small diameter synthetic vascular grafts are generally not suitable for below-the-knee surgeries because they have a tendency to occlude over time. Preserved human vascular tissues tend to remain open longer and as such are used in indications where synthetics typically fail. In addition synthetic grafts are not suitable for use in infected areas since they may harbor bacteria and make treatment with antibiotics difficult. Therefore, preserved human vascular tissues are also a preferred graft alternative for patients with previously infected graft sites. The Company's preserved human vascular tissues are used for peripheral vascular reconstruction, coronary artery bypass surgeries, and abdominal aorta reconstruction. In cases of peripheral arteriosclerosis, a preserved saphenous vein can be implanted as a bypass graft for the diseased artery in order to improve blood flow and maintain a functional lower limb. The only alternative for many of these patients is amputation. Preserved vascular tissue can be used in a subset of coronary artery bypass procedures when the patient's own tissue is not available. Preserved aortoiliac arteries can be used in cases of abdominal aortic infection when the use of synthetic graft alternatives is often not an option for placement directly into an infected field.

Human Orthopaedic Tissue. The Company historically preserved human orthopaedic tissue for surgical replacements for the meniscus, the anterior and posterior cruciate ligaments, and osteoarticular cartilage, which are critical to the proper operation of the human knee. In December 2006 CryoLife entered into an exchange and services agreement with RTI

respecting procurement, processing, and distribution activities for cardiac and vascular tissue processed and distributed by RTI and orthopaedic tissue for the knee processed and distributed by CryoLife. In accordance with the RTI Agreement, CryoLife ceased accepting donated human orthopaedic tissue for processing on January 1, 2007 and began work to transition existing arrangements for recovery of human orthopaedic tissue to RTI. Likewise, on January 1, 2007 RTI ceased accepting donated human cardiac and vascular tissues for processing and began work to transition its arrangements for recovery of these tissues to CryoLife. No cash was exchanged in the transaction. CryoLife will continue to distribute its existing orthopaedic tissue inventory through June 30, 2008. After that date CryoLife will become entitled to distribute RTI's remaining cardiac and vascular tissue inventory, and RTI will become entitled to distribute CryoLife's remaining orthopaedic tissue inventory. CryoLife will pay RTI a commission with respect to any of CryoLife's orthopaedic tissue distributed by RTI and will receive a commission from RTI with respect to any RTI cardiac tissue distributed by CryoLife. Under the RTI Agreement, from July 1, 2008 through December 31, 2016, except as set forth above, CryoLife has agreed not to market or solicit orders for certain human orthopaedic tissues and RTI has agreed not to market or solicit orders for human cardiac and vascular tissues. The agreement also provides for a non-exclusive license of technology from CryoLife to RTI, and contains customary provisions regarding indemnification and confidentiality.

CryoLife shipped approximately 32,000 human connective tissues for the knee through the end of 2007, including approximately 900 shipments in 2007. Revenues from human orthopaedic preservation services accounted for 4%, 9%, and 7% of total revenues in 2007, 2006, and 2005, respectively.

Medical Devices

CryoLife-O'Brien Stentless Porcine Aortic Bioprosthesis. The Company developed and commercialized its bioprosthetic cardiac and vascular devices based on its experience with preserved human tissue implants. The CryoLife-O'Brien aortic bioprosthesis is a stentless porcine valve with design features that include a matched composite leaflet design that approximates human heart valve blood flow characteristics and that requires only a single suture line for surgical implantation. Stented porcine, bovine, and mechanical heart valves are typically fitted with synthetic sewing rings that are rigid and can impede normal blood flow. Unlike most other available porcine and bovine heart valves, the Company's stentless porcine heart valve has minimal synthetic materials, which decreases the risk of endocarditis, a debilitating and potentially deadly infection. Management believes these features provide advantages over certain other stentless porcine and bovine heart valves. Glutaraldehyde-fixed porcine and bovine heart valves are often preferred by surgeons for procedures involving elderly patients because they eliminate the risk of patient non-compliance with anti-coagulation drug therapy associated with mechanical valves, they are less expensive than allograft valves, and their shorter longevity is more appropriately matched with these patients' life expectancies. Glutaraldehyde-fixed porcine and bovine heart valves address an annual worldwide target heart valve market, which the Company estimates to have been $1 billion in 2007.

CryoLife began exclusive worldwide distribution of this valve in 1992 and acquired all rights to the underlying technology in 1995. The Company's CryoLife-O'Brien aortic bioprosthesis is marketed in Europe. Revenues from the CryoLife-O'Brien aortic bioprosthesis represented less than 1% of total revenues in 2007 and 1% of total revenues in both 2006 and 2005.

CardioWrap. In early 2007 the Company entered into a three-year agreement with MAST to exclusively distribute CardioWrap, a bioresorbable sheet used to replace the pericardium in cardiac reconstruction and other cardiac surgeries in which the patient may face re-operation within six months. CardioWrap is made from polylactic acid, a polymer composed of lactic acid, similar to that which occurs naturally in the human body. CardioWrap maintains its strength during the healing process while slowly breaking down into lactic acid molecules. These molecules are ultimately metabolized into carbon dioxide and water and released from the body through the lungs. Available in several sizes and thicknesses, sheets of CardioWrap can be cut or shaped with scissors to the desired size, allowing CardioWrap to conform to most anatomical needs. Revenues for CardioWrap represented less than 1% of total revenues in 2007.

ProPatch Soft Tissue Repair Matrix. In late 2006 CryoLife received 510(k) clearance from the FDA for its ProPatch. ProPatch, manufactured from bovine pericardial tissue and treated with the SynerGraft decellularization technology process, is used to reinforce weakened soft tissues and provides a resorbable scaffold that is replaced by the patient's own soft tissue. ProPatch is intended to be used for implantation to reinforce defects of the abdominal and thoracic wall, muscle flap reinforcement, rectal and vaginal prolapse, reconstruction of the pelvic floor, hernias, suture-line reinforcement, and reconstructive procedures. Specific to orthopaedic surgical repairs, the device is intended for the reinforcement of soft tissues repaired by sutures or by suture anchors during tendon repair surgery, including reinforcement of rotator cuff, patellar, Achilles, biceps, quadriceps, or other tendons. CryoLife is seeking commercialization for ProPatch, which may include partnering with third parties as well as obtaining clinical data to support applications to be marketed directly.

See Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Seasonality”, regarding seasonality of the Company’s products and human tissue preservation services.

See Note 17 to the Company’s consolidated financial statements regarding segment and geographic information at Part II, Item 8, of this Form 10-K.

Procurement, Distribution, and Marketing

BioGlue

In the U.S. the Company markets BioGlue to physicians and distributes it through its technical representative employees. The Company markets and distributes BioGlue in international markets through direct technical representatives employed by the Company’s wholly owned European subsidiary, CryoLife Europa, Ltd. (“Europa”), and other independent distributors. Through its technical representatives, the Company conducts field training for implanting surgeons with respect to the application of BioGlue.

During 1998 the Company signed an exclusive agreement with Century Medical, Inc. for the introduction and distribution of BioGlue in Japan. Under the terms of the agreement, Century Medical is responsible for applications and clearances with the Japanese Ministry of Health and Welfare. Century Medical has submitted the application to the Japanese Ministry of Health and Welfare and the review process is ongoing.

Tissue Preservation Services

CryoLife markets its preservation services to tissue procurement agencies, implanting physicians, and prospective tissue recipients. The Company works with tissue banks and organ procurement agencies to ensure consistent and continued availability of donated human tissue for transplant and educates physicians and prospective tissue recipients with respect to the benefits of preserved human tissues.

Procurement of Tissue. Donated human tissue is procured from deceased human donors by organ procurement agencies and tissue banks. After procurement, the tissue is packed and shipped, together with certain information about the tissue and its donor, to the Company in accordance with the Company’s protocols. The tissue is transported to the Company’s laboratory facilities via commercial airlines pursuant to arrangements with qualified courier services. Timely receipt of procured tissue is important as tissue that is not received promptly cannot be cryopreserved successfully. The procurement agency is reimbursed by the Company for the costs associated with these procurement services. The procurement fee and related shipping costs, together with the charges for the preservation services of the Company, are ultimately paid to the Company by the hospital or healthcare facility with which the implanting physician is associated. Since 1984 the Company has received tissue from over 94,000 donors. The Company has developed relationships with approximately 75 tissue banks and organ procurement agencies throughout the U.S. Management believes these relationships are critical in the preservation services industry and that the breadth of these existing relationships provides the Company with a significant advantage over potential new entrants to this market. The Company employs over 30 individuals in donor services and donor quality assurance to work with organ procurement agencies and tissue banks. This includes five account managers who are stationed throughout the country to work directly with the organ procurement agencies. The Company’s central office for procurement relations is staffed 24 hours per day, 365 days per year.

Preservation of Tissue. Upon receiving tissue, a Company technician completes the documentation control for the tissue prepared by the procurement agency and gives it a control number. The documentation identifies, among other things, donor age and cause of death. A trained technician then removes the portion or portions of the delivered tissue that will be processed. These procedures are conducted under aseptic conditions in clean rooms. At the same time, samples are taken from the donated tissue and subjected to the Company’s quality assurance program. This program, which includes review of the donor and tissue charts by CryoLife’s tissue quality assurance department and its medical directors, may identify characteristics which would disqualify the tissue for preservation or implantation. Once the tissue is approved, it is moved from quarantine to an implantable status. Tissue that does not pass testing is appropriately discarded.

The Company’s cardiac, vascular, and orthopaedic tissues have been preserved in a proprietary freezing process conducted according to Company protocols. After the preservation process, the tissues are transferred to liquid nitrogen freezers for long-term storage at temperatures at or below -135°C. The entire preservation process is controlled by guidelines established by the Company.

Distribution of Tissue to Implanting Physicians. After the tissue has cleared quality control assurance and the tissue is moved to an implantable status, the tissue is stored by the Company or is delivered directly to hospitals at the implanting physician's request. Cryopreserved tissue must be transported under stringent handling conditions and maintained within specific temperature tolerances at all times. Cryopreserved tissue is packaged for shipment using the Company's proprietary processes. At the hospital the tissue is implanted immediately or is held in a liquid nitrogen freezer according to Company protocols pending implantation. The Company provides a detailed protocol for thawing the cryopreserved tissue. The Company also makes its technical personnel available by phone or in person to answer questions. After the Company transports the tissue to the hospital, the Company invoices the institution for its services, the procurement fee, and transportation costs.

The Company provides Company-owned liquid nitrogen freezers to certain client hospitals. The Company has currently installed approximately 300 of these freezers. Participating hospitals generally pay the cost of liquid nitrogen and regular maintenance. The availability of on-site freezers makes it easier for a hospital's physicians to utilize the Company's preservation services by making the cryopreserved tissue more readily available. Because fees for the Company's preservation services become due upon the shipment of tissue to the hospital, the use of such on-site freezers also reduces the Company's working capital needs.

Marketing, Educational, and Technical Support. The Company has records of over 1,086 cardiac and vascular surgeons who have implanted tissues preserved by the Company during the past twelve months. The Company works to maintain relationships with and market to surgeons within these medical specialties. Because the Company markets its preservation services directly to physicians, an important aspect of increasing the distribution of the Company's preservation services is educating physicians on the use of preserved human tissue and on proper implantation techniques. Trained field support personnel provide support to implanting institutions and surgeons. The Company currently employs approximately 35 persons as technical service representatives and five region managers who deal primarily with cardiac and vascular surgeons and provide field support.

The Company sponsors physician training seminars where physicians teach other physicians the proper technique for handling and implanting preserved human tissue. The Company also produces educational videotapes for physicians and coordinates peer to peer training at various medical institutions. In addition the Company coordinates laboratory sessions that utilize animal tissue to demonstrate surgical techniques. Management believes that these activities improve the medical community's acceptance of the preserved human tissue processed by the Company and help to differentiate the Company from other allograft processors.

To assist procurement agencies and tissue banks, the Company provides educational materials and training on procurement, dissection, packaging, and shipping techniques. The Company also produces educational videotapes and coordinates laboratory sessions on procurement techniques for procurement agency personnel. To supplement its educational activities, the Company employs in-house technical specialists that provide technical information and assistance and maintains a staff 24 hours per day, 365 days per year for customer support.

Medical Devices

The Company markets and distributes CardioWrap in the U.S. and the United Kingdom. The Company markets and distributes the CryoLife-O'Brien Stentless Porcine Aortic Bioprosthesis in Europe. Marketing efforts for the CryoLife-O'Brien aortic bioprosthesis and CardioWrap are primarily directed toward cardiac surgeons.

European Operations

The Company markets its products in the EMEA region through its European subsidiary, CryoLife Europa Ltd, based in Guildford, United Kingdom. Europa, with its team of approximately fourteen employees, provides customer service, logistics, marketing, and clinical support to cardiac, vascular, thoracic, and general surgeons throughout the EMEA region. Europa markets and distributes the Company's complete range of products through its direct sales representatives in Great Britain and Germany and a network of independent distributors in the EMEA region.

Backlog

The limited supply of tissue that is donated and available for processing typically results in a backlog of orders in the Company's human tissue business. The amount of backlog fluctuates based on the tissues available for shipment and varies based on the surgical needs of specific cases. The Company's backlog is generally not considered firm and must be

confirmed with the customer before shipment. The Company currently does not have a backlog of orders related to BioGlue, CryoLife-O'Brien aortic bioprosthesis, or CardioWrap.

Competition

BioGlue

The Company competes with many domestic and international medical device and pharmaceutical companies. In the surgical adhesive and surgical sealant area, the Company competes primarily with Baxter Healthcare's Tisseel, FloSeal, and CoSeal; Ethicon's Evicel, Surgiflo and Surgifoam; and Covidien's U.S. Surgical Division's Duraseal products. Additionally, Johnson & Johnson is under FDA review for a surgical adhesive for approval in vascular sealing. The Company currently competes with these products based on the products' benefits and features, such as strength and ease of use. Competitive products may also be under development by other large medical device, pharmaceutical, and biopharmaceutical companies. Many of the Company's current and potential competitors have substantially greater financial, technological, research and development, regulatory and clinical, manufacturing, marketing and sales, and personnel resources than the Company.

These competitors may also have greater experience in developing products, conducting clinical trials, obtaining regulatory approvals, and manufacturing and marketing such products. Certain of these competitors may obtain patent protection, approval, or clearance by the FDA or foreign countries, or product commercialization earlier than the Company, any of which could materially adversely affect the Company. The Company could also have to compete with respect to manufacturing efficiency and marketing capabilities.

Other recently developed technologies or procedures are, or may in the future be, the basis of competitive products. There can be no assurance that the Company's current competitors or other parties will not succeed in developing alternative technologies and products that are more effective, easier to use, or more economical than those which have been or are being developed by the Company or that would render the Company's technology and products obsolete and non-competitive in these fields. In such event, the Company's business, financial condition, and results of operations could be materially adversely affected. See Part I, Item 1A, "Risk Factors—Risks Relating To Our Business—Rapid Technological Change Could Cause Our Services And Products To Become Obsolete."

Preserved Human Tissues and Bioprosthetic Cardiac and Vascular Devices

The Company currently faces competition from at least two non-profit tissue banks that cryopreserve and distribute human cardiac and vascular tissue, as well as from several companies that market mechanical, porcine, and bovine heart valves, and synthetic vascular grafts for implantation. Many established companies, some with resources greater than those of the Company, are engaged in manufacturing, marketing, and selling alternatives to preserved human tissue. Management believes that it competes with other entities that cryopreserve human tissue on the basis of technology, customer service, and quality assurance.

Management believes that the human heart valves preserved by the Company, as compared to mechanical, porcine, and bovine heart valves, compete on the factors set forth above, as well as by providing a tissue that is the preferred replacement alternative with respect to certain medical conditions, such as pediatric cardiac reconstruction, valve replacements for women in their child-bearing years, and valve replacements for patients with endocarditis. The Company believes its recent approval of its SynerGraft processed human pulmonary heart valve as discussed in "—2007 and 2008 Events" will enable the Company to compete with other valves by providing a valve processed with a technology designed to remove donor cells and cellular remnants from the valve without compromising the integrity of the underlying collagen matrix.

Generally, for each procedure that may utilize vascular human tissue that the Company preserves, there are alternative treatments. Often, in the case of veins, these alternatives include the repair, partial removal, or complete removal of the damaged tissue and may utilize other tissues from the patients themselves or synthetic products. The attending physician, in consultation with the patient, makes the selection of treatment choices. Any newly developed treatments may also compete with the use of tissue preserved by the Company.

Human and Stentless Porcine Heart Valves. Alternatives to human heart valves preserved by the Company include mechanical valves, porcine valves, and valves constructed from bovine pericardium. St. Jude Medical, Inc. is the leading supplier of mechanical heart valves, and has a marketing and distribution arrangement with a non-profit tissue bank for supplies of preserved human heart valves. Medtronic, Inc. is the leading supplier of porcine heart valves. Edwards Life Sciences, Inc. is the leading supplier of bovine pericardial heart valves. In addition management believes that at least two domestic tissue banks offer preservation services for human heart valves in competition with the Company. The Company

presently distributes its stentless porcine heart valve only outside the U.S. This stentless porcine heart valve competes with mechanical valves, stented and stentless porcine valves, human heart valves, and processed bovine pericardial heart valves. The Company is aware of at least six other companies that offer porcine and bovine pericardial heart valves.

Human Vascular Tissue. There are a number of providers of synthetic alternatives to veins preserved by the Company and those alternatives are available primarily in medium and large diameters. Currently, management believes that there is at least one other non-profit tissue bank that preserves and distributes human vascular tissue in competition with the Company. Companies offering either synthetic or allograft products may enter this market in the future.

Research and Development

The Company endeavors to use its expertise in protein chemistry, biochemistry, and cell biology, and its understanding of the needs of the cardiac and vascular surgery medical specialties to expand its surgical adhesive and preservation businesses and to develop or acquire implantable products and technologies for these specialties. The Company seeks to identify market areas that can benefit from preserved living tissues, implantable medical devices, and other related technologies, to develop innovative techniques and products within these areas, to secure their commercial protection, to establish their efficacy, and then to market these techniques and products. The Company employs approximately 28 people in its research and development and clinical research departments, including six PhDs with specialties in the fields of molecular biology, protein chemistry, vascular physiology, biochemistry, and bioengineering.

In order to expand the Company's service and product offerings, the Company is currently in the process of developing or investigating several technologies and products, including technologies related to human tissue preservation, its PHT product platform used in BioGlue, BioDisc, BioFoam, and other BioGlue derivatives, additional applications of its SynerGraft technology, and organ transplant solutions.

BioFoam, a product in the PHT platform, is in preclinical development. BioFoam contains a foaming agent, which has the potential to rapidly fill and seal internal body cavities, such as aneurysm sacs, and may provide hemostatsis in penetrating wounds and trauma. The 2005, 2006, 2007, and 2008 U.S. Congress Defense Appropriations Conference Reports included $930,000, $2.3 million, $1.0 million, and $2.2 million, respectively, for the continued development of protein hydrogel technology for use on the battlefield. The Company applied for and was awarded the full $930,000 under the 2005 bill and $1.9 million under the 2006 bill. The Company applied for funding for BioFoam development under the 2007 bill but has not yet been notified of an award decision. The Company anticipates applying for funding under the 2008 bill during 2008. CryoLife is currently involved in initial animal trials related to this grant.

BioDisc, a product in the PHT platform, is undergoing clinical evaluation to determine its utility as a nucleus pulposus replacement in spinal disc repair. The nucleus pulposus is surrounded by fibrous tissue (annulus fibrosis) and is located in the center of the vertebral disc. The nucleus pulposus is composed of a gelatinous-like material that in conjunction with the annulus fibrosis acts as a cushion or shock absorber to the spinal column. If the nucleus pulposus herniates through the annulus, it may be removed in a procedure known as a discectomy. BioDisc is designed to fill the area where the nucleus pulposus was removed and is intended to preserve disc height, reduce lumbar motion segment instability, and reduce recurrent disc herniation. A ten patient study enrollment and a 2-year follow-up have been completed. An interim analysis of the data was used for CE Mark submission in February 2007. The Company is waiting to hear the results of the submission from its Notified Body.

In October 2006 the Company signed a licensing and distribution agreement with BioForm for the development and commercialization of BioGlue for use in cosmetic and plastic surgery indications. The agreement calls for BioForm to fund the clinical development and regulatory approval process for commercializing BioGlue for use in cosmetic and plastic surgery indications in the U.S., Canada, and various countries in Europe. In addition BioForm will oversee all aspects of the marketing, sales, and distribution of BioGlue in the U.S., Canada, and various countries in Europe for these indications. CryoLife will remain the exclusive supplier of BioGlue for all applications. Under the terms of the agreement, CryoLife received an initial fee from BioForm and will receive a milestone payment upon the first FDA approval for use in cosmetic and plastic surgery indications. BioForm is currently conducting a feasibility study under an investigational device exemption, or IDE, from the FDA. BioForm's strategy is to determine compelling aesthetic applications for BioGlue, demonstrate safety and effectiveness of this material in aesthetic applications, and launch BioGlue as an alternative fixation methodology to improve browplasty and certain other surgical and minimally invasive aesthetic procedures.

In January 2008 the Company signed an exclusive license agreement with Trophic to develop and market products related to the cold storage and preservation of internal organs prior to transport. Under terms of the agreement, the Company will license from Trophic the right to develop, manufacture, and market products and processes derived from a patent owned

by Trophic, which relates to solutions containing purified antimicrobial polypeptides and/or cell surface receptor binding proteins for use in the storage and preservation of internal organs prior to transplant. In early animal and human studies, the Trophic technology has shown that kidneys may be stored for up to six days prior to transplant without compromising kidney function rather than three days using present technology. These studies also indicate that the solution may reduce or eliminate the need for pumping kidneys, which may reduce the cost of maintaining and transporting kidneys for transplant. The agreement gives CryoLife the exclusive right to determine if a commercial product can be developed using the process covered by the patent for a period of one year, which may be extended for an additional ninety days.

At the FDA's request, CryoLife is planning a post-clearance study to seek evidence for the potential and implied long-term benefits of the SynerGraft process. Data to be collected is expected to include long-term safety and hemodynamic function, immune response, and explant analysis. CryoLife believes that this information may help it ascertain whether the SynerGraft process reduces the immune response of the transplanted heart valve and allows for the collagen matrix to recellularize with the recipient's own cells. In addition CryoLife intends to investigate whether the SynerGraft technology can be applied to other human or animal tissues.

To the extent the Company identifies additional applications for its products, the Company may attempt to license these products to corporate partners for further development of such applications or seek funding from outside sources to continue the commercial development of such technologies. The Company may also attempt to license additional technologies from third parties to supplement its product lines.

The Company's research and development strategy is to allocate available resources among the Company's core market areas of preservation services and implantable medical devices, based on the size of the potential market for any specific product candidate and the estimated development time and cost required to bring the product to market. Research on these and other projects is conducted in the Company's research and development laboratory or at universities or clinics where the Company sponsors research projects. The Company's medical and scientific advisory board consults on various research and development programs. The Company's preclinical studies are conducted at universities and other locations outside the Company's facilities by third parties under contract with the Company. In addition to these efforts the Company may pursue other research and development activities. In 2007, 2006, and 2005 the Company spent approximately $4.5 million, $3.5 million, and $3.7 million, respectively, on research and development activities on new and existing products. These amounts represented approximately 5%, 4%, and 5% of the Company's revenues for the years 2007, 2006, and 2005, respectively.

Manufacturing and Operations

The Company's corporate headquarters and laboratory facilities consist of approximately 200,000 square feet of leased manufacturing, administrative, laboratory, and warehouse space located on a 21.5-acre setting in suburban Atlanta, Georgia, with an additional 7,600 square feet of off-site warehouse space. Approximately 20,000 square feet are dedicated as class 10,000 clean rooms. An additional 5,500 square feet are dedicated as class 100,000 clean rooms. The extensive clean room environment provides a controlled aseptic environment for tissue dissection and processing, manufacturing, and packaging. Approximately 55 liquid nitrogen storage units maintain preserved tissue at or below – 135°C. Two back-up emergency generators assure continuity of Company manufacturing operations. Additionally, the Company's corporate complex includes the Ronald C. Elkins Learning Center, a 3,600 square foot auditorium that holds 225 participants, and a 1,500 square foot training lab, both equipped with closed-circuit and satellite television broadcast capability allowing live surgery broadcasts from and to anywhere in the world. The Elkins Learning Center provides visiting surgeons with a hands-on training environment for surgical and implantation techniques for the Company's technology platforms.

Human Tissue Processing

The human tissue processing laboratory is responsible for the processing and preservation of human cardiac and vascular tissue for transplant. This laboratory contains approximately 15,600 square feet with a suite of nine clean rooms dedicated to processing. Currently, there are approximately 70 technicians employed in this area, and the laboratory is staffed for 24 hours per day, 365 days per year operations. In 2007 the laboratory packaged approximately 15,400 human tissues. The current processing level is estimated to be at about 25% of total capacity. The volume of tissue processed is currently constrained by the availability of donated tissue. To produce at full capacity levels, CryoLife would have to increase the amount of donated tissues, which the Company could attempt to do by increasing the number of relationships with organ procurement agencies and tissue banks, or working to increase donor awareness to increase tissue donation. If additional donated tissues were obtained, the Company would need to increase the number of employees, expand its second and third shift, and add equipment.

BioGlue

BioGlue is presently manufactured at the Company's headquarters facility. The laboratory contains approximately 13,500 square feet, including a suite of six clean rooms. Currently, there are 17 technicians employed in this area. The laboratory has a potential annual capacity of approximately 2 million cartridges or syringes of BioGlue. The current processing level is about 5% of total capacity. To produce at full capacity levels, the Company would need to increase the number of employees, add work shifts, and install automated filling and pouching equipment.

Bioprosthetic Cardiac and Vascular Devices

The bioprosthesis laboratory at the Company's headquarters facility is responsible for the manufacturing of the CryoLife-O'Brien stentless aortic bioprosthesis, and ProPatch surgical mesh. This laboratory is approximately 20,000 square feet with a suite of six clean rooms for tissue processing. Currently, this laboratory employs seven technicians.

Europa

The Company maintains a leased facility located in Guildford, United Kingdom for its European subsidiary, Europa, which contains approximately 3,400 square feet of office and warehousing space.

Quality Assurance

The Company's operations encompass the manufacturing of bioadhesives and bioprosthetics and human tissue preservation services. In all of its facilities the Company is subject to regulatory standards for good manufacturing practices, including current Quality System Regulations, which are the FDA regulatory requirements for medical device manufacturers and current Good Tissue Practices ("cGTPs"), which are the FDA regulatory requirements for processing of human tissue. The FDA periodically inspects Company facilities to review Company compliance with these and other regulations. The Company also operates according to International Organization for Standardization ("ISO") 13485 Quality System Requirements, an internationally recognized voluntary system of quality management for companies that design, develop, manufacture, distribute, and service medical devices. The Company maintains a Certification of Approval to the ISO 13485. Lloyd's Register Quality Assurance Limited ("LRQA") issues this approval. LRQA is a notified body officially recognized by the EEA to perform assessments of compliance with ISO 13485 and its derivative standards. LRQA performs periodic on-site inspections, generally at least annually, of the Company's quality systems.

The Company's quality assurance staff is comprised primarily of experienced professionals from the medical device manufacturing industry. The quality assurance department, in conjunction with the Company's research and development department, routinely evaluates the Company's processes and procedures.

Medical Device Manufacturing

The Company employs a comprehensive quality assurance program in all of its manufacturing activities. The Company is subject to Quality System Regulations and ISO 13485 requirements.

All materials and components utilized in the production of the Company's products are received and inspected by trained quality control personnel, according to written specifications and standard operating procedures. Only materials and components found to comply with Company standards are accepted by quality control and utilized in production.

All materials, components, and resulting sub-assemblies are documented throughout the manufacturing process to assure traceability. All processes in manufacturing are validated by quality engineers to produce products meeting the Company's specifications. The Company maintains a quality assurance program to evaluate and inspect manufactured products to ensure conformity to product specifications. Each process is documented along with all inspection results, including final finished product inspection and acceptance. Records are maintained as to the consignees of products to track product performance and to facilitate product removals or corrections, if necessary.

Each manufacturing facility is subject to periodic inspection by the FDA and LRQA to independently review the Company's compliance with its systems and regulatory requirements.

Tissue Preservation Services

The Company employs a comprehensive quality assurance program in all of its tissue processing activities. The Company is subject to Donor Eligibility and Good Tissue Practice regulations, as well as other FDA Quality System Regulations, and ISO 13485 requirements. The Company's quality assurance program begins with the development and implementation of training policies and procedures for the employees of procurement agencies. To assure uniformity of procurement practices among the tissue recovery teams, the Company provides procurement protocols, transport packages, and tissue transport liquids to the procurement organizations. The Company periodically audits procurement organizations to ensure and enhance best recovery practices.

Upon receipt by the Company, each tissue is assigned a unique control number that provides traceability of tissue from procurement through the processing and preservation processes and, ultimately, to the tissue recipient. Samples from each tissue donor are subjected to a variety of tests to screen and test for infectious diseases. Samples of some tissues are also provided for pathology testing. Following dissection of the tissue to be preserved, dissected tissue is treated with a proprietary antimicrobial solution and aseptically packaged. After antimicrobial treatment, each tissue must be shown to be free of detectable microbial contaminants before being considered releasable for distribution.

The materials and solutions used by the Company in processing tissue must meet the Company's quality standards and be approved by quality assurance personnel for use in processing. Throughout tissue processing, detailed records of the tissues, materials, and processes are maintained and reviewed by quality assurance personnel.

The FDA periodically audits the Company's processing facilities for compliance with its requirements. The States of Georgia, New York, Florida, Maryland, and California annually license the Company's tissue processing facilities as facilities that process, store, and distribute human tissue for implantation. The regulatory bodies of these states perform inspections of the facilities as required to ensure compliance with state law and regulations.

Patents, Licenses, and Other Proprietary Rights

The Company relies on a combination of patents, trademarks, confidentiality agreements, and security procedures to protect its proprietary products, processing technology, trade secrets, and know-how. The Company believes that its patents, trade secrets, trademarks, and technology licensing rights provide it with important competitive advantages. The Company owns or has licensed rights to 39 U.S. patents and 90 foreign patents, including patents relating to its technology for human cardiac and vascular tissue preservation, tissue revitalization prior to freezing, tissue transport, BioGlue, PHT, and tissue packaging. The Company has approximately 12 pending U.S. patent applications and 28 pending foreign applications that relate to areas including the Company's cryopreservation, PHT, and other areas. There can be no assurance that any patents pending will result in issued patents. The remaining duration of the Company's issued patents ranges from 1 to 17 years.

There can be no assurance that the claims allowed in any of the Company's existing or future patents will provide competitive advantages for the Company's products, processes, and technologies or will not be successfully challenged or circumvented by competitors. To the extent that any of the Company's products or services are not effectively patent protected, the Company's business, financial condition, and results of operations could be materially adversely affected. Under current law, patent applications in the U.S. and patent applications in foreign countries are maintained in secrecy for a period after filing. The right to a patent in the U.S. is attributable to the first to invent, not the first to file a patent application. The Company cannot be sure that its products or technologies do not infringe patents that may be granted in the future pursuant to pending patent applications or that its products do not infringe any patents or proprietary rights of third parties. The Company may incur substantial legal fees in defending against a patent infringement claim or in asserting claims against third parties. In the event that any relevant claims of third-party patents are upheld as valid and enforceable, the Company could be prevented from marketing certain of its products, could be required to obtain licenses from the owners of such patents, or could be required to redesign its products or services to avoid infringement. There can be no assurance that such licenses would be available or, if available, would be on terms acceptable to the Company or that the Company would be successful in any attempt to redesign its products or services to avoid infringement. The Company's failure to obtain these licenses or to redesign its products or services could have a material adverse effect on the Company's business, financial condition, and results of operations. The Company has agreements with third parties for certain technologies related to its BioGlue, and SynerGraft technologies that call for the payment of royalties based on revenues of such products.

The Company has entered into confidentiality agreements with its employees, several of its consultants, and third-party vendors to maintain the confidentiality of trade secrets and proprietary information. There can be no assurance that the obligations of employees of the Company and third parties with whom the Company has entered into confidentiality agreements will effectively prevent disclosure of the Company's confidential information or provide meaningful protection

for the Company's confidential information if there is unauthorized use or disclosure, or that the Company's trade secrets or proprietary information will not be independently developed by the Company's competitors. Litigation may be necessary to defend against claims of infringement, to enforce patents and trademarks of the Company, or to protect trade secrets and could result in substantial cost to, and diversion of effort by, the Company. There can be no assurance that the Company would prevail in any such litigation. In addition the laws of some foreign countries do not protect the Company's proprietary rights to the same extent as do the laws of the U.S.

Government Regulation

U.S. Federal Regulation of Medical Devices

Because BioGlue and certain human heart valves are, and other Company products may in the future be, regulated as medical devices, the Company and these products are subject to the provisions of the Federal Food, Drug, and Cosmetic Act ("FDCA") and implementing regulations of the FDA. Pursuant to the FDCA, the FDA regulates the manufacture, distribution, labeling, and promotion of medical devices in the U.S. Also, various foreign countries in which the Company's products are, or may be, distributed impose additional regulatory requirements.

The FDCA provides that, unless exempted by regulation, medical devices may not be distributed in the U.S. unless they have been approved or cleared for marketing by the FDA. There are two review procedures by which medical devices can receive such approval or clearance. Some products may qualify for clearance to be marketed under a Section 510(k) procedure, in which the manufacturer provides a premarket notification that it intends to begin marketing the product, and shows that the product is substantially equivalent to another legally marketed 510(k) product (i.e., that it has the same intended use, it is as safe and effective as a legally marketed 510(k) device, and it does not raise different questions of safety and effectiveness than does a legally marketed device). In some cases the submission must include data from clinical studies. Marketing may commence when the FDA issues a clearance letter finding such substantial equivalence.

If the product does not qualify for the 510(k) procedure (either because it is not substantially equivalent to a legally marketed 510(k) device or because it is a Class III device required by the FDCA and implementing regulations to have an approved application for premarket approval ("PMA")), the FDA must approve a PMA application before marketing can begin. PMA applications must demonstrate, among other matters, that the medical device is safe and effective. A PMA application is typically a complex submission, usually including the results of human clinical studies, and preparing an application is a detailed and time-consuming process. Once a PMA application has been submitted, the FDA's review may be lengthy and may include requests for additional data.

The FDCA also provides for an investigational device exemption ("IDE") which authorizes distribution for clinical evaluation of devices that lack a PMA or 510(k) clearance. Devices subject to an IDE are subject to various restrictions imposed by the FDA. The number of patients that may be treated with the device is limited, as is the number of institutions at which the device may be used. Patients must give informed consent to be treated with an investigational device, and review by an Institutional Review Board is needed. The device must be labeled that it is for investigational use and may not be advertised or otherwise promoted and the price charged for the device may be limited. Unexpected adverse experiences must be reported to the FDA.

Under certain circumstances, the FDA may grant a Humanitarian Device Exemption ("HDE"). The FDA grants HDE's in an attempt to encourage the development of medical devices for use in the treatment of rare conditions that affect small patient populations. An approval by the FDA exempts such devices from full compliance with clinical study requirements for a PMA.

The FDCA requires all medical device manufacturers and distributors to register with the FDA annually and to provide the FDA with a list of those medical devices that they distribute commercially. The FDCA also requires manufacturers of medical devices to comply with labeling requirements and to manufacture devices in accordance with Quality System Regulations, which require that companies manufacture their products and maintain their documents in a prescribed manner with respect to good manufacturing practices, design, document production, process, labeling and packaging controls, process validation, and other quality control activities. The FDA's medical device reporting regulation requires that a device manufacturer provide information to the FDA on death or serious injuries alleged to have been associated with the use of its products, as well as product malfunctions that would likely cause or contribute to death or serious injury if the malfunction were to recur. The FDA further requires that certain medical devices that may not be sold in the U.S. follow certain procedures before they are exported.

The FDA inspects medical device manufacturers and distributors and has authority to seize noncomplying medical devices, enjoin and/or impose civil penalties on manufacturers and distributors marketing non-complying medical devices, criminally prosecute violators, and order recalls in certain instances.

Human Heart Valves. The Company's human heart valves became subject to regulation by the FDA in June 1991, when the FDA published a notice stating that human heart valves were Class III medical devices under the FDCA. The June 1991 notice provided that distribution of human heart valves for transplantation would violate the FDCA unless they were the subject of an approved PMA or IDE on or before August 26, 1991.

On October 14, 1994 the FDA announced in the Federal Register that neither an approved application for PMA nor an IDE is required for processors and distributors who had marketed heart valve allografts before June 26, 1991. This action by the FDA resulted in the allograft heart valves being classified as Class II Medical Devices and has removed them from clinical trial status. It also allowed the Company to distribute such valves to cardiac surgeons throughout the U.S.

On May 25, 2005, with the promulgation of the final rule for cGTPs, the FDA reclassified human heart valves, processed on or after May 25, 2005, as human tissue which is subject to that rule.

On February 7, 2008 CryoLife received 510(k) clearance from the Food and Drug Administration (FDA) for its CryoValve ® SG pulmonary human heart valve processed with the Company's proprietary SynerGraft technology as discussed in "—2007 and 2008 Events".

Porcine Heart Valves. Porcine heart valves are Class III medical devices and FDA approval of a PMA is required prior to commercial distribution of such valves in the U.S. The porcine heart valves currently marketed by the Company have not been approved by the FDA for commercial distribution in the U.S., but may be manufactured in the U.S. and exported to foreign countries if the valves meet the specifications of the foreign purchaser and do not conflict with the laws of and are approved by the country to which they will be exported.

BioGlue. The FDA regulates BioGlue as a Class III medical device. In December 2001 the Company received FDA approval for BioGlue as an adjunct to sutures and staples for use in adult patients in open surgical repair of large vessels. Prior to this approval, the Company received an HDE in December 1999 for BioGlue for use as an adjunct in repair of acute thoracic aortic dissections. The product is Health Canada, Australia, and CE Mark approved for additional soft tissue repair.

U.S. Federal Regulation of Human Tissue

The Company's non-valved conduits, vascular grafts, and orthopaedic tissues are not currently subject to regulation under the FDCA as medical devices.

However, the FDA does regulate these products pursuant to Section 361 of the Public Health Services Act ("PHS Act"), which in turn provides the regulatory framework for regulation of human cellular and tissue products (21 C.F.R. Parts 1270 and 1271). Historically, heart valves were one of a small number of processed human tissues over which the FDA asserted medical device jurisdiction. Concerns with the transmission of HIV and Hepatitis B led the FDA to issue an Interim Rule in December 1993 as an emergency measure to protect the public from any human tissue that had incomplete or no documentation ascertaining its freedom from communicable diseases. The FDA modified the regulation and reissued it as a new rule, effective January 1998, which focused on donor screening and testing to prevent the introduction, transmission, and spread of HIV-1 and -2 and Hepatitis B and C. The rule set minimal requirements to prevent the transmission of communicable diseases from human tissue used for transplantation. The rule defines human tissue as any tissue derived from a human body which is (i) intended for administration to another human for the diagnosis, cure, mitigation, treatment, or prevention of any condition or disease and (ii) recovered, processed, stored, or distributed by methods not intended to change tissue function or characteristics. The FDA definition excludes, among other things, tissue that currently is regulated as a human drug, biological product, or medical device and it also excludes kidney, liver, heart, lung, pancreas, or any other vascularized human organ. The current regulations applicable to human tissues include requirements for donor suitability, processing standards, establishment registration, and product listing.

On January 19, 2001 the FDA published regulations that require human cells, tissue, and cellular and tissue-based products establishments to register with the agency and list their human cells, tissues, and cellular and tissue-based products ("HCT/Ps"). The final rule, 21 C.F.R. Parts 1271, became effective on April 4, 2001 for human tissues intended for transplantation that are regulated under section 361 of the PHS Act as well as part 1270. It became effective for all other HCT/Ps when the remaining parts of 21 C.F.R. Part 1271 were finalized.

In May 2004 the FDA published regulations governing the eligibility of donors of human cell and tissue products. This rule expands previous requirements for testing and screening for risks of communicable diseases that could be spread by the use of these tissues. In November 2004 the FDA published regulations governing the procedures and processes related to the manufacture of human cell and tissue products under the cGTPs. Both the new donor eligibility rule and the cGTP rule became effective on May 25, 2005 and designate human heart valves processed on or after May 25, 2005 as human tissue rather than medical devices.

It is likely that the FDA's regulation of processed human tissue will continue to evolve in the future. Complying with FDA regulatory requirements or obtaining required FDA approvals or clearances may entail significant time delays and expense or may not be possible, any of which may have a material adverse effect on the Company.

Possible Other FDA Regulation

Other products and processes under development by the Company are likely to be subject to regulation by the FDA. Some may be classified as medical devices or human cells and tissue products, while others may be classified as drugs, biological products, or subject to a regulatory process that the FDA may adopt in the future. Regulation of drugs and biological products is substantially similar to regulation of Class III medical devices. Obtaining FDA approval to market these products and processes is likely to be a time consuming and expensive process, and there can be no assurance that any of these products or processes will ever receive FDA approval.

NOTA Regulation

The Company's activities in processing and transporting human hearts and certain other organs are also subject to federal regulation under the National Organ Transplant Act ("NOTA"), which makes it unlawful for any person to knowingly acquire, receive, or otherwise transfer any human organ for valuable consideration for use in human transplantation if the transfer affects interstate commerce. NOTA excludes from the definition of "valuable consideration" reasonable payments associated with the removal, transportation, implantation, processing, preservation, quality control, and storage of a human organ. The purpose of this statutory provision is to allow for compensation for legitimate services. The Company believes that to the extent its activities are subject to NOTA, it meets this statutory provision relating to the reasonableness of its charges. There can be no assurance, however, that restrictive interpretations of NOTA will not be adopted in the future that would call into question one or more aspects of the Company's methods of charging for its preservation services.

State Licensing Requirements

Some states have enacted statutes and regulations governing the processing, transportation, and storage of human organs and tissue. The activities engaged in by the Company require it to be licensed as a clinical laboratory and tissue bank under Georgia, New York, California, Maryland, and Florida law. The Company has such licenses, and the Company believes it is in compliance with applicable state laws and regulations relating to clinical laboratories and tissue banks that store, process, and distribute human tissue designed to be used for medical purposes in human beings. There can be no assurance, however, that more restrictive state laws or regulations will not be adopted in the future that could adversely affect the Company's operations. Certain employees of the Company have obtained other required state licenses.

Foreign Approval Requirements

Sales of medical devices and biological products outside the U.S. are subject to foreign regulatory requirements that vary widely from country to country. Approval of a product by comparable regulatory authorities of foreign countries must be obtained prior to commercial distribution of the product in those countries. The time required to obtain foreign approvals may be longer or shorter than that required for FDA approval. The EEA recognizes a single medical device approval, called a CE Mark, which allows for distribution of an approved product throughout the EEA (30 member state countries—27 European Union ("EU") countries, and 3 European Free Trade Association ("EFTA") countries) without additional general applications in each country. However, individual EEA members reserve the right to require additional labeling or information to address particular patient safety issues prior to allowing marketing. Third parties called Notified Bodies award the CE Mark. These Notified Bodies are approved and subject to review by the competent authorities of their respective countries. A number of countries outside of the EEA accept the CE Mark in lieu of marketing submissions as an addendum to that country's application process. The Company has been issued CE Marks for BioGlue and the CryoLife-O'Brien aortic bioprosthesis. BioGlue may be exported to more than 70 countries outside the U.S. and the CryoLife-O'Brien aortic bioprosthesis may be exported to more than 40 countries outside the U.S.

Environmental Matters

The Company's tissue processing activities generate some biomedical wastes consisting primarily of human and animal pathological and biological wastes, including human and animal tissue and body fluids removed during laboratory procedures. The biomedical wastes generated by the Company are placed in appropriately constructed and labeled containers and are segregated from other wastes generated by the Company. The Company contracts with third parties for transport, treatment, and disposal of biomedical waste. Although the Company believes it is in compliance with applicable laws and regulations promulgated by the U.S. Environmental Protection Agency and the Georgia Department of Natural Resources, Environmental Protection Division, the failure by the Company, or the companies with which it contracts, to comply fully with any such regulations could result in an imposition of penalties, fines, or sanctions, which could have a material adverse effect on the Company's business.

Employees

As of December 31, 2007 the Company had approximately 405 employees. These employees included six persons with Ph.D. degrees, two with an M.D. degree, and one with a D.O. degree. None of the Company's employees are represented by a labor organization or covered by a collective bargaining agreement, and the Company has never experienced a work stoppage or interruption due to labor disputes. Management believes its relations with its employees are good.

Available Information

It is the Company's policy to make all of its filings with the SEC, including, without limitation, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act"), available free of charge on the Company's website, *www.cryolife.com*, on the day of filing. All of such filings made on or after November 15, 2002 have been made available on the website.

Item 1A. Risk Factors.

Risks Relating To Our Business

The FDA Has Previously Issued A Recall Of Certain Of Our Products And Has The Ability To Inspect Our Facilities, Suspend Our Operations, And Issue A Recall Of Our Products In The Future.

On August 13, 2002 we received an order from the Atlanta district office of the FDA regarding the non-valved cardiac, vascular, and orthopaedic tissues processed by the Company since October 3, 2001 (the "FDA Order"). Pursuant to the FDA Order, we placed non-valve cardiac, vascular, and orthopaedic tissue 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 we ceased processing non-valved cardiac and vascular tissues until mid-September 2002 and ceased processing orthopaedic tissues until 2003. The FDA Order resulted in the destruction of much of our tissue, required that we adjust revenue for tissue recall returns, curtailed our processing activities, and subjected us to intense FDA scrutiny and additional regulatory requirements that increased costs. We also suffered decreased revenues due to lack of processing ability and decreased market demand for our services. These challenges reduced our revenues, increased our costs to process tissues and our operating expenses, and strained management resources and available cash. Although we resumed processing and distribution of the types of tissues subject to the FDA Order and resolved many of the product liability suits pending against us, we incurred losses and did not produce cash from operations for many years and the foregoing factors continue to challenge us. Any future recalls or other regulatory action by the FDA would likely have a material adverse impact on our revenues, cash flow and profitability.

The FDA continues to periodically reinspect our facilities, review complaints against us, monitor the efficacy of our products and the claims we make regarding our products' benefits, and issue reports to us on areas that require improvement. If the FDA believed that we were not responsive to their requests for any suggested improvement or that our products were not in compliance with regulatory norms, the FDA has the ability to suspend our operations and issue an order for the recall of any or all of our products. If such an order were received, our revenues, profits, and cash flow could be materially and adversely affected.

We Have Experienced Operating Losses And Negative Cash Flows, And We Must Continue To Address The Underlying Causes In Order To Continue To Operate Profitably And Generate Positive Cash Flows.

Due principally to factors mentioned above, we suffered net losses in the years ended December 31, 2002 through 2005 and generated negative operating cash flow each year in the five year period ended December 31, 2006. There is no guarantee that we can continue to address the causes of our previous losses.

Key Growth Strategies Identified As A Result Of Our Strategic Review May Not Generate The Anticipated Benefits.

In January 2006 we engaged a financial advisor to assist our management and Board of Directors in identifying and evaluating potential strategies to enhance shareholder value. As a result of this review, the Board of Directors has directed management to actively pursue three key strategies to generate revenue and earnings growth in addition to continuing to focus on growing our business and leveraging our strengths and expertise in our core marketplaces. These three strategies are:

- Identifying and evaluating acquisition opportunities of complementary product lines and companies,
- Licensing our technology to third parties for non-competing uses, and
- Analyzing and identifying underperforming assets for us to consider selling or otherwise disposing of.

Although management has begun to implement these strategies, we cannot be certain that they will ultimately enhance shareholder value.

Our Credit Facility Expired On February 8, 2008 And Our Ability To Pursue Significant Acquisitions May Be Dependent On Obtaining A New Credit Facility.

On February 8, 2005 we entered into a $15 million credit agreement with Wells Fargo Foothill, Inc. to address some of our liquidity needs. The credit facility expired on February 8, 2008, at which time the outstanding principal balance of $4.5 million was paid from cash reserves. If we do not obtain a new credit facility, we may be limited in our ability to pursue any significant acquisitions of products or companies, to the extent that we are unable to access the equity markets.

There Are Limitations On The Use Of Our Net Operating Loss Carryforwards.

We estimate that at December 31, 2007, we had approximately $37.0 million in U.S. Federal net operating loss carryforwards, which could be used to offset future taxable income. These carryforwards begin to expire in the 2023 tax year. We may be unable to generate enough profits, if any, prior to their expiration to utilize our net operating loss carryforwards.

In addition, the amount of net operating loss carryforwards that we can utilize on an annual basis is capped after an ownership change within the meaning of Section 382 of the Internal Revenue Code of 1986, as amended. Accordingly, a change in control of our Company within the meaning of Section 382 could substantially reduce the annual benefit of our net operating loss carryforwards and could, thereby, result in a portion of our net operating loss carryforwards expiring unused.

We Are Significantly Dependent On Our Revenues From BioGlue And Are Subject To A Variety Of Risks Affecting This Product.

BioGlue is a significant source of our revenues. Should the product be the subject of adverse developments with regard to its safety, efficacy, or reimbursement practices, or if a competitor's product obtains greater acceptance, or our rights to manufacture and market this product are challenged, the result could be a material adverse effect on our business, financial condition, results of operations, and cash flows. Also, we have only two suppliers of bovine serum albumen, which is necessary for the manufacture of BioGlue. Furthermore, we presently have only one supplier for our new syringe. If we lose one or more of these suppliers, our ability to manufacture and sell BioGlue could be adversely impacted. We cannot be sure that we would be able to replace any such loss on a timely basis, if at all.

We Are Dependent On The Availability Of Sufficient Quantities Of Tissue From Human Donors.

The success of our tissue preservation services depends upon, among other factors, the availability of sufficient quantities of tissue from human donors. If the supply of donated human tissue is materially reduced, this would restrict our growth and adversely affect our business, results of operations, financial condition, and cash flows. We rely primarily upon the efforts of third party procurement agencies, tissue banks (most of which are not-for-profit), and others to educate the public and foster a willingness to donate tissue.

Physicians Have Been And May Continue To Be Reluctant To Implant Our Preserved Tissues Or Use Our Other Products.

Some physicians or implanting institutions have been reluctant to choose our preserved tissues for use in implantation, due to a perception that the tissue may not be safe or to a belief that the implanting physician or hospital may be subject to a heightened liability risk if our tissues are used. In addition, for similar reasons, some hospital risk managers have not allowed implanting surgeons to utilize our tissues when alternatives are available. Several risk managers and physicians have refused to use our products due to these concerns. These conditions have materially and adversely affected demand for our processed human tissues. If these conditions persist, our results of operations and cash flows will continue to be adversely affected. If additional implanting hospitals or physicians representing significant revenues refuse to use tissues that we preserve or our other products, including BioGlue, and we are unable to replace the revenues lost, our revenues and profits would be materially and adversely affected.

Our Products And The Tissues We Process Allegedly Have Caused And May In The Future Cause Injury To Patients, And We Have Been And May Be Exposed To Product Liability Claims And Additional Regulatory Scrutiny As A Result.

The processing, preservation, and distribution of human allograft tissue, bovine tissue products, porcine tissue products, and the manufacture and sale of medical devices entail inherent risks of medical complications for patients and have resulted and may result in product liability claims against us. Plaintiffs have asserted that our tissue or medical devices have caused a variety of injuries, including death. When patients are injured, die, or have other adverse results following procedures using our tissue or medical devices, we have been and may be sued and our insurance coverage has been and may be inadequate. Adverse judgments and settlements in excess of our available insurance coverage could materially and adversely affect our business, financial position, results of operations and cash flows.

As a result of medical complications that are alleged to have been caused by or occur in connection with medical procedures involving our tissue or medical devices, we have been and may be subject to additional FDA and other regulatory scrutiny and inspections. For example, shortly after the FDA Order, the FDA posted a notice, now archived, on its website

stating its concerns regarding our heart valve preservation services. As a result, some surgeons and hospitals decided not to use our heart valves. Cautionary statements from the FDA or other regulators regarding our tissue services or products, or negative reviews from the FDA or regulators of our processing and manufacturing facilities have decreased and may in the future decrease demand for our tissue services or products and could reduce our revenues and materially and adversely affect our business, results of operations, financial position and cash flows.

In addition to the recall resulting from the FDA Order, we have in the past suspended and in the future may have to suspend the distribution of particular types of tissues as a result of reported adverse events in connection with our tissues. Suspension of the distribution of, or recall of, our tissue services or medical products could materially and adversely affect our revenues and profits.

We May Receive A Form 483 Notice Of Observations From The FDA And We May Be Unable To Address The Concerns Raised By The FDA In Such Form 483.

The FDA has issued Form 483 Notices of Observations in the past that have noted deficiencies in our operations, including process validation, complaint handling and reporting, and root cause analysis of certain testing results, among other items. Although we have had positive FDA inspections recently, we could still be subject to an FDA inspection that results in a Form 483. If the FDA deems our responses to a Form 483 unsatisfactory, it could take further action, which could materially and adversely affect our business, results of operations, financial position, or cash flows. The FDA could institute additional recalls of products, require us to perform additional tests, begin to require prescriptions for products where they are not currently required, halt the shipping or processing of products, or require additional approvals for marketing our products or services.

SynerGraft Processed Pulmonary Heart Valves May Not Be Accepted By The Marketplace.

CryoValve SG may not perform as well as expected or provide all of the benefits anticipated by the marketplace and, as a result, the Company may not be able to continue to process the majority of its pulmonary valves with its SynerGraft technology. In that event, the Company would need to return to processing some or all of its pulmonary heart valves without the SynerGraft technology, which could significantly reduce the expected benefits of the SynerGraft technology.

SynerGraft Processed Pulmonary Heart Valves Must Be Shipped And Implanted Within One Year Or We Will Be Required To Discard Them.

We are currently using the SynerGraft technology for the majority of our pulmonary heart valve processing pursuant to the 510(k) approval we have received for the SynerGraft treated valves. Our SynerGraft pulmonary heart valves must be discarded if they are not implanted within one year of being preserved, whereas our non-SynerGraft processed pulmonary heart valves do not have to be discarded if not implanted within one year of cryopreservation. Accordingly, if we do not implant our SynerGraft pulmonary heart valves within one year of cryopreservation, we may lose more tissues than before we started processing pulmonary heart valves with the SynerGraft technology, which could have a material adverse effect on our revenues, profitability, and cash flow.

Our SynerGraft Post-clearance Study May Not Provide Expected Results.

At the FDA's request, we are planning a post-clearance study to seek evidence for the potential and implied long-term benefits of the SynerGraft process. We expect the data to be collected to include long-term safety and hemodynamic function, immune response, and explant analysis. Although we believe that this information may help us ascertain whether the SynerGraft process reduces the immune response of the transplanted heart valve and allows for the collagen matrix to recellularize with the recipient's own cells, it is possible that the results of the study will not be as expected. If this study shows that the SynerGraft process does not reduce immune response and/or cause the collagen matrix to recellularize with the recipient's cells, we may be unable to realize some or all of the benefits that we anticipated for the use of this process.

Regulatory Action Outside Of The U.S. Has Affected Our Business In The Past And May Also Affect Our Business In The Future.

After the FDA issued the FDA Order, discussed above, Health Canada also issued a recall on the same types of tissue. In addition, other countries have made inquiries regarding the tissues that we export, although these inquiries are now, to our knowledge, complete. In the event other countries raise additional regulatory concerns, we may be unable to export tissues to those countries. Revenue from international human tissue preservation services was $896,000, $572,000 and $193,000 for

the years ended December 31, 2007, 2006 and 2005, respectively. We also offer BioGlue and other products for use in other countries.

Our Failure To Adequately Comply With Government Regulations Could Result In Loss Of Revenues And Customers As Well As Additional Compliance Expense.

The FDA, certain international governments, and some states regulate the facilities and processes that we use. Our facilities are subject to periodic inspection by the FDA, state, and international regulatory authorities to ensure our compliance with applicable laws and regulations. Certain of our facilities and processes are subject to international standards set by the International Organization for Standardization with respect to which our compliance is reviewed by our Notified Body. If we fail to comply with these laws and regulations, we can be subject to sanctions, such as written observations of deficiencies made following inspections, warning letters, product recalls, fines, product seizures and consent decrees, all of which would be made available to the public. Such actions and publicity could affect our ability to sell our products and services. In the past, the FDA has sent us notifications and warning letters relating to deficiencies in our compliance with FDA requirements. We were required to take measures to respond. We also were subject to the FDA Order, which decreased our revenues, increased our processing costs, and materially and adversely affected our business, results of operations, financial condition, and cash flows. We cannot be certain that the FDA, or state or international regulatory authorities will not request that we take additional steps to correct deficiencies that may be raised in the future. Correcting any such deficiencies could materially and adversely affect our business.

Our Existing Insurance Policies May Not Be Sufficient To Cover Our Actual Claims Liability.

Our products and the tissues we process allegedly have caused and may in the future cause injury to patients using our products or tissues and we have been and may be exposed to product liability claims.

Following the FDA Order, product liability lawsuits increased to unprecedented numbers for us. These claims involved assertions that infections and related morbidity, including death, were the result of inadequacies in our procedures. We maintain claims-made insurance policies to mitigate our 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.

As of February 15, 2008, we know of two pending lawsuits against us arising out of our allograft heart valve and orthopaedic tissue services. We believe that our product liability insurance covers these two lawsuits, and both lawsuits are in the pre-discovery or discovery stages. In addition other parties have made complaints against us that may result in lawsuits in future periods.

Our December 31, 2007 Consolidated Balance Sheet reflects a liability of approximately $330,000 for the estimated cost of resolving these claims. The amounts recorded were estimates and do not reflect actual settlement arrangements or final judgments, the latter of which could include punitive damages, nor do they represent cash set aside for the purpose of making payments. This balance sheet also reflects a $6.3 million liability which is included as a component of accrued expenses and other current liabilities of $3.2 million and other long-term liabilities of $3.1 million for the estimated cost of resolving unreported product liability claims. Our product liability insurance policies do not include coverage for any punitive damages. See Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Product Liability Claims” for a description of our accounting treatment for product liability claims.

Several putative class action lawsuits were filed in July through September 2002 against us and certain of our officers, 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. On July 21, 2005 we reached an agreement in principle to settle the securities class action lawsuit and the settlement became final later in the year. In August 2002 and January 2003 purported shareholder derivative actions were filed. A settlement was also reached in those cases and became final in 2005. Our insurance proceeds were insufficient to fund the costs of defending and settling the securities class action and derivative lawsuits.

If we are unsuccessful in arranging acceptable settlements of current or future product liability, or future securities class action or derivative claims, we may not have sufficient insurance coverage and liquid assets to meet these obligations. Additionally, if one or more claims, in which we are a defendant, whether now pending or hereafter arising, should be tried with a substantial verdict rendered in favor of the plaintiff(s), such verdict(s) could exceed our available insurance coverage

and liquid assets. If we are unable to meet required future cash payments to resolve the outstanding or any future claims, this will materially and adversely affect our financial position, results of operations, and cash flows. Further, if the costs of pending or unreported but incurred product liability claims exceed our current estimates, our business, financial condition and results of operations may be materially and adversely affected. If we do not have sufficient resources to pay the claims against us, we may be forced to cease operations or seek protection under applicable bankruptcy laws.

We May Be Unable To Obtain Adequate Insurance At A Reasonable Cost, If At All.

If we are unable to obtain satisfactory insurance coverage in the future, we may be subject to additional future exposure from product liability claims. Additionally, insurance rates may be significantly higher than in the past, and insurers may provide less coverage, which may adversely impact our profitability. Unlike the prior year's policy, the 2003/2004 products liability policy did not cover any claims which arose prior to the insurance policy year. Our current products liability insurance policy is a five-year claims-made policy covering claims since the commencement of the 2003/2004 policy year and expires in March 2008. We are currently evaluating with prospective insurers the available coverage and cost for products liability insurance. It is possible that there could be increases in both cost and retention, although we expect the coverage to be a six-year claims-made policy. We are also currently evaluating with prospective insurers available coverage and cost for director's and officer's insurance policies which expire in April 2008. We cannot be certain that we will be successful in obtaining satisfactory coverage once our current coverage expires, which could adversely impact our liquidity if we suffer material uninsured claims liability.

Intense Competition May Affect Our Ability To Operate Profitably.

We face competition from other companies engaged in the following lines of business:

- the processing of human tissue;
- the marketing of mechanical valves and synthetic and animal tissue for implantation; and
- the marketing of surgical adhesives and surgical sealants.

Management believes that at least two domestic tissue banks offer preservation services for allograft heart valves and many companies offer processed porcine heart valves and mechanical heart valves, including St. Jude Medical, Inc., Medtronic, Inc., and Edwards Life Sciences.

Our BioGlue product competes with other surgical adhesives and surgical sealants, including Baxter Healthcare's Tisseel, FloSeal, and CoSeal, Ethicon's Evicel, Surgiflo, and Surgifoam, and Covidien's U.S. Surgical Division's Duraseal products. We are also aware that a few companies have surgical adhesive products under development. For example, Johnson & Johnson is under FDA review for a surgical adhesive for approval in vascular sealing that could compete with BioGlue in certain applications. Other large medical device, pharmaceutical, and biopharmaceutical companies may also be developing competitive products. Our BioGlue product competes on the basis of its high tensile strength and ease of use.

Many of our competitors have greater financial, technical, manufacturing, and marketing resources than we do and are well established in their markets. We have increased fees and prices on a number of our services and products since January 1, 2008. This increase may provide an opportunity for our competitors to gain market share. If we are unable to continue to increase prices as planned and retain or improve our market share, our ability to grow revenues and profits may be adversely affected.

We cannot give assurance that our products and services will be able to compete successfully. Any products that we develop that gain regulatory clearance or approval will have to compete for market acceptance and market share. If we fail to compete effectively, this could materially and adversely affect our business, financial condition, results of operations, and cash flows. Our competitors may gain competitive advantages that may be difficult to overcome.

We May Not Be Successful In Obtaining Necessary Clinical Results And Regulatory Approvals For Products And Services In Development, And Our New Products And Services May Not Achieve Market Acceptance.

Our growth and profitability will depend, in part, upon our ability to complete development of and successfully introduce new products and services, including new applications of our BioGlue and related technology. We are uncertain whether we can develop new products and services to a commercially acceptable form. We must also expend much time and money to obtain the required regulatory approvals.

Although we have conducted preclinical studies on certain products under development which indicate that such products may be effective in a particular application, we cannot be certain that the results we obtain from expanded clinical studies will be consistent with earlier trial results or be sufficient for us to obtain any required regulatory approvals or clearances. We cannot give assurance that we will not experience difficulties that could delay or prevent us from successfully developing, introducing, and marketing new products. We also cannot give assurance that the regulatory agencies will clear or approve these or any new products on a timely basis, if ever, or that the new products will adequately meet the requirements of the applicable market or achieve market acceptance.

Our ability to complete the development of any of our products is subject to all of the risks associated with the commercialization of new products based on innovative technologies. Such risks include unanticipated technical or other problems, manufacturing difficulties, and the possibility that we have allocated insufficient funds to complete such development. Consequently, we may not be able to successfully develop or manufacture our products which are under development. If we do develop or manufacture these products, we may not do so on a timely basis. These products may not meet price or performance objectives, and may not prove to be as effective as competing products.

If we are unable to successfully complete the development of a product, application, or service, or if we determine for financial, technical, or other reasons not to complete development or obtain regulatory approval of any product, application or service, particularly in instances when we have expended significant capital, this could materially and adversely affect our business, financial condition, results of operations, and cash flows. Research and development efforts are time consuming and expensive and we cannot be sure that these efforts will lead to commercially successful products or services. Even the successful commercialization of a new service or product in the medical industry can be characterized by slow growth and high costs associated with marketing, under-utilized production capacity, and continuing research and development and education costs. The introduction of new products or services, which could include new products based on our Protein Hydrogel Technology such as BioFoam, and BioDisc, and other products such as ProPatch, may require significant physician training and years of clinical evidence derived from follow-up studies on human implant recipients in order to gain acceptance in the medical community.

Investments In New Technologies, And Acquisitions Of Products Or Distribution Rights May Not Be Successful.

We may invest in new technology licenses, and acquire products or distribution rights that may not succeed in the marketplace. In such cases, we may be unable to recover our initial investment, which could include acquiring license or distribution rights, acquiring products, or purchasing initial inventory. Inability to recover our initial investment may adversely impact our profitability.

If We Are Not Successful In Expanding Our Business Activities In International Markets, We Will Not Be Able To Pursue One Of Our Strategies For Increasing Our Revenues.

Our international operations are subject to a number of risks which may vary from the risks we face in the U.S., including:

- Unexpected changes in regulatory requirements and tariffs;
- Difficulties and costs associated with staffing and managing foreign operations, including foreign distributor relationships;
- Longer accounts receivable collection cycles in certain foreign countries;
- Adverse economic or political changes;
- More limited protection for intellectual property in some countries;
- Changes in our international distribution network and direct sales force;
- Changes in currency exchange rates;
- Potential trade restrictions, exchange controls, and import and export licensing requirements; and
- Potentially adverse tax consequences of overlapping tax structures.

We Are Dependent On Our Key Personnel.

Our business and future operating results depend in significant part upon the continued contributions of our key technical personnel and senior management, many of whom would be difficult to replace, including our CEO, Steven G. Anderson. Our business and future operating results also depend in significant part upon our ability to attract and retain qualified management, processing, technical, marketing, sales, and support personnel for our operations. Competition for such personnel is intense and we cannot promise that we will be successful in attracting and retaining such personnel. We do not

have key life insurance on any of our key personnel. If we lose any key employees, if any of our key employees fail to perform adequately, or if we are unable to attract and retain skilled employees as needed, this could materially and adversely affect our ability to efficiently operate our business.

Extensive Government Regulation May Adversely Affect Our Ability To Develop And Sell Products And Services.

Government regulation in the U.S., the EMEA, and other jurisdictions can determine the success of our and our competitors' efforts to market and develop services and products. The FDA, pursuant to rules it promulgated under the PHS Act, currently regulates allograft tissues as "human tissue." These rules establish requirements for donor testing and screening of human tissue and record keeping relating to these activities and impose certain registration and product listing requirements on establishments that process or distribute human tissue or cellular-based products. The FDA has finalized and implemented good tissue practice regulations akin to good manufacturing practices, which must be followed by tissue banks and processors of human tissue. These good tissue practice regulations will increase regulatory oversight of CryoLife and other processors of human tissue. Although we and our competitors are endeavoring to satisfy the new regulations when they go into effect, there can be no assurance of success.

BioGlue is regulated as a Class III medical device. Fixed porcine heart valve products are classified as Class III medical devices. We may not obtain the FDA approval required to distribute our porcine heart valve products in the U.S. Whether we are able to distribute these products within the EEA will depend on whether we can maintain the CE Mark for these products and their ISO 13485 certifications, of which we cannot be certain.

Most of our products and services in development and those of our competitors, if successfully developed, will require regulatory approvals from the FDA and perhaps other regulatory authorities before they may be commercially distributed. The process of obtaining premarket approvals from the FDA normally involves clinical trials as well as an extensive premarket approval application and often takes many years. In addition, the 510(k) approval process may also require clinical trials and take many years; for example the 510(k) approval for the CryoValve SG took a number of years. The process for approval from the FDA is expensive and can vary significantly based on the type, complexity, and novelty of the product. We cannot give any assurance that any products developed by us or our competitors, independently or in collaboration with others, will receive the required approvals for manufacturing and marketing.

Delays in obtaining U.S. or foreign approvals could result in substantial additional cost and adversely affect our competitive position. The FDA may also place conditions on product approvals that could restrict commercial applications of our products. The FDA may withdraw product marketing approvals or clearances if we do not maintain compliance with regulatory standards or if problems occur following initial marketing. Delays imposed by the governmental clearance process may materially reduce the period during which we have the exclusive right to commercialize patented products.

Delays or rejections may also be encountered by us during any stage of the regulatory approval process if clinical or other data fails to satisfactorily demonstrate compliance with, or if the product fails to meet, the regulatory agency's requirements for safety, efficacy, and quality. Those requirements may become more stringent due to changes in applicable laws, regulatory agency policies, or the adoption of new regulations. Clinical trials may also be delayed due to unanticipated side effects, inability to locate, recruit, and qualify sufficient numbers of patients, lack of funding, the inability to locate or recruit clinical investigators, the redesign of clinical trial programs, the inability to manufacture or acquire sufficient quantities of the particular product or any other components required for clinical trials, changes in development focus, and disclosure of trial results by competitors.

Even if we or one of our competitors are able to obtain regulatory approval for any products or services offered, the scope of the approval may significantly limit the indicated usage for which such products or services may be marketed. The unapproved use of our products or our preserved tissues could adversely affect the reputation of our products or services. Products or services marketed pursuant to FDA or foreign oversight or approvals are subject to continuing regulation. In the U.S., devices and biologics must be manufactured in registered establishments, and, in the case of biologics, licensed establishments and must be produced in accordance with Quality System Regulations. Manufacturing facilities and processes are subject to periodic FDA inspection. Labeling and promotional activities are also subject to scrutiny by the FDA and, in certain instances, by the Federal Trade Commission. The export of devices and biologics is also subject to regulation and may require FDA approval. From time to time, the FDA may modify such regulations, imposing additional or different requirements. If we fail to comply with applicable FDA requirements, which may be ambiguous, we could face civil and criminal enforcement actions, warnings, citations, product recalls or detentions, and other penalties. This could materially and adversely affect our business, financial condition, results of operations, and cash flows.

In addition, NOTA prohibits the acquisition or transfer of human organs for "valuable consideration" for use in human transplantation. NOTA permits the payment of reasonable expenses associated with the removal, transportation, implantation, processing, preservation, quality control, and storage of human organs. We cannot be certain that restrictive interpretations of NOTA will not be adopted in the future which will challenge one or more aspects of industry methods of charging for preservation services. Our laboratory operations and those of our competitors are subject to the U.S. Department of Labor, Occupational Safety and Health Administration, and U.S. Environmental Protection Agency requirements for prevention of occupational exposure to infectious agents and hazardous chemicals and protection of the environment. Some states have enacted statutes and regulations which govern the processing, transportation and storage of human organs and tissue.

U.S. and foreign governments and regulatory agencies may adopt more restrictive laws or regulations in the future that could materially and adversely affect our business, financial condition, results of operations, and cash flows.

Uncertainties Related To Patents And Protection Of Proprietary Technology May Adversely Affect The Value Of Our Intellectual Property.

We own several patents, patent applications, and licenses relating to our technologies, which we believe provide us with important competitive advantages. We cannot be certain that our pending patent applications will issue as patents or that no one will challenge the validity or enforceability of any patent that we own. We also cannot be certain that if anyone does make such a challenge, that we will be able to successfully defend that challenge. We may have to incur substantial litigation costs to uphold the validity and prevent infringement of a patent. Furthermore, we cannot be certain that competitors will not independently develop similar technologies or duplicate our technologies or design around the patented aspects of such technologies. We cannot be sure that our proposed technologies will not infringe patents or other rights owned by others.

We protect our proprietary technologies and processes in part by confidentiality agreements with our collaborative partners, employees, and consultants. We cannot be sure that these entities and persons will not breach these agreements, that we will have adequate remedies for any breach, or that our trade secrets will not otherwise become known or independently discovered by competitors. If any of these events occur, they could result in our loss of the economic benefits associated with our key products and services and could materially and adversely affect our business, financial condition, results of operations, and cash flows.

Future Health Care Reimbursement Methods And Policies May Affect The Availability, Amount, And Timing Of Our Revenues.

Even though we do not receive payments directly from third-party health care payors, their reimbursement methods and policies impact demand for our preserved tissue and other services and products. Our preservation services with respect to the cardiac, vascular, and orthopaedic tissues may be particularly susceptible to third-party cost containment measures. For example, the initial cost of a preserved allograft heart valve generally exceeds the cost of a mechanical, synthetic, or animal-derived valve. We are unable to predict what changes will be made in the reimbursement methods and policies utilized by third-party health care payors or their effect on us.

If third-party health care payors, including Medicare, change their reimbursement methods and policies with respect to preserved tissues provided for implant by us and other services and products that we offer, this could have a material adverse effect on us. Significant uncertainty exists as to the reimbursement status of newly approved health care products and services, and there can be no assurance that adequate third-party coverage will be available for us to maintain price levels sufficient to realize an appropriate return on our investment in developing new products.

If government-mandated health insurance is adopted, the demand for and prices obtained for our products could be negatively impacted because government-mandated health insurance could result in higher cost surgeries not being approved or could limit the level of reimbursement for new products, such as CryoValve SG.

Government, hospitals, and other third-party payors are increasingly attempting to contain health care costs by limiting both coverage and the level of reimbursement for new products approved for marketing by the FDA. In some cases, these entities refuse to provide any coverage for uses of approved products for indications for which the FDA has not granted marketing approval. If government and other third-party payors do not provide adequate coverage and reimbursement levels for uses of our new products and services, market acceptance of these products would be adversely affected, which could negatively impact revenue growth and materially and adversely affect our business, financial condition, results of operations, and cash flows.

Rapid Technological Change Could Cause Our Services And Products To Become Obsolete.

The technologies underlying our products and services are subject to rapid and profound technological change. Competition intensifies as technical advances in each field are made and become more widely known. We can give no assurance that others will not develop products or processes with significant advantages over the products and processes that we offer or are seeking to develop. Any such occurrence could materially and adversely affect our business, financial condition, results of operations, and cash flows.

Risks Related To Our Capital Stock

Trading Prices For Our Securities Have Been, And May Continue To Be, Volatile.

The trading price of our common stock has been subject to wide fluctuations and may continue to be volatile in the future. Trading price fluctuations can be caused by a variety of factors, including variations in operating results, regulatory actions such as the adverse FDA activity, product liability claims, announcement of technological innovations or new products by us or our competitors, governmental regulatory acts, developments with respect to patents or proprietary rights, general conditions in the medical device or service industries, actions taken by government regulators, changes in earnings estimates by securities analysts, or other events or factors, many of which are beyond our control. If our revenues or operating results in future quarters fall below the expectations of securities analysts and investors, the price of our common stock would likely decline, perhaps substantially. Changes in the trading price of our common stock may bear no relation to our actual operational or financial results. If our share prices do not meet the requirements of the New York Stock Exchange, our shares may be delisted. Our closing common stock price in the period January 1, 2005 to February 15, 2008 has ranged from a high of $14.81 to a low of $2.99.

The market prices of the securities of biotechnology companies have been highly volatile and are likely to remain highly volatile in the future. This volatility has often been unrelated to the operating performance of particular companies. In the past, companies that experienced volatility in the market price of their securities have often faced securities class-action litigation. Moreover, market prices for stocks of biotechnology-related and technology companies frequently reach levels that bear no relationship to the operating performance of these companies. These market prices generally are not sustainable and are highly volatile. Whether or not meritorious, litigation brought against us could result in substantial costs, divert our management's attention and resources, and harm our financial condition and results of operations.

Anti-Takeover Provisions May Discourage Or Make More Difficult An Attempt To Obtain Control Of CryoLife.

Our Articles of Incorporation and Bylaws contain provisions that may discourage or make more difficult any attempt by a person or group to obtain control of our company, including provisions authorizing the issuance of preferred stock without shareholder approval, restricting the persons who may call a special meeting of the shareholders, and prohibiting shareholders from taking action by written consent. In addition, we are subject to certain provisions of Florida law that may discourage or make more difficult takeover attempts or acquisitions of substantial amounts of our common stock. Further, pursuant to the terms of a shareholder rights plan adopted in 1995 and amended in 2005, each outstanding share of common stock has one attached right. The rights will cause substantial dilution of the ownership of a person or group that attempts to acquire our company on terms not approved by the Board of Directors and may deter hostile takeover attempts. These provisions could potentially deprive our stockholders of opportunities to sell shares of our stock at above-market prices.

We Are Not Likely To Pay Common Stock Dividends In The Foreseeable Future, And We May Not Be Able To Pay Cash Dividends On Our Capital Stock Due To Legal Restrictions And Lack Of Liquidity.

We have not paid, and do not presently intend to pay, cash dividends on our common stock. In addition, under Florida law and under the restrictions set forth in our credit agreement, we may not be able to pay cash dividends on our capital stock. Under Florida law, no distribution may be paid on our capital stock, if after giving it effect:

- We would not be able to pay our debts as they become due in the usual course of business; or
- Our total assets would be less than the sum of our total liabilities plus the amount that would be needed, if we were to be dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of any preferred shareholders whose preferential rights are superior to those receiving the distribution.

The terms of any future financing arrangements that we may enter into may also restrict our ability to pay dividends.

Forward-Looking Statements

This Form 10-K includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act. Forward-looking statements give the Company's current expectations or forecasts of future events. 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 forwarding-looking statements. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Readers are cautioned not to place undue reliance on these forward-looking statements, which are made as of the date of this Form 10-K. Such forward-looking statements reflect the views of management at the time such statements are made and are subject to a number of risks, uncertainties, estimates, and assumptions, including, without limitation, in addition to those identified in the text surrounding such statements, those identified under Part I, Item 1A. "Risk Factors" and elsewhere in this Form 10-K.

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 Company's ability to increase, and methods for increasing, BioGlue and preserved tissue market penetration;
- The Company's continued use of human tissue implant data;
- The expected benefits of surgical adhesives and sealants;
- The Company's plans to apply for further federal funding for the development of BioFoam;
- The anticipated competitive advantages and potential impact on revenues, of SynerGraft;
- Expected increases in grant revenues;
- Expectations regarding, and possible increases in the cost and retention of, future insurance coverage;
- Current intentions not to pay cash dividends on our common stock;
- Current intentions to retain future earnings for capital requirements;
- Expectations regarding the use of net operating loss carryforwards,
- Expected decreases in revenues from the distribution of orthopaedic tissue;
- Expectations regarding the impact of CryoValve SG pulmonary heart valve on cost of preservation services as a percentage of preservation services revenues;
- Expectations regarding capital expenditures;
- Expected usage of SynerGraft technology;
- Expected timing regarding availability of CryoValve SG;
- Commercialization plans regarding ProPatch;
- Potential BioGlue product line extensions;
- The potential benefits of products licensed from Trophic Solutions;
- Information regarding the expected SynerGraft post-clearance study;
- The ability of BioGlue to minimize post-operative pain following hernia operations;
- The expected outcome of lawsuits filed against the Company;
- The Company's estimated future liability for existing product liability lawsuits and for product liability claims incurred but not yet reported;
- The Company's competitive position, including the impact of price increases;
- The receipt of governmental grants for BioFoam development;
- Future increases in research and development expenses;
- Competitive advantages offered by the Company's patents, trade secrets, trademarks, and technology licensing rights;
- Expected impact of adoption of new accounting pronouncements;
- Expected seasonality trends;

- Anticipated impact of changes in interest rates;
- The ability to expand the Company's service and product offerings;
- Those issues most likely to impact the Company's future financial performance and cash flows;
- The anticipated impact of the Company's strategic plans and its ability to implement them;
- The adequacy of the Company's financial resources; 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 under 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 the risk factors discussed in Item 1.A of this Form 10-K and other factors, many of which are beyond the control of CryoLife. Consequently, all of the forward-looking statements made in this Form 10-K 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.

Item 1B. Unresolved Staff Comments.

The Company has no unresolved written comments received from the staff of the Securities and Exchange Commission regarding its periodic or current reports under the Securities Exchange Act of 1934 not less than 180 days before December 31, 2007 (the end of the fiscal year to which this Form 10-K relates).

Item 2. Properties.

The Company's facilities are located in suburban Atlanta, Georgia, and in Guildford, United Kingdom. The corporate headquarters in Atlanta consists of approximately 200,000 square feet of leased manufacturing, administrative, laboratory, and warehouse space with an additional 7,600 square feet of offsite warehouse space. Approximately 26,000 square feet are dedicated to clean room work areas. The primary facility has six main laboratory facilities: human tissue processing, BioGlue manufacturing, bioprosthesis manufacturing, research and development, microbiology, and pathology. Each of these areas consists of a general technician work area and adjoining "clean rooms" for work with human tissue and for aseptic processing. The clean rooms are supplied with highly filtered air that provides a near-sterile environment. The human tissue processing laboratory contains approximately 15,600 square feet with a suite of nine clean rooms. The current processing level is estimated to be at about 25% of total capacity. The volume of tissue processed is currently constrained by the availability of tissue. To increase the current processing levels, the Company could increase the number of employees, expand its second and third shift, and add equipment. The BioGlue manufacturing laboratory contains approximately 13,500 square feet with a suite of six clean rooms. The current processing level is about 5% of total capacity. To produce at full capacity levels, the Company would need to increase the number of employees, add work shifts, and install automated filling and pouching equipment. The bioprosthesis manufacturing laboratory contains approximately 20,000 square feet with a suite of six clean rooms. The research and development laboratory is approximately 10,500 square feet with a suite of five clean rooms. The microbiology laboratory is approximately 8,000 square feet with a suite of five clean rooms. The pathology laboratory is approximately 1,100 square feet. The Europa facility located in Guildford, United Kingdom contains approximately 3,400 square feet of leased office and warehousing space.

Item 3. Legal Proceedings.

Product Liability Claims

On January 18, 2008, the Company was served with a lawsuit filed in the State Court of Cobb County, Georgia, by Michael Hohenbery, an individual who underwent surgery in December 2006 for implantation of a meniscal allograft preserved by the Company. The plaintiff alleges that such tissue was contaminated and resulted in an infection in his knee requiring further surgery. The plaintiff seeks $10 million in compensatory damages and $100 million in punitive damages against the Company. The Company intends to defend against this lawsuit and believes that it has adequate insurance coverage for this particular case.

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

Inapplicable.

Item 4A. Executive Officers of the Registrant.

The following table lists the executive officers of CryoLife and their ages, positions with CryoLife, and the dates from which they have continually served as executive officers with CryoLife. Each of the executive officers of CryoLife was elected by the Board of Directors to serve until the Board of Directors' meeting immediately following the next annual meeting of shareholders or until his earlier removal by the Board of Directors or his resignation.

Name	Service as Executive	Age	Position
Steven G. Anderson	Since 1984	69	President, Chief Executive Officer, and Chairman
Scott B. Capps	Since 2007	41	Vice President, Clinical Research
David M. Fronk	Since 1998	44	Vice President, Regulatory Affairs and Quality Assurance
Albert E. Heacox, Ph.D.	Since 1989	57	Senior Vice President, Research and Development
D. Ashley Lee, CPA	Since 2000	43	Executive Vice President, Chief Operating Officer, and Chief Financial Officer
Gerald B. Seery	Since 2005	51	Senior Vice President Sales and Marketing

Steven G. Anderson, a founder of CryoLife, has served as CryoLife's President, Chief Executive Officer, and Chairman of the Board of Directors since its inception. Mr. Anderson has more than 35 years of experience in the implantable medical device industry. Prior to founding CryoLife, Mr. Anderson was Senior Executive Vice President and Vice President, Marketing, from 1976 until 1983 of Intermedics, Inc. (now Guidant Corp.), a manufacturer and distributor of pacemakers and other medical devices. Mr. Anderson is a graduate of the University of Minnesota.

Scott B. Capps was appointed to the position of Vice President of Clinical Research in November 2007. Prior to this position, Mr. Capps served as Vice President, General Manager of CryoLife Europa, Ltd. in the United Kingdom from February 2005 to November 2007 and Director, European Clinical Affairs from April 2003 to January 2005. Mr. Capps joined CryoLife in 1995 as Project Engineer for the allograft heart valve program, and was promoted to Director, Clinical Research in 1999. Mr. Capps is responsible for overseeing and implementing clinical trials to achieve FDA and International approval of CryoLife's medical products in cardiac, vascular, and orthopaedic clinical areas. Before joining CryoLife, Mr. Capps was a Research Assistant in the Department of Bioengineering at Clemson University working to develop a computerized database and radiographic image analysis system for total knee replacement. Mr. Capps received his Bachelor of Industrial Engineering from the Georgia Institute of Technology and his M.S. in Bioengineering from Clemson University.

David M. Fronk was appointed to the position of Vice President of Regulatory Affairs and Quality Assurance in April 2005 and has been with the Company since 1992, serving as Vice President of Clinical Research from December 1998 to April 2005 and Director of Clinical Research from December 1997 until December 1998. Mr. Fronk is responsible for developing and implementing improved safety processes and procedures for new and existing medical products. Prior to joining the Company, Mr. Fronk held engineering positions with Zimmer Inc. from 1986 until 1988 and Baxter Healthcare Corporation from 1988 until 1991. Mr. Fronk served as a market manager with Baxter Healthcare Corporation from 1991 until 1992. Mr. Fronk received his B.S. in Mechanical Engineering from the Ohio State University in 1985 and his M.S. in Biomedical Engineering from the Ohio State University in 1986.

Albert E. Heacox, Ph.D., was appointed to the position of Senior Vice President of Research and Development in December 2004. Dr. Heacox has been with the Company since June 1985 and served as Vice President of Laboratory Operations from June 1989 to December 2004. Dr. Heacox was promoted to Senior Vice President in December of 2000. Dr. Heacox has been responsible for developing protocols and procedures for cardiac, vascular, and connective tissues, implementing upgrades in procedures in conjunction with the Company's quality assurance programs, and overseeing all processing and production activities of the Company's laboratories. Dr. Heacox is now responsible for the continued development of the Company's current products as well as the evaluation of new technologies. Prior to joining the Company, Dr. Heacox worked as a researcher with the U.S. Department of Agriculture and North Dakota State University, developing methods for the preservation of cells and animal germ plasma storage. Dr. Heacox received a B.A. and an M.S. in Biology from Adelphi University, received his Ph.D. in Biology from Washington State University, and completed his post-doctorate training in cell biology at the University of Cologne, West Germany.

D. Ashley Lee, CPA, has served as Executive Vice President, Chief Operating Officer, and Chief Financial Officer since November 2004. Mr. Lee has been with the Company since December 1994 serving as Vice President of Finance, Chief Financial Officer, and Treasurer from December 2002 to November 2004; as Vice President Finance and Chief Financial Officer from April 2000 to December 2002; and as Controller of the Company from December 1994 until April 2000. From 1993 to 1994, Mr. Lee served as the Assistant Director of Finance for Compass Retail Inc., a wholly-owned subsidiary of Equitable Real

Estate. From 1987 to 1993, Mr. Lee was employed as a certified public accountant with Ernst & Young, LLP. Mr. Lee received his B.S. in Accounting from the University of Mississippi.

Gerald B. Seery has served as Senior Vice President of Sales and Marketing since October 2005. Mr. Seery has been with the Company since July 1993 serving as Vice President of International Operations from July 2005 to October 2005, President of CryoLife Europa from April 2002 to July 2005, President of AuraZyme from March 2001 to April 2002, and Vice President of Marketing from August 1995 to March 2001. Mr. Seery is responsible for developing and implementing the Company's sales and marketing plans and supervising all tissue procurement activities. Prior to joining the Company, Mr. Seery held senior marketing management positions with Meadox Medicals from 1982 until 1985, Electro Catheter Corporation from 1985 until 1989 and Daig Corporation from 1992 until 1993, accumulating fifteen years of specialized marketing experience in cardiac medical devices. Mr. Seery received his B.A. in International Economics at The Catholic University of America in Washington, D.C. in 1978 and completed his M.B.A. at Columbia University in New York in 1980.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities.

Market Price of Common Stock

The Company's common stock is traded on the New York Stock Exchange under the symbol "CRY." The following table sets forth, for the periods indicated, the intra-day high and low sale prices per share of Common Stock on the NYSE.

2007	High	Low
First quarter	$ 9.51	$ 7.00
Second quarter	15.20	8.25
Third quarter	14.34	7.60
Fourth quarter	9.88	6.20

2006	High	Low
First quarter	$ 5.65	$2.95
Second quarter	5.50	4.25
Third quarter	6.90	5.07
Fourth quarter	7.80	5.70

As of February 15, 2008 the Company had 460 shareholders of record.

The Company has never declared or paid any cash dividends on its common stock. The Company currently intends to retain any future earnings for funding its capital requirements and, therefore, does not anticipate paying any cash dividends on its common stock in the foreseeable future. If the Company chooses to issue preferred stock, the holders of shares of that preferred stock could have a preference as to the payment of dividends over the holders of common stock. In addition any credit facility the Company enters into in the future could restrict or prohibit the payment of cash dividends on the Company's common stock.

Issuer Purchases of Equity Securities

The Company did not purchase any of its equity securities during the quarter ended December 31, 2007. The Company currently has no stock repurchase program, publicly announced or otherwise. The Company does periodically purchase shares tendered in payment of the exercise price of outstanding options.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information as of December 31, 2007 with respect to shares of CryoLife common stock that may be issued under existing equity compensation plans. CryoLife's Board of Directors in the past has awarded grants of options to directors, executive officers, and employees on a case-by-case basis when sufficient shares were not available under equity compensation plans approved by shareholders. CryoLife does not intend to continue this practice except to the extent that shares are otherwise unavailable under shareholder-approved plans and the grants are permitted by applicable NYSE rules.

	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights (a)	Weighted Average Exercise Price of Outstanding Options, Warrants, and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Plans approved by shareholders	1,830,836	$ 6.29	1,343,536
Plans not approved by shareholders	28,925	7.60	—
Total	1,859,761	$ 6.31	1,343,536

Item 6. Selected Financial Data.

The following Selected Financial Data should be read in conjunction with the Company's consolidated financial statements and notes thereto, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other financial information included elsewhere in this Report.

Selected Financial Data

(in thousands, except percentages, current ratio, and per share data)

	December 31,				
	2007	2006	2005	2004	2003
Operations					
Revenues	$ 94,763	$ 81,311	$ 69,282	$ 62,384	$59,532
Net income (loss)	7,201	365	(19,535)	(18,749)	(32,294)
Net income (loss) applicable to common shareholders	6,958	(608)	(20,312)	(18,749)	(32,294)
Research and development expense as a percentage of revenues	4.7%	4.4%	5.4%	6.3%	6.1%
Income (loss) Per Common Share					
Basic	$ 0.26	$ (0.02)	$ (0.85)	$ (0.81)	$ (1.64)
Diluted	$ 0.26	$ (0.02)	$ (0.85)	$ (0.81)	$ (1.64)
Year-End Financial Position					
Total assets	$92,684	$79,865	$ 76,809	$ 73,261	$ 75,027
Working capital	40,750	26,472	23,922	19,689	14,790
Long term liabilities	5,355	4,864	4,909	5,629	5,716
Convertible preferred stock	—	3	3	—	—
Shareholders' equity	62,627	52,088	50,621	49,660	48,338
Current ratio[1]	3:1	2:1	2:1	2:1	2:1
Shareholders' equity per diluted common share	$ 2.32	$ 2.10	$ 2.11	$ 2.16	$ 2.46

[1] Current assets divided by current liabilities.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview

CryoLife, Inc. ("CryoLife", the "Company", "we", or "us"), incorporated January 19, 1984 in Florida, develops and commercializes biomaterials and implantable medical devices, and preserves and distributes human tissues for cardiac and vascular transplant applications. The Company's biomaterials and implantable medical devices include BioGlue® Surgical Adhesive ("BioGlue"), CryoLife-O'Brien® Stentless Porcine Aortic Bioprosthesis, and ProPatch™ Soft Tissue Repair Matrix ("ProPatch"). Additionally, the Company distributes CardioWrap® for MAST BioSurgery, Inc ("MAST").

For CryoLife the year ended December 31, 2007 featured a return to profitability as the Company reported net income and positive cash flows from operations for four straight quarters. This profitability was driven by strong revenue growth as total revenues increased 17% in 2007 as compared to 2006. See the "Results of Operations" section below for additional analysis of the fourth quarter results. See Part I, Item 1, "Business," for further discussion of the Company's business and activities during 2007.

Recent Events

SynerGraft Processed Human Pulmonary Heart Valve 510(k) Clearance

On February 7, 2008 CryoLife received 510(k) clearance from the Food and Drug Administration ("FDA") for its CryoValve® SG pulmonary human heart valve processed with the Company's proprietary SynerGraft technology. CryoLife's proprietary SynerGraft technology is designed to remove donor cells and cellular remnants from the valve without compromising the integrity of the underlying collagen matrix. The CryoValve SG pulmonary human heart valve is indicated for the replacement of diseased, damaged, malformed, or malfunctioning native pulmonary valves. The valve can be used in

conjunction with right ventricular outflow tract reconstruction procedures ("RVOT"), commonly performed in children with congenital heart defects. In addition, the valve can be used for pulmonary valve replacement during the Ross Procedure, an operation in which a patient's defective aortic valve is removed and replaced with his own pulmonary valve. The CryoValve SG is then surgically implanted in place of the removed native pulmonary valve.

At the FDA's request, CryoLife is planning a post-clearance study to seek evidence for the potential and implied long-term benefits of the SynerGraft process. Data to be collected is expected to include long-term safety and hemodynamic function, immune response, and explant analysis. CryoLife believes that this information may help it ascertain whether the SynerGraft process reduces the immune response of the transplanted heart valve and allows for the collagen matrix to recellularize with the recipient's own cells.

CryoLife has begun using the SynerGraft technology for the majority of its pulmonary valve processing and anticipates that the first CryoValve SG may be available for shipment late in the first quarter of 2008.

Trophic Solutions License Agreement

On January 8, 2008 CryoLife announced that it had signed an exclusive license agreement with Trophic Solutions, LLC ("Trophic") to develop and market products related to the cold storage and preservation of internal organs prior to transport. Under terms of the agreement, the Company will license from Trophic the right to develop, manufacture, and market products and processes derived from a patent owned by Trophic, which relates to solutions containing purified antimicrobial polypeptides and/or cell surface receptor binding proteins for use in the storage and preservation of internal organs prior to transplant. In early animal and human studies, the Trophic technology has shown that kidneys may be stored for up to six days prior to transplant without compromising graft function rather than three days using present technology. These studies also indicate that the solution may reduce or eliminate the need for pumping kidneys, which may reduce the cost of maintaining and transporting kidneys for transplant. The agreement gives CryoLife the exclusive right to determine if a commercial product can be developed using the process covered by the patent for a period of one year, which may be extended for an additional ninety days.

Critical Accounting Policies

A summary of the Company's significant accounting policies is included in Part II, Item 8, "Note 1 of the Notes to Consolidated Financial Statements." 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 U.S., which require the Company to make estimates and assumptions. The following are accounting policies that management believes are most important to the portrayal of the Company's financial condition and results and may involve a higher degree of judgment and complexity.

Product Liability Claims: In the normal course of business as a medical device and services company, the Company has product liability complaints filed against it. As of February 15, 2008 two product liability lawsuits were pending against the Company arising out of the Company's allograft heart valve and orthopaedic tissue services. These lawsuits are covered by product liability insurance and are in the pre-discovery or discovery stages. Other parties have made complaints that may result in lawsuits in future periods.

The Company performed an analysis as of December 31, 2007 of the pending product liability lawsuit and other claims based on settlement negotiations to date and advice from counsel. As of December 31, 2007 the Company had accrued approximately $330,000 for the pending product liability lawsuits. The $330,000 accrual was included as a component of accrued expenses and other current liabilities on the December 31, 2007 Consolidated Balance Sheet. As of December 31, 2006 the Company had accrued a total of approximately $330,000 for a pending product liability lawsuit. The lawsuit to which this accrual related was settled in the first quarter of 2007. The $330,000 accrual was included as a component of accrued expenses and other current liabilities on the December 31, 2006 Consolidated Balance Sheet.

On April 1, 2007 the Company bound coverage for the 2007/2008 insurance policy year. This policy is a five-year claims-made insurance policy, i.e. claims incurred during the period April 1, 2003 through March 31, 2008 and reported during the period April 1, 2007 through March 31, 2008 are covered by this policy. Claims incurred prior to April 1, 2003 that have not been reported are uninsured.

The Company maintains claims-made insurance policies to mitigate its financial exposure to product liability claims. Claims-made insurance policies generally cover only those asserted claims and incidents that are reported to the insurance

carrier while the policy is in effect. Thus, a claims-made policy does not generally represent a transfer of risk for claims and incidents that have been incurred but not reported to the insurance carrier during the policy period. The Company periodically evaluates its exposure to unreported product liability claims and records accruals as necessary for the estimated cost of unreported claims related to services performed and products used. In January 2008 the Company retained an independent actuarial firm to perform estimates of the unreported claims as of December 31, 2007. The independent firm estimated the unreported product loss liability using a frequency-severity approach, whereby projected losses were calculated by multiplying the estimated number of claims by the estimated average cost per claim. The estimated claims were calculated based on the reported claim development method and the Bornhuetter-Ferguson method using a blend of the Company's historical claim experience and industry data. The estimated cost per claim was calculated using a lognormal claims model blending the Company's historical average cost per claim with industry claims data. The independent actuarial firm used a number of assumptions in order to estimate the unreported product loss liability including:

- A ceiling of $5.0 million was selected for actuarial purposes in determining the liability per claim given the uncertainty in projecting claim losses in excess of $5.0 million,
- The future claim reporting lag time would be a blend of the Company's experiences and industry data,
- The frequency of unreported claims for accident years 2001 through 2007 would be lower than the Company's experience in the 2002/2003 policy year, but higher than the Company's historical claim frequency prior to the 2002/2003 policy year,
- The average cost per claim would be lower than the Company's experience since the 2002/2003 policy year, but higher than the Company's historical cost per claim prior to the 2002/2003 policy year,
- The average cost per BioGlue claim would be consistent with the Company's overall historical exposures until adequate historical data is available on this product line, and
- The number of BioGlue claims per million dollars of BioGlue revenue would be 50% lower than non-BioGlue claims per million dollars of revenue. The 50% factor was selected based on BioGlue claims experience to date and consultation with the actuary.

The Company believes that these assumptions provide a reasonable basis for the calculation of the unreported product liability loss, but accuracy of the actuarial firm's estimates is limited by the general uncertainty that exists for any estimate of future activity due to uncertainties surrounding the assumptions used and due to Company specific conditions 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 assumptions used and amounts accrued.

Based on the actuarial valuation performed in January 2008 as of December 31, 2007, the Company estimated that its liability for unreported product liability claims was $6.3 million as of December 31, 2007. The $6.3 million balance is included as a component of accrued expenses and other current liabilities of $3.2 million and other long-term liabilities of $3.1 million on the December 31, 2007 Consolidated Balance Sheet. Further analysis indicated that the liability could be estimated to be as high as $11.9 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 December 31, 2007, $2.4 million of the accrual for unreported liability claims would be recoverable under the Company's insurance policies. The $2.4 million insurance recoverable is included as a component of other receivables of $1.1 million and other long-term assets of $1.3 million on the December 31, 2007 Consolidated Balance Sheet. These amounts represent management's estimate of the probable losses and anticipated recoveries for unreported product liability claims related to services performed and products sold prior to December 31, 2007. Actual results may differ from this estimate.

As of December 31, 2006 the Company accrued $6.6 million for unreported product liability claims and recorded a receivable of $2.3 million for unreported liability claims estimated to be recoverable under the Company's insurance policies. This $6.6 million accrual was included as a component of accrued expenses and other current liabilities of $3.3 million and other long-term liabilities of $3.3 million on the December 31, 2006 Consolidated Balance Sheet. The $2.3 million insurance recoverable was included as a component of other current receivables of $1.1 million and other long-term assets of $1.2 million on the December 31, 2006 Consolidated Balance Sheet.

Deferred Preservation Costs: By federal law, human tissues cannot be bought or sold. Therefore, the tissues the Company preserves and further processes cannot be held as inventory. Tissue is procured from deceased human donors by organ and tissue procurement agencies, which consign the tissue to the Company for processing, preservation, and distribution.

Preservation costs consist primarily of direct labor and materials (including salary and fringe benefits, laboratory expenses, tissue procurement fees, and freight-in charges) and indirect costs (including allocations of costs from departments that support processing activities and facility allocations). Although the Company cannot own human tissue, the preservation process is a manufacturing process that is accounted for in accordance with Accounting Research Bulletin No. 43 ("ARB 43") Chapter 4, Inventory Pricing. Preservation costs are stated at the lower of cost or market on a first-in, first-out basis and are deferred until revenue is recognized upon shipment of the tissue to the implanting facilities. Cost of preservation services also includes idle facility expense, excessive spoilage, double freight, and rehandling costs and requires allocation of fixed production overheads to be based on the normal capacity of the production facilities in accordance with SFAS No. 151 "Inventory Costs" ("SFAS 151").

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

The Company regularly evaluates its deferred preservation costs to determine if the costs are appropriately recorded at the lower of cost or market value and to determine if there are any impairments to the book value of the Company's deferred preservation costs. CryoLife records a charge to cost of preservation services to write-down the amount of deferred preservation costs that are not deemed to be recoverable. These write-downs are permanent impairments that create a new cost basis, which cannot be restored to its previous levels when tissues are shipped or become available for shipment.

The Company recorded write-downs of $453,000, $1.2 million, and $1.8 million for the years ended December 31, 2007 2006, and 2005, respectively, for the value of certain deferred preservation costs that exceeded market value. The amount of these write-downs are primarily due to excess current period tissue processing costs that exceeded market value based on recent average service fees. Actual results may differ from these estimates.

The Company also recorded write-downs of $366,000 for the year ended December 31, 2007 due to the impairment of certain vascular and orthopaedic tissues. The Company also recorded write-downs of $588,000 for the year ended December 31, 2006 due to the impairment of certain orthopaedic tissues. The tissues were impaired in the period the Company determined that the tissues were not expected to ship prior to the expiration date of the tissues' packaging. The Company also recorded a write-down of $2.8 million in the year ended December 31, 2006 due to the impairment of certain orthopaedic tissues and processing materials as a result of the exchange and service agreement with Regeneration Technologies, Inc., and certain of its affiliates (the "RTI Agreement") discussed in Part II, Item 8, "Note 2 of the Notes to Summary Consolidated Financial Statements." This write-down was based on the Company's estimate of the tissues that would be shipped during the 18-month period subsequent to December 31, 2006 in which the Company can continue to distribute its orthopaedic tissues. The amount of tissues shipped during that period could differ significantly from this initial estimate resulting in higher margins on shipments of orthopaedic tissues during the 18-month period or additional write-downs in future periods. Cost of preservation services was favorably affected during the year ended December 31, 2007 by shipments of orthopaedic tissue with a zero cost basis for which revenues were recognized but costs, estimated to be $347,000, had already been written-down in previous periods.

As of December 31, 2007 deferred preservation costs consisted of $7.6 million for allograft heart valve tissues, $2.1 million for non-valved cardiac tissues, $17.1 million for vascular tissues, and $123,000 for orthopaedic tissues. As of December 31, 2006 deferred preservation costs consisted of $4.7 million for allograft heart valve tissues, $1.0 million for non-valved cardiac tissues, $11.3 million for vascular tissues, and $2.3 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 primarily as a result of write-downs of deferred preservation costs, accruals for product liability claims, and operating losses. The Company periodically assesses the recoverability of its deferred tax assets, in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109 "Accounting for Income Taxes" ("SFAS 109"), as necessary, when the Company experiences changes that could materially affect its determination of the recoverability of its deferred tax assets. Management provides a valuation allowance when, as a result of this analysis, management believes it is more likely than not that its deferred tax assets will not be realized. In assessing the recoverability of its deferred tax assets at December 31, 2007, the Company reviewed its historical operating results, including the reasons for its operating losses in prior years and uncertainties regarding projected future operating results. Based on the results of this analysis, discussed further below, at December 31, 2007 the Company determined that it was more likely than not that the Company's deferred tax assets would not be realized.

Based on the Company's results for the year ended December 31, 2007, and its projections for 2008, the Company anticipates that it will utilize a portion of its net operating loss carryforwards in the 2008 income tax year to offset its U.S. taxable income, as it did in the 2007 and 2006 tax years. Although CryoLife is beginning to utilize its net operating loss carryforwards, the Company currently believes that a change in its determination of the recoverability of its deferred tax assets is not yet warranted. CryoLife will continue to evaluate its determination in accordance with the guidance in SFAS 109, which indicates the Company's net losses in recent years constitute significant evidence against the recoverability of its deferred tax assets that is difficult to overcome. CryoLife will reverse the remaining valuation allowance, or a portion thereof, when and if its deferred tax assets meet the SFAS 109 "more likely than not" standard for recognition. Also, the realizability of the Company's deferred tax assets could be limited in future periods following a change in control as mandated by Section 382 of the Internal Revenue Code of 1986, as amended.

As of December 31, 2007 the Company had a total of $28.2 million in valuation allowances against deferred tax assets and a net deferred tax liability of $27,000. As of December 31, 2006 the Company had a total of $33.0 million in valuation allowances against deferred tax assets and a net deferred tax liability of $226,000 related to taxes in a foreign jurisdiction.

The tax years 2004-2007 remain open to examination by the major taxing jurisdictions to which the Company is subject.

Valuation of Long-lived and Intangible Assets and Goodwill: The Company assesses the potential impairment of its long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors 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, or
- Significant decline in the Company's market capitalization relative to net book value.

SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144") requires the write-down of a long-lived asset to be held and used if the carrying value of the asset or the asset group to which the asset belongs is not recoverable. The carrying value of the asset or asset group is not recoverable if it exceeds the sum of the undiscounted future cash flows expected to result from the use and eventual disposition of the asset or asset group. For the year ended December 31, 2007 the Company did not experience any factors that indicated an SFAS 144 impairment review was warranted. For the years ended December 31, 2006 and 2005, the Company performed an SFAS 144 impairment analysis, due to a variety of triggering factors including its operating performance. In these periods the undiscounted future cash flows of the Company's asset groups exceeded their carrying values. Therefore, management concluded that there was not an impairment of the Company's long-lived tangible and amortizing intangible assets.

SFAS No. 142 "Goodwill and Other Intangible Assets" ("SFAS 142"), requires that goodwill resulting from business acquisitions and other non-amortizing intangible assets be subject to annual impairment testing. The Company's non-amortizing intangible assets as of December 31, 2007 consist of trademarks and, as a result of the RTI Agreement, procurement contracts and access to the procurement of cardiac and vascular human tissues previously received by RTI. In accordance with SFAS 142, the Company performed an analysis on its non-amortizing intangible assets as of December 31, 2007. Based on the results of its analysis, the Company does not believe that an impairment existed related to its non-amortizing intangible assets as of December 31, 2007. Management will continue to evaluate the recoverability of these non-amortizing intangible assets on an annual basis in accordance with SFAS 142.

New Accounting Pronouncements

In December 2007 the Financial Accounting Standards Board ("FASB") issued SFAS No. 141 Revised "Business Combinations" ("SFAS 141R"). SFAS 141R revises the accounting and disclosure requirements for business combinations and is effective for fiscal years beginning after December 15, 2008. The Company is in the process of evaluating the impact of SFAS 141R on its results of operations and financial position.

The Company will be required to adopt SFAS No. 157 "Fair Value Measurements" ("SFAS 157") for the fiscal year beginning January 1, 2008. SFAS 157 provides a single definition of fair value and a hierarchical framework for measuring it, as well as establishing additional disclosure requirements about the use of fair value to measure assets and liabilities. The Company does not anticipate that the adoption of SFAS 157 will have a material affect on its results of operations or financial position.

The Company will be required to adopt SFAS No. 159 "The Fair Value Option for Financial Assets and Liabilities" ("SFAS 159") for the fiscal year beginning January 1, 2008. SFAS 159 provides the option to report certain financial assets and liabilities at fair value, with the intent to mitigate volatility in financial reporting that can occur when related assets and liabilities are measured differently. The Company does not expect to voluntarily implement the optional fair value measurements portions of SFAS 159 for eligible items. Therefore, the Company does not anticipate that the adoption of SFAS 159 will have a material affect on its results of operations or financial position.

Results of Operations

(In thousands)

Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

Revenues

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2007	2006	2007	2006
Revenues	$25,068	$21,090	$94,763	$81,311

Revenues increased 19% for the three months ended December 31, 2007 as compared to the three months ended December 31, 2006. Revenues increased 17% for the twelve months ended December 31, 2007 as compared to the twelve months ended December 31, 2006.

The increase in revenues for the three and twelve month periods ended December 31, 2007 was primarily due to an increase in cardiac and vascular preservation services revenues and BioGlue revenues, partially offset by a decrease in orthopaedic preservation services revenues as compared to the prior year periods.

A detailed discussion of the change in preservation services revenues for each of the three major tissue types distributed by the Company and the change in BioGlue revenues is presented below.

Cardiac Preservation Services

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2007	2006	2007	2006
Revenues	$6,511	$4,438	$22,098	$15,988
Cardiac revenues as a percentage of total revenue	26%	21%	23%	20%

Revenues from cardiac preservation services increased 47% for the three months ended December 31, 2007 as compared to the three months ended December 31, 2006. This increase was primarily due to a 44% increase in unit shipments of cardiac tissues, which increased revenues by 38%, an increase in average service fees, which increased revenues by 8%, and favorable foreign exchange, which increased revenues by 1%.

Revenues from cardiac preservation services increased 38% for the twelve months ended December 31, 2007 as compared to the twelve months ended December 31, 2006. This increase was primarily due to a 33% increase in unit shipments of cardiac tissues, which increased revenues by 28%, and an increase in average service fees, which increased revenues by 10%.

The increase in cardiac volume for the three and twelve months ended December 31, 2007 was due to increased shipments of all of the cardiac tissues processed by the Company. The increases in cardiac shipments were a result of increased availability of tissues due to improvements in the procurement of cardiac tissues and due to strengthening demand for the Company's tissues. The increase in average service fees for the three and twelve months ended December 31, 2007 was primarily due to fee increases that went into effect in January 2007 and July 2006, particularly the increases related to non-valved conduits, and due to the routine expiration or renegotiation of pricing contracts with certain customers.

The Company's procurement of cardiac tissues, from which heart valves and non-valved cardiac tissues are processed, increased 29% for the three and twelve months ended December 31, 2007 as compared to the three and twelve months ended December 31, 2006. The increase in cardiac tissue procurement in 2007 over the prior year periods is primarily due to an increase in the share of the donated tissue supply received by CryoLife in comparison to all other cardiac tissue processors, which was due in part to the RTI Agreement.

As discussed in Part II, Item 8, "Note 18 of the Notes to Summary Consolidated Financial Statements," on February 7, 2008 the Company obtained FDA clearance of its 510(k) premarket notification for the CryoValve SG. Therefore, the

Company could experience an increase in its 2008 cardiac preservation services revenues as a result of shipments of the CryoValve SG, which are expected to have a premium fee over the standard processed CryoValve. However, there are no guarantees that the CryoValve SG will demand premium fees or that shipments of the CryoValve SG will occur at material levels.

Vascular Preservation Services

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2007	2006	2007	2006
Revenues	$5,920	$3,890	$22,702	$16,956
Vascular revenues as a percentage of total revenue	24%	18%	24%	21%

Revenues from vascular preservation services increased 52% for the three months ended December 31, 2007 as compared to the three months ended December 31, 2006. This increase was primarily due to a 38% increase in unit shipments of vascular tissues, which increased revenues by 41%, and an increase in average service fees, which increased revenues by 11%.

Revenues from vascular preservation services increased 34% for the twelve months ended December 31, 2007 as compared to the twelve months ended December 31, 2006. This increase was primarily due to a 19% increase in unit shipments of vascular tissues, which increased revenues by 22%, and an increase in average service fees, which increased revenues by 12%.

The increase in vascular volume for the three and twelve months ended December 31, 2007 was primarily due to increases in shipments of saphenous veins. The increases in vascular shipments were primarily due to strong demand for the Company's tissues, primarily demand for saphenous veins for use in peripheral vascular reconstruction surgeries to avoid limb amputations, and strong procurement of vascular tissues in recent periods. The increase in average service fees for the three and twelve months ended December 31, 2007 was primarily due to fee increases that went into effect in January 2007 and the routine expiration or renegotiation of pricing contracts with certain customers.

The Company's procurement of vascular tissues increased 4% for the three months ended December 31, 2007 as compared to the three months ended December 31, 2006 and increased 10% for the twelve months ended December 31, 2007 as compared to the twelve months ended December 31, 2006. The increase in vascular tissue procurement in 2007 over the prior year periods is primarily due to an increase in the share of the donated tissue supply received by CryoLife in comparison to all other vascular tissue processors, which was due in part to the RTI Agreement.

Orthopaedic Preservation Services

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2007	2006	2007	2006
Revenues	$552	$1,911	$4,202	$7,134
Orthopaedic revenues as a percentage of total revenue	2%	9%	4%	9%

Revenues from orthopaedic preservation services decreased 71% and 41% for the three and twelve months ended December 31, 2007 as compared to the three and twelve months ended December 31, 2006, respectively. The decrease in revenues for the three and twelve months ended December 31, 2007 was primarily due to decreases in unit shipments of orthopaedic tissues, as a result of the limited supply of orthopaedic tissues available for shipment, resulting from the Company's cessation of procuring and processing these tissues on January 1, 2007 in accordance with the RTI Agreement and, to a lesser extent, due to declining demand for the Company's orthopaedic tissues, as the Company is no longer actively marketing its orthopaedic preservation services.

Although CryoLife will continue to ship its existing orthopaedic tissues, pursuant to the RTI Agreement, through June 30, 2008, the Company anticipates that orthopaedic service revenues for the first half of 2008 will decrease significantly compared to the same period in 2007 due to the limited tissues available for shipment as the higher demand orthopaedic

tissues and sizes are exhausted from the Company's tissue inventories, and due to the transition of the Company's orthopaedic tissue customers to alternative suppliers.

In accordance with the RTI agreement, RTI is entitled to market and solicit orders for CryoLife's remaining orthopaedic tissue inventory subsequent to June 30, 2008. If CryoLife ships any orthopaedic tissues at RTI's direction, CryoLife will recognize orthopaedic preservation services revenue and pay a corresponding commission to RTI. CryoLife does not currently anticipate that it will recognize material revenues from the shipment of orthopaedic tissues subsequent to June 30, 2008.

BioGlue

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2007	2006	2007	2006
Revenues	$11,511	$10,491	$43,884	$40,025
BioGlue revenues as a percentage of total revenue	46%	50%	46%	49%

Revenues from the sale of BioGlue increased 10% for the three months ended December 31, 2007 as compared to the three months ended December 31, 2006. This increase was primarily due to an increase in average prices, which increased revenues by 5%, a 4% increase in the number of milliliters of BioGlue shipped, which increased revenues by 4%, and the favorable effect of foreign exchange, which increased revenues by 1%.

Revenues from the sale of BioGlue increased 10% for the twelve months ended December 31, 2007 as compared to the twelve months ended December 31, 2006. This increase was primarily due to an increase in average prices, which increased revenues by 6%, a 3% increase in the number of milliliters of BioGlue shipped, which increased revenues by 3%, and the favorable effect of foreign exchange, which increased revenues by 1%.

The increase in average selling prices for the three and twelve months ended December 31, 2007 was primarily due to price increases that went into effect in January 2007 and July 2006, domestically and in certain international markets, and the routine expiration or renegotiation of pricing contracts with certain customers.

Domestic revenues accounted for 71% and 72% of total BioGlue revenues for the three and twelve months ended December 31, 2007, respectively, and 74% of total BioGlue revenues for both the three and twelve months ended December 31, 2006.

Other Revenues

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2007	2006	2007	2006
Grant and licensing revenues	$ 469	$ 122	$1,049	$196
Grant and licensing revenues as a percentage of total revenue	2%	1%	1%	— %

Grant and licensing revenues for the three and twelve months ended December 31, 2007 and 2006 included revenues for research grants and revenues related to the licensing of the Company's technology to a third party.

In 2005 CryoLife was awarded $930,000 in funding allocated from the U.S. Congress 2005 Defense Appropriations Conference Report (the "2005 DOD Grant") in connection with the development of BioFoam®. Grant revenues in 2007 and 2006 are related to funding under this grant. In 2007 CryoLife was awarded $1.9 million in funding allocated from the 2006 Defense Appropriations Conference Report, (the "2006 DOD Grant") in connection with further development of BioFoam. The 2007 Defense Appropriations Conference Report (the "2007 DOD Grant") included approximately $1.0 million for the continued development of protein hydrogel technology for use on the battlefield. CryoLife applied for funding under this bill during 2007. The Company does not currently know if and when it will be approved to receive funding under the 2007 DOD Grant or receive the final funding awarded under the 2006 DOD Grant.

Through December 31, 2007 CryoLife had received a total of $1.9 million in advances on these grants and approximately $1.0 million in advances are yet to be received. As of December 31, 2007 CryoLife had $1.0 million in unspent cash advances under the grants recorded as cash and deferred revenues on the Company's Consolidated Balance Sheet.

The Company anticipates that grant revenues could increase in 2008 over 2007 related to spending on BioFoam research.

Costs and Expenses

Cost of Preservation Services

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2007	2006	2007	2006
Cost of preservation services	$7,250	$9,207	$28,433	$29,958
Cost of preservation services as a percentage of total preservation services revenue	56%	90%	58%	75%

Cost of preservation services for the three and twelve months ended December 31, 2007 included the write-down of $105,000 and $453,000, respectively, of certain deferred preservation costs that exceeded market value. Cost of preservation services for the three and twelve months ended December 31, 2006 included the write-down of $140,000 and $1.2 million, respectively, of certain deferred preservation costs that exceeded market value. The write-down of deferred preservation costs that exceeded market value in both years was primarily related to the Company's non-valved cardiac tissues. The Company implemented fee increases in July 2006 and January 2007, in part to address these tissues, which have had costs in excess of the average service fees. The decrease of the write-down in the current year periods as compared to the prior year periods is primarily due to the favorable effect of the fee increases.

Cost of preservation services for the twelve months ended December 31, 2007 included a write-down of $366,000 due to the impairment of certain vascular and orthopaedic tissues. Cost of preservation services for the twelve months ended December 31, 2006 included the write-down of $588,000 due to the impairment of certain orthopaedic tissues. The tissues were considered impaired in the period in which the Company determined that the tissues were not expected to ship prior to the expiration date of the tissue's packaging.

Cost of preservation services for the three and twelve months ended December 31, 2006 includes the write-down of $2.8 million due to the impairment of certain orthopaedic tissues and processing materials as a result of the RTI Agreement. Cost of preservation services was favorably affected for the three and twelve months ended December 31, 2007 by shipments of orthopaedic tissue with a zero cost basis for which revenues were recognized but costs, estimated to be $85,000 and $347,000, respectively, had already been written-down in previous periods.

Cost of preservation services for the three and twelve months ended December 31, 2007 decreased primarily due to the net favorable effect of the decrease in write-downs in 2007 as compared to 2006 as discussed above, partially offset by an increase in the costs resulting from an increase in preservation services volume as compared to the prior year.

Cost of preservation services as a percentage of preservation services revenues for the three and twelve months ended December 31, 2007 decreased primarily due to the net favorable effect of the decrease in the write-downs in 2007 as compared to 2006, as discussed above, and improvements in preservation service margins. Preservation service margins were favorably impacted by increases in average service fees and a favorable mix shift as the less profitable orthopaedic tissues made up a lower percentage of the Company's tissue shipments.

The Company anticipates that cost of preservation services as a percentage of preservation services revenues in 2008 may be favorably impacted by shipments of the CryoValve SG, as CryoValve SG are expected to have a premium fee over the standard processed CryoValve.

Cost of Products

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2007	2006	2007	2006
Cost of products	$1,664	$1,882	$7,108	$7,463
Cost of products as a percentage of total product revenue	14%	18%	16%	18%

The decrease in cost of products for the three and twelve months ended December 31, 2007 as compared to the three and twelve months ended December 31, 2006 was primarily due to a decrease in the sales volume of other implantable medical devices, partially offset by an increase in BioGlue sales volume.

The decrease in cost of products as a percentage of total product revenues for the three and twelve months ended December 31, 2007 as compared to the three and twelve months ended December 31, 2006 was primarily due to favorable product mix. The Company experienced favorable product mix as sales of lower margin implantable medical devices made up a smaller percentage of total products sold in 2007 as compared to 2006.

General, Administrative, and Marketing Expenses

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2007	2006	2007	2006
General, administrative, and marketing expenses	$12,053	$11,439	$46,470	$41,545
Cost of general, administrative, and marketing expenses as a percentage of total revenue	48%	54%	49%	51%

General, administrative, and marketing expenses for the three months ended December 31, 2007 included a charge for stock based compensation expenses of approximately $516,000. General, administrative, and marketing expenses for the three months ended December 31, 2006 included a charge of $751,000 for stock based compensation expenses, and a favorable adjustment of $333,000 to unreported product liability accruals. The increase in general, administrative, and marketing expenses for the three months ended December 31, 2007 was primarily due to an increase in marketing literature, advertising, and personnel costs to support revenue growth and the net unfavorable effect of the change in non-cash charges discussed above partially offset by a decrease in insurance costs.

General, administrative, and marketing expenses for the twelve months ended December 31, 2007 included charges of approximately $2.0 million for stock based compensation expenses and $786,000 for post retirement benefits. General, administrative, and marketing expenses for the twelve months ended December 31, 2006 included a favorable adjustment of $2.0 million related to the settlement of an insurance coverage dispute with an insurance company, net of associated legal fees, a favorable adjustment of $784,000 to reserves for product liability losses, a charge of $1.5 million for stock based compensation expenses, and an accrual of $448,000 for post employment benefits. The increase in general, administrative, and marketing expenses for the twelve months ended December 31, 2007 was primarily due to the net unfavorable effect of the change in the items discussed above, an increase in marketing literature, advertising, and personnel costs to support revenue growth, and an increase in compensation costs for management and administrative employees, partially offset by a decrease in insurance costs.

Gain on Exit Activities

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2007	2006	2007	2006
Gain on exit activities	$—	$2,620	$—	$2,620
Gain on exit activities as a percentage of total revenue	— %	12%	— %	3%

Gain on exit activities in the three and twelve months ended December 31, 2006 represents the gain associated with the RTI Agreement. The gain is primarily due to a gain on the recording of intangible assets received from RTI, partially offset by several individually immaterial asset write-downs and expense accruals incurred as a result of the transaction. The intangibles acquired from RTI in the transaction include procurement contracts and access to the procurement of cardiac and vascular human tissues previously received by RTI, customer lists, and a non-compete agreement. This gain was offset by losses due to the impairment of certain orthopaedic tissues and processing materials resulting from the RTI Agreement which have been recorded as part of cost of human tissue preservation services as discussed above. The gain on exit activities and the write-down in cost of human tissue preservation services net to an overall loss of $159,000 related to the transaction in 2006. See Part II, Item 8, "Note 2 of the Notes to Consolidated Financial Statements" for further discussion of the RTI Agreement and its financial impact.

Research and Development Expenses

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2007	2006	2007	2006
Research and development expenses	$1,319	$975	$4,453	$3,547
Research and development expenses as a percentage of total revenue	5%	5%	5%	4%

The increase in research and development expenses for the three and twelve months ended December 31, 2007 was primarily due to spending on BioFoam research funded under the 2005 DOD Grant discussed in "Revenues – Other Revenues" above. Research and development spending in 2007 and 2006 was primarily focused on the Company's tissue preservation, SynerGraft ® products and tissues, and Protein Hydrogel Technologies ("PHT"). SynerGraft products and tissues include the Company's allograft and xenograft heart valves and vascular grafts and ProPatch ™ Soft Tissue Repair Matrix. PHT includes BioGlue, BioFoam, BioDisc™, and related products.

The Company anticipates that research and development expenses for 2008 will exceed 2007, primarily due to increased spending on research related to PHT, particularly BioFoam and BioDisc, and tissue preservation as well as spending on research related to SynerGraft products and tissues, ProPatch, and for the cold storage and preservation of internal organs related to the Company's agreement with Trophic Solutions, LLC discussed in Recent Events above. The BioFoam spending increase is expected to be due primarily to funds the Company has obtained pursuant to the 2005 and 2006 Defense Appropriation Conference Report discussed in "Revenues – Other Revenues" above.

Other Costs and Expenses

Interest expense was $159,000 for the three months ended December 31, 2007, compared to $153,000 for the three months ended December 31, 2006. Interest expense was $677,000 for the twelve months ended December 31, 2007, compared to $657,000 for the twelve months ended December 31, 2006. Interest expense for the three and twelve months ended December 31, 2007 included interest incurred related to the Company's prior Credit Agreement, notes payable, capital leases and interest related to uncertain tax positions, discussed in Part II, Item 8, "Note 14 of the Notes to Consolidated Financial Statements". Interest expense for the three and twelve months ended December 31, 2006 included interest incurred related to the Credit Agreement, notes payable, and capital leases.

Interest income was $167,000 for the three months ended December 31, 2007, compared to $105,000 for the three months ended December 31, 2006. Interest income was $527,000 for the twelve months ended December 31, 2007, compared to $409,000 for the twelve months ended December 31, 2006. Interest income for the three and twelve months ended December 31, 2007 and 2006 was primarily due to interest earned on the Company's cash, cash equivalents, and marketable securities.

The change in valuation of the embedded derivative feature of the Company's preferred stock (the "Derivative") was zero for the three months ended December 31, 2007 as compared to an expense of $10,000 for the three months ended December 31, 2006. The change in valuation of the Derivative was an expense of $821,000 for the twelve months ended December 31, 2007 as compared to $121,000 for the twelve months ended December 31, 2006. The change in valuation of the Derivative for the twelve months ended December 31, 2007 was due to the first quarter revaluation of the Derivative and the second quarter automatic and voluntary conversions of the Preferred Stock to common stock in excess of the Derivative liability accrued in prior periods, as discussed in Part II, Item 8, "Note 7 of the Notes to Consolidated Financial Statements."

As the Preferred Stock was fully converted to common stock in the second quarter, no additional expense was recorded in the three months ended December 31, 2007. The Company will not record additional expenses or income on the change in valuation of the Derivative in the future, as the Derivative was settled.

The Company's income tax expense of $134,000 and $368,000 for the three and twelve months ended December 31, 2007, respectively, was primarily due to estimated alternative minimum tax on the Company's U.S. taxable income for 2007 that cannot be offset by the Company's net operating loss carryforwards and estimated foreign taxes on income of the Company's wholly owned European subsidiary. See Part II, Item 8, "Note 14 of the Notes to Consolidated Financial Statements" for a further discussion of the Company's income tax expense and related items.

The Company's income tax expense was $148,000 and $285,000 for the three and twelve months ended December 31, 2006, respectively. The Company's income tax expense for the three months ended December 31, 2006 was primarily due to alternative minimum tax on the Company's U.S. taxable income for 2006 that cannot be offset by the Company's net operating loss carryforwards, and foreign taxes on income of the Company's wholly owned European subsidiary. The Company's income tax expense for the twelve months ended December 31, 2006 was primarily due to the recording of deferred tax liabilities related to a foreign jurisdiction and alternative minimum tax on the Company's U.S. taxable income for 2006 that cannot be offset by the Company's net operating loss carryforwards, partially offset by the favorable effect of adjustments to certain state tax obligations and the favorable effect of reductions in the estimated foreign taxes on income of the Company's wholly owned European subsidiary.

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005

Revenues

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2006	2005	2006	2005
Revenues	$21,090	$17,961	$81,311	$69,282

Revenues increased 17% for the three months ended December 31, 2006 as compared to the three months ended December 31, 2005. The increase was primarily due to an increase in tissue preservation service revenues, as well as an increase in BioGlue revenues as compared to the prior year period.

Revenues increased 17% for the twelve months ended December 31, 2006 as compared to the twelve months ended December 31, 2005. The increase was primarily due to an increase in tissue preservation service revenues, as well as an increase in BioGlue revenues as compared to the prior year period.

A detailed discussion of the change in preservation services revenues for each of the three major tissue types distributed by the Company and the change in BioGlue revenues is presented below.

Cardiac Preservation Services

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2006	2005	2006	2005
Revenues	$4,438	$3,355	$15,988	$13,762
Cardiac revenues as a percentage of total revenue	21%	19%	20%	20%

Revenues from cardiac preservation services increased 32% for the three months ended December 31, 2006 as compared to the three months ended December 31, 2005. This increase was primarily due to an increase in average service fees, which increased revenues by 18%, and a 20% increase in unit shipments of cardiac tissues, which increased revenues by 14%.

Revenues from cardiac preservation services increased 16% for the twelve months ended December 31, 2006 as compared to the twelve months ended December 31, 2005. This increase was primarily due to an increase in average service fees, which increased revenues by 10%, and a 15% increase in unit shipments of cardiac tissues, which increased revenues by 6%.

The increase in average service fees for the three and twelve months ended December 31, 2006 was primarily due to the fee increases that went into effect in January 2006 on all cardiac tissues and in July 2006 on certain non-valved cardiac tissues. The increase in cardiac volume for the three and twelve months ended December 31, 2006 was primarily due to increased shipments of pulmonary valves and non-valved cardiac tissues. To a lesser extent, the three months ended December 31, 2006 also exhibited an increase in aortic valve shipments. The increases in cardiac shipments were a result of increased availability of tissues due to improvements in procurement and tissue processing yields and due to strengthening demand for the Company's tissues, particularly in the pediatric cardiac market. The increases in the number of tissue shipments did not result in proportional increases in cardiac revenues due to a shift in product mix, as the increases were primarily experienced in products with smaller per unit revenues than the average cardiac tissue.

The Company's procurement of cardiac tissues, from which heart valves and non-valved cardiac tissues are processed, increased 13% for the three months ended December 31, 2006 as compared to the three months ended December 31, 2005, and 12% for the twelve months ended December 31, 2006 as compared to the twelve months ended December 31, 2005.

Vascular Preservation Services

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2006	2005	2006	2005
Revenues	$3,890	$3,172	$16,956	$11,453
Vascular revenues as a percentage of total revenue	18%	18%	21%	17%

Revenues from vascular preservation services increased 23% for the three months ended December 31, 2006 as compared to the three months ended December 31, 2005. This increase was primarily due to an increase in average service fees, which increased revenues by 14%, and an 8% increase in unit shipments of vascular tissues, which increased revenues by 9%.

Revenues from vascular preservation services increased 48% for the twelve months ended December 31, 2006 as compared to the twelve months ended December 31, 2005. This increase was primarily due to a 30% increase in unit shipments of vascular tissues, which increased revenues by 36%, and an increase in average service fees, which increased revenues by 12%.

The increase in vascular volume for the three and twelve months ended December 31, 2006 is primarily due to increases in shipments of saphenous veins, due in part to increased availability of tissues as a result of improvements in procurement levels and tissue processing yields, coupled with a strong demand for these tissues, primarily for use in peripheral vascular reconstruction surgeries to avoid limb amputations. The increase in shipments of saphenous veins is a continuation of the favorable trend that began in the fourth quarter of 2005. The increase in average service fees for the three and twelve months ended December 31, 2006 was primarily due to the fee increases that went into effect in January 2006 on all vascular tissues.

The Company's procurement of vascular tissues increased 14% for the three months ended December 31, 2006 as compared to the three months ended December 31, 2005, and 31% for the twelve months ended December 31, 2006 as compared to the twelve months ended December 31, 2005.

Orthopaedic Preservation Services

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2006	2005	2006	2005
Revenues	$1,911	$1,561	$7,134	$5,092
Orthopaedic revenues as a percentage of total revenue	9%	9%	9%	7%

Revenues from orthopaedic preservation services increased 22% for the three months ended December 31, 2006 as compared to the three months ended December 31, 2005. This increase was primarily due to an increase in average service

fees, which increased revenues by 16%, and a 16% increase in unit shipments of orthopaedic tissues, which increased revenues by 6%.

Revenues from orthopaedic preservation services increased 40% for the twelve months ended December 31, 2006 as compared to the twelve months ended December 31, 2005. This increase was primarily due to a 24% increase in unit shipments of orthopaedic tissues, which increased revenues by 26% and an increase in average service fees, which increased revenues by 14%.

The increase in average service fees for the three and twelve months ended December 31, 2006 was primarily due to the fee increases that went into effect in January 2006 on all orthopaedic tissues and in July 2006 for certain orthopaedic tissues. The increase in orthopaedic volume for the three and twelve months ended December 31, 2006 was primarily due to an increase in shipments of boned tendons, and to a lesser extent shipments of non-boned tendons and menisci, primarily due to reestablishment of the Company's presence in the orthopaedic tissue business and the rebuilding of the Company's supply of tissues available for shipment. The increase in orthopaedic volume for the twelve months ended December 31, 2006 was also due to an increase in shipments of osteochondral grafts, which were reintroduced in a cryopreserved condition in the first quarter of 2005.

Until January 1, 2007 the Company procured orthopaedic tissues, which include knees, from which osteochondral grafts, menisci, and boned tendons are processed, and individual tendons, which are primarily non-boned. The Company's procurement of all orthopaedic tissues decreased 13% for the three months ended December 31, 2006 as compared to the three months ended December 31, 2005, and increased 9% for the twelve months ended December 31, 2006 as compared to the twelve months ended December 31, 2005. The Company's procurement of knees decreased 26% for the three months ended December 31, 2006 as compared to the three months ended December 31, 2005, and increased 9% for the twelve months ended December 31, 2006 as compared to the twelve months ended December 31, 2005.

BioGlue

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2006	2005	2006	2005
Revenues	$10,491	$9,645	$40,025	$37,985
BioGlue revenues as a percentage of total revenue	50%	54%	49%	5 5%

Revenues from the sale of BioGlue increased 9% for the three months ended December 31, 2006 as compared to the three months ended December 31, 2005. This increase was primarily due to an increase in average selling prices, which increased revenues by 5%, a 2% increase in the amount of BioGlue milliliters shipped, which increased revenues by 3%, and the effect of foreign currency exchange, which increased revenues by 1%.

Revenues from the sale of BioGlue increased 5% for the twelve months ended December 31, 2006 as compared to the twelve months ended December 31, 2005. This increase was primarily due to an increase in average selling prices, which increased revenues by 5%.

The increase in average selling prices for the three and twelve months ended December 31, 2006 was primarily due to list price increases that went into effect in January and July 2006 domestically and in certain international markets. The increase in BioGlue volume for the three months ended December 31, 2006 was primarily due to an increase in unit shipments of BioGlue syringes partially offset by a decrease in BioGlue cartridge products, as more customers transition to the newer BioGlue syringe products, and a decrease in accessory sales. Accessory sales were negatively impacted by the success of the BioGlue syringe product, which does not utilize a separate delivery device or require the purchase of separate applicator tips, although a variety of optional applicator tips are available for the BioGlue syringe.

Domestic revenues accounted for 74% of total BioGlue revenues for both the three and twelve months ended December 31, 2006, and 75% and 76% of total BioGlue revenues for the three and twelve months ended December 30, 2005, respectively.

Other Revenues

Other revenues were $122,000 and $196,000 respectively, for the three and twelve months ended December 31, 2006 and $43,000 for both the three and twelve months ended December 31, 2005. Other revenues for the three and twelve months ended December 31, 2006 included revenues for research grants and revenues related to the licensing of the Company's technology to a third party. Other revenues for the three and twelve months ended December 31, 2005 included revenues for research grants.

Grant revenues in 2005 and 2006 are related to funding received under the U.S. Congress 2005 Defense Appropriations Conference Report, (the "2005 DOD Grant"), which included $930,000 for the development of protein hydrogel technology for use on the battlefield. The Company applied for and was awarded the full $930,000 allocated under the 2005 DOD Grant in connection with its development of BioFoam ®. The Company has received advances totaling $930,000 under this grant during 2005 and 2006, and began recognizing revenues for expenses incurred related to this grant during the fourth quarter of 2005. The Company is currently involved in the initial BioFoam animal trial funded by this grant revenue.

The U.S. Congress 2006 Defense Appropriations Conference Report included approximately $2.3 million for the continued development of protein hydrogel technology for use on the battlefield. CryoLife applied for funding for BioFoam development under this bill in July 2006, but has not yet received notice of any award decision. The 2007 Defense Appropriations Conference Report included approximately $1.0 million for the continued development of protein hydrogel technology for use on the battlefield. CryoLife anticipates applying for funding under this bill during 2007.

Costs and Expenses

Cost of Preservation Services

Cost of preservation services was $9.2 million and $6.4 million for the three months ended December 31, 2006 and 2005, respectively, representing 90% and 79%, respectively, of total preservation service revenues during such periods. Cost of preservation services for the three months ended December 31, 2006 includes the write-down of $2.8 million due to the impairment of certain orthopaedic tissues and processing materials as a result of the RTI Agreement discussed above and the write-down of $140,000 of certain deferred preservation costs that exceeded market value. Cost of preservation services for the three months ended December 31, 2005 includes the write-down of $499,000 of certain deferred preservation costs that exceeded market value.

Cost of preservation services was $30.0 million and $24.4 million for the twelve months ended December 31, 2006 and 2005, respectively, representing 75% and 80%, respectively, of total preservation service revenues during such periods. Cost of preservation services for the twelve months ended December 31, 2006 includes the write-down of $2.8 million due to the impairment of certain orthopaedic tissues and processing materials as a result of the RTI Agreement, the write-down of $1.2 million of certain deferred preservation costs that exceeded market value, and the write-down of $588,000 due to the impairment of certain orthopaedic tissues. Cost of preservation services for the twelve months ended December 31, 2005 includes the write-down of $1.8 million of certain deferred preservation costs that exceeded market value.

The write-down of deferred preservation costs as a result of the RTI Agreement during 2006 was based on an estimate of the tissues that will be shipped during the 18-month period subsequent to December 31, 2006 in which the Company can continue to distribute its existing orthopaedic tissues. The amount of tissues shipped during that period could differ significantly from this initial estimate resulting in higher margins on shipments of orthopaedic tissues during the 18-month period or additional write-downs in future periods. See Part II, Item 8, "Note 2 of the Notes to Consolidated Financial Statements" for further discussion of the RTI Agreement and its financial impact.

The write-down of deferred preservation costs that exceeded market value in both years was primarily related to the Company's non-valved cardiac tissues. The Company implemented a fee increase effective July 1, 2006, in part to address these tissues, which have had costs in excess of the average service fees. The decrease of the write-down in the 2006 periods as compared to 2005 periods was primarily due to the effect of this fee increase on the Company's average service fees for the affected tissue types.

The write-down due to the impairment of certain orthopaedic tissues during the twelve months ended December 31, 2006 was the result of excess tissue inventory levels above those expected to ship before the expiration date of the tissue's packaging.

After considering the effects of the write-downs discussed above, the remaining increase in cost of preservation services for the three and twelve months ended December 30, 2006 is primarily due to increased preservation service volume as compared to the same period in 2005. After considering the effects of the write-downs discussed above, cost of preservation services as a percentage of total preservation service revenues decreased. The decrease is primarily due to improvements in preservation margins as a result of improvements in the Company's tissue processing yields, an increase in average service fees due to fee increases implemented in 2006, and to a lesser extent an increase in the amount of tissues processed.

Cost of Products

Cost of products was $1.9 million for both the three months ended December 31, 2006 and 2005, representing 18% and 20%, respectively, of total product revenues during such periods. Cost of products was $7.5 million and $8.1 million for the twelve months ended December 31, 2006 and 2005, respectively, representing 18% and 21%, respectively, of total product revenues during such periods.

The cost of products decreased for the twelve months ended December 31, 2006 and the cost of products as a percentage of total product revenues decreased for the three and twelve months ended December 31, 2006, primarily due to improvements in BioGlue margins from period to period. These margin improvements were a result of improvements in BioGlue average selling prices due to the price increases which went into effect in January and July 2006 and greater manufacturing throughput, which reduced the per unit cost to produce BioGlue. Cost of products for the three months ended December 31, 2006 was flat compared to the three months ended December 31, 2005 as the lower per unit cost to produce BioGlue was offset by increases in BioGlue sales volume.

General, Administrative, and Marketing Expenses

General, administrative, and marketing expenses increased 9% to $11.4 million for the three months ended December 31, 2006, compared to $10.5 million for the three months ended December 31, 2005, representing 54% and 58%, respectively, of total revenues during such periods. General, administrative, and marketing expenses for the three months ended December 31, 2006 includes an unfavorable charge of $751,000 for stock-based compensation expenses and a favorable adjustment of $333,000 for the adjustment of reserves for product liability losses. General, administrative, and marketing expenses for the three months ended December 31, 2005 includes a favorable adjustment to legal and settlement accruals of $683,000, an accrual of $150,000 for post employment benefits related to the signing of a compensation agreement by one of the Company's senior executives, and an $118,000 charge for stock-based compensation. After considering the effect of these items, general, administrative, and marketing expenses for the three months ended December 31, 2006 increased slightly, primarily due to an increase in executive bonus accruals, partially offset by a decrease in legal and professional fees.

General, administrative, and marketing expenses decreased 22% to $41.5 million for the twelve months ended December 31, 2006, compared to $53.2 million for the twelve months ended December 31, 2005, representing 51% and 77%, respectively, of total revenues during such periods. General, administrative, and marketing expenses for the twelve months ended December 31, 2006 includes a favorable adjustment of $2.0 million related to the settlement of insurance coverage disputes with former insurance carriers, net of associated legal fees, an unfavorable charge of $1.5 million for stock-based compensation expenses, a favorable adjustment of $784,000 for the adjustment of reserves for product liability losses, and an accrual of $448,000 for post employment benefits. General, administrative, and marketing expenses for the twelve months ended December 31, 2005 includes an accrual of $11.6 million in expense related to the settlement of the shareholder class action lawsuit and related legal fees, a favorable adjustment of $961,000 for the adjustment of reserves for product liability losses, an accrual of $851,000 for post employment benefits, and $285,000 charge for stock-based compensation. After considering the effect of these items, general, administrative, and marketing expenses for the twelve months ended December 31, 2006 increased, primarily due to an increase in marketing commissions to support revenue growth and an increase in executive bonus accruals, partially offset by a decrease in legal and professional fees.

Gain on Exit Activities

Gain on exit activities was $2.6 million for the three and twelve months ended December 31, 2006, compared to zero for the three and twelve months ended December 31, 2005. This represents the gain associated with the RTI Agreement entered into in December 2006. The gain is primarily due to a gain on the recording of intangible assets received from RTI, partially offset by several individually immaterial asset write-downs and expense accruals incurred as a result of the transaction. The intangibles acquired from RTI in the transaction include procurement contracts and access to the procurement of cardiac and vascular human tissues previously received by RTI, customer lists, and a non-compete agreement. This gain is offset by losses due to the impairment of certain orthopaedic tissues and processing materials resulting from the RTI Agreement which have been recorded as part of cost of human tissue preservation services as discussed in that section above. The gain on exit

activities and the write-down in cost of human tissue preservation services net to an overall loss of $159,000 related to the transaction. See Part II, Item 8, "Note 2 of the Notes to Consolidated Financial Statements" for further discussion of the RTI Agreement and its financial impact.

Research and Development Expenses

Research and development expenses were $975,000 for the three months ended December 31, 2006, compared to $980,000 for the three months ended December 31, 2005, representing 5% and 6%, respectively, of total revenues during each such period. Research and development expenses were $3.5 million for the twelve months ended December 31, 2006, compared to $3.7 million for the twelve months ended December 31, 2005, representing 4% and 5%, respectively, of total revenues during each such period. The decrease in research and development expenses in both the three and twelve month periods ended December 31, 2006 was due to timing delays for planned external research studies. Research and development spending in 2006 and 2005 was primarily focused on the Company's tissue preservation, SynerGraft (which includes allograft and xenograft heart valves, vascular grafts, and ProPatch), and PHT (which includes BioGlue, BioFoam, BioDisc, and related products).

Other Costs and Expenses

Interest expense increased to $153,000 for the three months ended December 31, 2006, compared to $126,000 for the three months ended December 31, 2005. Interest expense increased to $657,000 for the twelve months ended December 31, 2006, compared to $346,000 for the twelve months ended December 31, 2005. The increase in interest expense for the three and twelve months ended December 31, 2006 was primarily due to higher borrowings under the Company's prior Credit Agreement as compared to the same period in 2005 and higher interest rates on these borrowings, as the bank's prime lending rate had increased since the 2005 period. Interest expense for the three and twelve months ended December 31, 2006 and 2005 included interest incurred related to the Credit Agreement, notes payable, and capital leases.

Interest income decreased to $105,000 for the three months ended December 31, 2006, compared to $123,000 for the three months ended December 31, 2005. Interest income decreased to $409,000 for the twelve months ended December 31, 2006, compared to $531,000 for the twelve months ended December 31, 2005. Interest income for the three and twelve months ended December 31, 2006 and 2005 was primarily due to interest earned on the Company's cash, cash equivalents, and marketable securities.

The change in valuation of the Derivative was an expense of $10,000 for the three months ended December 31, 2006 as compared to income of $512,000 for the three months ended December 31, 2005. The change in valuation of the Derivative was an expense of $121,000 for the twelve months ended December 31, 2006 as compared to income of $140,000 for the twelve months ended December 31, 2005. The valuation of the Derivative in these periods was a function of several variables including the price and expected volatility of the Company's common stock, the number of shares of Preferred Stock outstanding, and the general level of U.S. interest rates. The change in valuation of the Derivative in the three and twelve months ended December 31, 2005 also includes the amount of the Dividend Make-Whole Payment on preferred shares converted during the period.

The Company's income tax expense was $148,000 and $285,000 for the three and twelve months ended December 31, 2006, respectively. The Company's income tax expense for the three months ended December 31, 2006 was primarily due to alternative minimum tax on the Company's U.S. taxable income for 2006 that cannot be offset by the Company's net operating loss carryforwards, and foreign taxes on income of the Company's wholly owned European subsidiary. The Company's income tax expense of for the twelve months ended December 31, 2006 was primarily due to the recording of deferred tax liabilities related to a foreign jurisdiction and alternative minimum tax on the Company's U.S. taxable income for 2006 that cannot be offset by the Company's net operating loss carryforwards, partially offset by the favorable effect of adjustments to certain state tax obligations and the favorable effect of reductions in the estimated foreign taxes on income of the Company's wholly owned European subsidiary.

The Company's income tax benefit of $618,000 and $428,000 for the three and twelve months ended December 31, 2005, respectively, was primarily related to foreign taxes on income of the Company's wholly owned European subsidiary.

Seasonality

The demand for BioGlue appears to be seasonal, with a flattening or slight decline in demand generally occurring in the third quarter followed by stronger demand in the fourth quarter. Management believes that this trend for BioGlue may be

due to fewer surgeries being performed on adult patients in the summer months. The Company will continue to evaluate the seasonal nature of BioGlue sales.

The demand for the Company's cardiac tissue preservation services has historically been seasonal, with peak demand generally occurring in the second and third quarters. Management believes this trend for cardiac 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 cardiac tissues. This seasonal trend has been obscured in recent years, but the Company expects that this seasonal trend will be more apparent in future years.

The demand for the Company's human vascular tissue preservation services and bioprosthetic cardiac and vascular devices does not appear to be seasonal. Due to the RTI Agreement and the expected decline in shipments of orthopaedic tissue, the Company does not expect seasonality trends to impact its revenues related to orthopaedic tissues.

Liquidity and Capital Resources

Net Working Capital

At December 31, 2007 net working capital (current assets of $65.5 million less current liabilities of $24.7 million) was $40.8 million, with a current ratio (current assets divided by current liabilities) of 3 to 1, compared to net working capital of $26.5 million, with a current ratio of 2 to 1 at December 31, 2006.

The Company's primary capital requirements for the twelve months ended December 31, 2007 arose out of general working capital needs, capital expenditures for facilities and equipment, and funding of research and development projects. The Company funded its cash requirements primarily through its operating activities, which generated cash during 2007.

Overall Liquidity and Capital Resources

In January 2006 the Company engaged a financial advisor to assist the Company's management and Board of Directors in identifying and evaluating potential strategies to enhance shareholder value. In November 2006 the Company announced that as a result of this review, the Board of Directors has directed management to actively pursue three key strategies in addition to continuing to focus on growing its business and leveraging its strengths and expertise in its core marketplaces. These three strategies are designed to generate revenue and earnings growth: identify and evaluate acquisition opportunities of complementary product lines and companies; license Company technology to third parties for non-competing uses; and analyze and identify underperforming assets for potential sale or disposal. Management's actions related to this Board directive are ongoing and any material acquisition of complementary product lines or companies would likely require additional debt or equity financing.

On February 8, 2005 CryoLife and its subsidiaries entered into the Credit Agreement with Wells Fargo Foothill, Inc. as lender to address some of its liquidity needs. As of December 31, 2007 the outstanding balance under the Credit Agreement was $4.5 million and the remaining borrowing availability was $10.0 million. The Company also had outstanding a $500,000 letter of credit sub facility under the Credit Agreement, relating to one of the Company's product liability insurance policies. The Credit Agreement expired on February 8, 2008, at which time the Company paid the outstanding principal balance of $4.5 million from cash on hand. The Company also remitted approximately $500,000 as collateral to cover the remaining term of the letter of credit agreement, which expires in April 2008. It is the Company's current intent to obtain new debt financing during 2008 to provide additional liquidity to fund the Company's strategic directives as discussed above, although there is no guarantee that such financing can be obtained on terms acceptable to the Company, or at all. Management does not believe that debt financing is needed to fund the Company's continuing operations for the next twelve months.

The Company's cash equivalents include advance funding received under the 2005 DOD Grant and the 2006 DOD Grant for the continued development of protein hydrogel technology for use on the battlefield. As of December 31, 2007 $1.2 million of cash equivalents were recorded on the Company's Consolidated Balance Sheet related to the 2005 and 2006 DOD grants. These funds must be used for the specified purposes.

The Company believes that its existing cash, cash equivalents, and marketable securities will enable the Company to meet its operational liquidity needs for the next twelve months.

Product Liability Claims

As discussed in Part II, Item 8, "Note 8 of the Notes to Summary Consolidated Financial Statements", as of December 31, 2007 the Company had a $330,000 accrual for pending product liability lawsuits and claims. The timing and amount of actual future payments with respect to product liability claims is dependent on when and if judgments are rendered, and/or settlements are reached. Should payments be required, the Company's portion of these monies would have to be paid from liquid assets. The Company continues to attempt to reach resolution of outstanding claims in order to minimize the potential cash payout.

As discussed in Part II, Item 8, "Note 8 of the Notes to Summary Consolidated Financial Statements", at December 31, 2007 the Company had accrued a total $6.3 million for the estimated costs of unreported product liability claims related to services performed and products sold prior to December 31, 2007 and had recorded a receivable of $2.4 million representing estimated amounts to be recoverable from the Company's insurance carriers with respect to such accrued liability. Further analysis indicated that the liability could be estimated to be as high as $11.9 million, after including a reasonable margin for statistical fluctuations calculated based on actuarial simulation techniques. The $6.3 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 provided by operating activities was $9.3 million for the twelve months ended December 31, 2007 as compared to net cash used of $1.1 million for the twelve months ended December 31, 2006. The current year cash provided was primarily due to net income generated by the Company during the period and non-cash expenses, partially offset by an increase in deferred preservation costs.

The Company uses the indirect method to prepare its cash flow statement, and accordingly, the operating cash flows are based on the Company's net income, which is then adjusted to remove non-cash items and for changes in operating assets and liabilities. For the twelve months ended December 31, 2007 the Company's $7.2 million net income included non-cash items that generated favorable and unfavorable adjustments to net income. For the twelve months ended December 31, 2007 these adjustments included a favorable $3.9 million in depreciation expense, a favorable $2.1 million in non-cash compensation, primarily related to SFAS 123R expense for new and existing stock options and the granting of stock awards, a favorable $821,000 for the change in valuation of derivative, primarily related to the Dividend Make-Whole Payment on Preferred Stock converted during the period, a favorable $819,000 in write-downs for impairment of deferred preservation costs, and a favorable $527,000 in amortization expense. The Company's working capital needs, or changes in operating assets and liabilities, also affected cash from operations. For the twelve months ended December 31, 2007 these changes included an unfavorable $8.4 million and $454,000 due to the buildup of deferred preservation costs and inventories, respectively, for which vendors and employees have already been paid, and a favorable $2.1 million and $842,000 due to the timing differences between the recording of accrued expenses and other current liabilities and accounts payable, respectively, and the actual payment of cash, and a favorable $685,000 due to the expensing of prepaid assets for which cash had already been paid out.

Net Cash from Investing Activities

Net cash provided by investing activities was $446,000 for the twelve months ended December 31, 2007, as compared to net cash used in investing activities of $557,000 for the twelve months ended December 31, 2006. The current year cash provided was primarily due to $14.2 million in sales and maturities of marketable securities, partially offset by $12.3 million in purchases of marketable securities and $1.2 million in capital expenditures.

Net Cash from Financing Activities

Net cash provided by financing activities was $743,000 for the twelve months ended December 31, 2007, as compared to net cash used in financing activities of $968,000 for the twelve months ended December 31, 2006. The current year cash provided was primarily due to $1.7 million in proceeds from the exercise of options and the issuance of stock, partially offset by $486,000 in payments of preferred stock dividends and $478,000 in purchases of treasury stock, related to the payment of the exercise price of stock options by tendering shares of common stock. During the twelve months ended December 31, 2007 the favorable effect of $1.9 million in financing of insurance policies was fully offset by the related principle payments and $533,000 in proceeds from debt issuance were largely offset by $532,000 in related principle payments.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Scheduled Contractual Obligations and Future Payments

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

	Total	2008	2009	2010	2011	2012	Thereafter
Operating leases	$17,512	$ 2,415	$2,275	$2,153	$2,145	$2,187	$ 6,337
Line of credit	4,506	4,506	—	—	—	—	—
Compensation payments	3,127	1,142	—	—	992	993	—
Purchase commitments	951	844	107	—	—	—	—
Royalty payments	726	726	—	—	—	—	—
Licensing agreement obligations	150	150	—	—	—	—	—
Capital lease obligations	140	53	52	35	—	—	—
Insurance premium obligations	123	123	—	—	—	—	—
Other obligations	659	604	55	—	—	—	—
Total contractual obligations	$ 27,894	$ 10,563	$ 2,489	$2,188	$ 3,137	$ 3,180	$ 6,337

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

The line of credit obligation results from the Company's borrowing of funds under its prior Credit Agreement. These amounts were paid on February 8, 2008, the Credit Agreement expiration date.

The Company's compensation payment obligations represent cash payments made for its 2007 corporate bonus plans and estimated payments for post employment benefits for the Company's Chief Executive Officer ("CEO"). The timing of the post employment benefits is based on the December 2010 expiration date of the CEO's agreement. Payment of this benefit may be accelerated by a change in control or by the voluntary retirement of the CEO.

The Company's purchase commitments include obligations from agreements with suppliers to stock certain custom raw materials needed for the Company's processing and production and contractual payments for licensing computer software. The Company's royalty payments are primarily related to the Company's BioGlue revenues.

The Company's licensing agreement obligations are due to the licensing of technology from a third party. The schedule does not include additional payments of up to $1.2 million which are contingent upon the outcome of the Company's research activities.

The Company's capital lease obligations result from the financing of certain of the Company's equipment. The Company's insurance premium obligations represent installment payments related to payment plans related to certain of the Company's insurance policies.

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

The schedule of contractual obligations above excludes any estimated liability for product liabilities, as no amounts were due under contractual obligations. The schedule of contractual obligations does not include $1.0 million in advance funding received under the 2005 DOD Grant and the 2006 DOD Grant for which a specific timetable of spending has not been established and for which there are no current agreements or contracts in place. The schedule of contractual obligations above excludes any estimated liability for uncertain tax positions, currently estimated to be $2.1 million, because the Company cannot make a reasonably reliable estimate of the amount and period of related future payments as no specific assessments have been made by any taxing authorities.

Capital Expenditures

The Company expects that its capital expenditures in 2008 will be similar to its expenditures in 2007, which were approximately $1.2 million. Planned capital expenditures for 2008 are primarily related to routine purchases of tissue processing, manufacturing, computer, and office equipment needed to support the Company's business. The Company expects to have the flexibility to increase or decrease the majority of its planned capital expenditures depending on its ability to generate cash flows.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk

The Company's interest income and expense are sensitive to changes in the general level of 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 $14.5 million and the interest incurred on the line of credit balance of $4.5 million as of December 31, 2007. The Company's short-term investments in marketable securities of $3.0 million as of December 31, 2007 can also be affected by changing interest rates to the extent that these items contain variable interest rates or are subject to maturity or sale during a period of changing interest rates. A 10% adverse change in interest rates as compared to the rates experienced by the Company in the twelve months ended December 31, 2007, affecting the Company's cash equivalents and short-term investments or borrowings under the Company's prior Credit Agreement would not have a material impact on the Company's financial position, results of operations, or cash flows.

The Company may obtain new debt financing during 2008 to provide additional liquidity to fund the Company's strategic directives as discussed in Part II, Item 7. "Liquidity" above. There is no guarantee that the Company will be able to obtain financing at rates acceptable to the Company, at rates comparable to the Company's historic experiences, or at all.

Foreign Currency Exchange Rate Risk

The Company has balances, such as accounts receivable, accounts payable, and accruals that are denominated in foreign currencies. These foreign currency transactions are sensitive to changes in exchange rates. In this regard, changes in exchange rates could cause a change in the U.S. dollar equivalent funds that the Company will receive in payment for assets or that the Company would have to pay to settle liabilities. As a result the Company could be required to record these changes as gains or losses on foreign currency translation. A 10% adverse change in foreign currency rates as compared to the rates on December 31, 2007 affecting the Company's balances denominated in foreign currencies would not have a material impact on the Company's financial position, results of operations, or cash flows.

Item 8. Financial Statements and Supplementary Data.

Our financial statements and supplementary data required by this item are submitted as a separate section of this annual report on Form 10-K. See "Financial Statements" commencing on page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

The Company maintains disclosure controls and procedures ("Disclosure Controls") as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934. These Disclosure Controls are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the Commission's rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate, to allow timely decisions regarding required disclosures.

The Company's management, including the Company's President and CEO and the Company's Executive Vice President of Finance, Chief Operating Officer, and 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 December 31, 2007, 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 December 31, 2007, 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.

The report called for by Item 308(a) of Regulation S-K is incorporated herein by reference to Management's Report on Internal Controls over Financial Reporting under Sarbanes-Oxley Section 404, included in Part II, Item 8, "Financial Statements and Supplementary Data" of this report.

The attestation report called for by Item 308(b) of Regulation S-K is incorporated herein by reference to Report of Independent Registered Public Accounting Firm, included in Part II, Item 8, "Financial Statements and Supplementary Data" of this report.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers, and Corporate Governance.

The response to Item 10 is incorporated herein by reference to the information set forth in the Proxy Statement for the Annual Meeting of Shareholders to be filed with the Commission not later than April 29, 2008, with the exception of information concerning executive officers, which is included in Part I, Item 4A, "Executive Officers of the Registrant" of this Form 10-K.

Item 11. Executive Compensation.

The response to Item 11 is incorporated herein by reference to the information set forth in the Proxy Statement for the Annual Meeting of Shareholders to be filed with the Commission not later than April 29, 2008.

Item 12. Security Ownership of Certain Beneficial Owners and Management, and Related Stockholder Matters.

The response to Item 12 is incorporated herein by reference to the information set forth in the Proxy Statement for the Annual Meeting of Shareholders to be filed with the Commission not later than April 29, 2008.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The response to Item 13 is incorporated herein by reference to the information set forth in the Proxy Statement for the Annual Meeting of Stockholders to be filed with the Commission not later than April 29, 2008.

Item 14. Principal Accounting Fees and Services.

The response to Item 14 is incorporated herein by reference to the information set forth in the Proxy Statement for the Annual Meeting of Stockholders to be filed with the Commission not later than April 29, 2008.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

The following are filed as part of this report:

(a) 1. Consolidated Financial Statements begin on page F-1.

2. Financial Statement Schedule

Schedule II—Valuation and Qualifying Accounts

All other financial statement schedules not listed above are omitted, as the required information is not applicable or the information is presented in the consolidated financial statements or related notes.

(b) Exhibits

The following exhibits are filed herewith or incorporated herein by reference:

Exhibit Number	Description
2.1	Reserved.
3.1*	Amended and Restated Articles of Incorporation of the Company. (Restated solely for the purpose of filing with the Commission).
3.2	Reserved.
3.3	Reserved.
3.4	Reserved.
3.5	Amended and Restated By-Laws. (Incorporated herein by reference to Exhibit 3.4 to the Registrant's Current Report on Form 8-K filed August 1, 2007.)
4.1	Reserved.
4.2	Form of Certificate for the Company's Common Stock. (Incorporated herein by reference to Exhibit 4.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1997.)
4.3	Reserved.
4.4	Reserved.
4.5	Reserved.
4.6	First Amended and Restated Rights Agreement, dated as of November 2, 2005, between CryoLife, Inc. and American Stock Transfer & Trust Company. (Incorporated herein by reference to Exhibit 4.1 to Registrant's Current Report on Form 8-K filed November 3, 2005.)
10.1	The Stipulation of Settlement of the shareholder derivative action dated August 1, 2005. (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed August 5, 2005.)
10.2*	Credit Agreement by and between CryoLife, Inc., Certain Subsidiaries of CryoLife, Inc., and Wells Fargo Foothill, Inc., dated February 8, 2005.
10.2(a)	First Amendment to the Credit Agreement signed on September 27, 2005, amends the February 8, 2005 Credit Agreement between Wells Fargo Foothill, Inc., CryoLife, Inc., and its subsidiaries. (Incorporated herein by reference to Exhibit 10.2.1 to Form 8-K filed on September 28, 2005.)
10.2(b)	Second Amendment to the Credit Agreement, dated October 17, 2006, amends the February 8, 2005 Credit Agreement between Wells Fargo Foothill, Inc., CryoLife, Inc., and its subsidiaries, as amended on September 27, 2005. (Incorporated herein by reference to Exhibit 10.2(b) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.)
10.3	CryoLife, Inc. 2007 Executive Incentive Plan. (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Form 10-Q for the quarter ended March 31, 2007.)

Exhibit Number	Description
10.4	CryoLife, Inc. 1998 Long-Term Incentive Plan. (Incorporated herein by reference to Appendix 1 to the Registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on April 17, 1998.)
10.5+	Exchange and Service Agreement, dated December 15, 2006, by and between CryoLife, Inc. and Regeneration Technologies, Inc. and its affiliates RTI Donor Services, Inc. and Regeneration Technologies, Inc. – Cardiovascular. (Incorporated herein by reference to Exhibit 10.5 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.)
10.6	Form of Grant pursuant to the CryoLife, Inc. 2007 Executive Incentive Plan. (Incorporated herein by reference to Exhibit 10.2 to the Registrant's Form 10-Q for the quarter ended March 31, 2007.)
10.7(a)	Form of Restricted Stock Award Agreement pursuant to the CryoLife, Inc. 2002 Employee Stock Incentive Plan. (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed August 7, 2006.)
10.7(b)	Form of Restricted Stock Award Agreement and Grant pursuant to the CryoLife, Inc. 2004 Employee Stock Incentive Plan. (Incorporated herein by reference to Exhibit 10.6 to the Registrant's Form 10-Q for the quarter ended March 31, 2007.)
10.8	Form of Incentive Stock Option Grant Agreement under the 1998 Long-Term Incentive Plan. (Incorporated herein by reference to Exhibit 10.3 to the Registrant's Form 10-Q for the quarter ended March 31, 2007.)
10.9(a)	Amended and restated employee agreement with Steven G. Anderson dated as of July 30, 2007. (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed August 1, 2007.)
10.9(b)	Employment Agreement, by and between the Company and D. Ashley Lee, dated September 5, 2005. (Incorporated herein by reference to Exhibit 10.2 to Form 8-K dated September 5, 2005 and filed September 9, 2005.)
10.9(c)	First Amendment to Employment Agreement, dated May 4, 2006, by and between the Company and D. Ashley Lee. (Incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006.)
10.9(d)	Employment Agreement, by and between the Company and Gerald B. Seery, dated November 1, 2005. (Incorporated herein by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005.)
10.9(e)	Form of Amendment, dated May 2, 2007, to Fiscal Year 2007 Executive Incentive Plan Bonus Agreements entered into with each of Steven G. Anderson, D. Ashley Lee, Gerald B. Seery, Albert E. Heacox, and David M. Fronk. (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007.)
10.10	Form of Secrecy and Noncompete Agreement, by and between the Company and its Officers. (Incorporated herein by reference to Exhibit 10.9 to the Registrant's Registration Statement on Form S-1 (No. 33-56388).)
10.11	Form of Key Employee Secrecy and Noncompete Agreement, by and between the Company and its Officers and Key Employees (Incorporated herein by reference to Exhibit 10.11 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.).
10.12	Form of Employment Agreement, by and between the Company and each of Albert E. Heacox, Ph.D. and David M. Fronk, dated May 4, 2006. (Incorporated herein by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.)
10.13	Form of Non-Qualified Stock Option Grant Agreement under 1998 Long-Term Incentive Plan. (Incorporated herein by reference to Exhibit 10.4 to the Registrant's Form 10-Q for the quarter ended March 31, 2007.)
10.14	Amended and Restated Technology Acquisition Agreement between the Company and Nicholas Kowanko, Ph.D., dated March 14, 1996. (Incorporated herein by reference to Exhibit 10.14 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2004.)
10.15	CryoLife, Inc. Non-Employee Directors Stock Option Plan, as amended. (Incorporated herein by reference to Appendix 2 to the Registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on April 17, 1998.)
10.16*	Lease Agreement between the Company and Amli Land Development—I Limited Partnership, dated April 18, 1995.

Exhibit Number	Description
10.16(a)	First Amendment to Lease Agreement, dated April 18, 1995, between the Company and Amli Land Development—I Limited Partnership dated August 6, 1999. (Incorporated herein by reference to Exhibit 10.16(a) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1999.)
10.16(b)	Restatement and Amendment to Funding Agreement between the Company and Amli Land Development—I Limited Partnership, dated August 6, 1999. (Incorporated herein by reference to Exhibit 10.16(b) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2000.)
10.18	Form of Restricted Stock Award Agreement and Grant pursuant to the CryoLife, Inc. 1998 Long-Term Incentive Plan. (Incorporated herein by reference to Exhibit 10.5 to the Registrant's Form 10-Q for the quarter ended March 31, 2007.)
10.19	CryoLife, Inc. 2004 Employee Stock Incentive Plan, adopted on June 29, 2004. (Incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.)
10.20	CryoLife, Inc. 2004 Non-Employee Directors Stock Option Plan, as amended, adopted on June 29, 2004. (Incorporated herein by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.)
10.21	Form of Directors Stock Option Agreement and Grant pursuant to the CryoLife, Inc. 2004 Non-Employee Directors Stock Option Plan. (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004.)
10.22*	Technology License Agreement between the Company and Colorado State University Research Foundation dated March 28, 1996.
10.23	Form of Non-Qualified Employee Stock Option Agreement and Grant pursuant to the CryoLife, Inc. 2004 Employee Stock Incentive Plan. (Incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004.)
10.24	Form of Incentive Employee Stock Option Agreement and Grant pursuant to the CryoLife, Inc. 2004 Employee Stock Incentive Plan. (Incorporated herein by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004.)
10.25	Form of Section 16 Officer Stock Option Agreement pursuant to the CryoLife, Inc. 2004 Employee Stock Incentive Plan. (Incorporated herein by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed February 27, 2006.)
10.26	Form of Restricted Stock Award Agreement pursuant to the CryoLife, Inc. 2004 Employee Stock Incentive Plan. (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed February 27, 2006.)
10.27	Grant of Incentive Stock Option to D. Ashley Lee, dated May 4, 2006. (Incorporated herein by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006.)
10.28	Reserved.
10.29	Form of Incentive Stock Option Agreement and Grant pursuant to the CryoLife, Inc. 1998 Long-Term Incentive Plan. (Incorporated herein by reference to Exhibit 10.29 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.)
10.30(a)	Form of Non-Qualified Stock Option Agreement and Grant pursuant to the CryoLife, Inc. 1998 Long-Term Incentive Plan. (Incorporated herein by reference to Exhibit 10.30(a) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.)
10.30(b)	Form of Director Non-Qualified Stock Option Agreement and Grant pursuant to the CryoLife, Inc. 1998 Long-Term Incentive Plan. (Incorporated herein by reference to Exhibit 10.30(b) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.)
10.31	Form of Non-Employee Directors Stock Option Agreement and Grant pursuant to the Amended and Restated Non-Employee Directors Stock Option Plan. (Incorporated herein by reference to Exhibit 10.31 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.)
10.32	Form of Incentive Stock Option Agreement and Grant pursuant to the CryoLife, Inc. 2002 Stock Incentive Plan. (Incorporated herein by reference to Exhibit 10.32 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.)

Exhibit Number	Description
10.33	Form of Non-Qualified Stock Option Agreement and Grant pursuant to the CryoLife, Inc. 2002 Stock Incentive Plan. (Incorporated herein by reference to Exhibit 10.33 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.)
10.34	Form of Restricted Stock Award Agreement and Grant pursuant to the CryoLife, Inc. 2002 Stock Incentive Plan. (Incorporated herein by reference to Exhibit 10.34 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.)
10.35	Form of Non-Qualified Employee Stock Option Agreement and Grant pursuant to the CryoLife, Inc. 2004 Employee Stock Incentive Plan. (Incorporated herein by reference to Exhibit 10.35 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.)
10.36	Form of Grant of Non-Qualified Stock Option to Directors. (Incorporated herein by reference to Exhibit 10.36 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.)
10.37	Grant of Incentive Stock Option to Steven G. Anderson, dated May 4, 2006. (Incorporated herein by reference to Exhibit 10.37 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.)
10.38	International Distribution Agreement, dated September 17, 1998, between the Company and Century Medical, Inc. (Incorporated by reference to Exhibit 10.37 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2000.)
10.39-10.40	Reserved.
10.41	CryoLife, Inc. 2002 Stock Incentive Plan (Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.)
10.42	Settlement and Release Agreement, dated August 2, 2002, by and between Colorado State University Research Foundation, the Company, and Dr. E. Christopher Orton. (Incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002.)
10.43	Settlement Agreement and Release, dated September 25, 2006, by and between CryoLife, Inc. and St. Paul Mercury Insurance Company. (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.)
10.44*	Summary of Compensation Arrangements with Non-Employee Directors.
14	Code of Business Conduct and Ethics. (Incorporated herein by reference to Exhibit 14 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2004.)
21.1*	Subsidiaries of CryoLife, Inc.
23.1*	Consent of Deloitte & Touche LLP.
31.1*	Certification by Steven G. Anderson pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification by D. Ashley Lee pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
32*	Certification Pursuant To 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 Of The Sarbanes-Oxley Act Of 2002.

* Filed herewith.

\+ The Registrant has requested confidential treatment for certain portions of this exhibit pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

3. B. Executive Compensation Plans and Arrangements.

1. Form of Restricted Stock Award Agreement pursuant to the CryoLife, Inc. 2002 Employee Stock Incentive Plan. (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed August 7, 2006.)

2. Amended and restated employee agreement with Steven G. Anderson dated as of July 30, 2007. (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed August 1, 2007.)

3. Employment Agreement, by and between the Company and D. Ashley Lee, dated September 5, 2005. (Incorporated by reference to Exhibit 10.2 to Form 8-K dated September 5, 2005 and filed September 9, 2005.)

4. First Amendment to Employment Agreement, dated May 4, 2006, by and between the Company and D. Ashley Lee. (Incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006.)

5. Employment Agreement, by and between the Company and Gerald B. Seery, dated November 1, 2005. (Incorporated herein by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005.)

6. Form of Amendment, dated May 2, 2007, to Fiscal Year 2007 Executive Incentive Plan Bonus Agreements entered into with each of Steven G. Anderson, D. Ashley Lee, Gerald B. Seery, Albert E. Heacox, and David M. Fronk. (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007.)

7. Form of Employment Agreement, by and between the Company and each of Albert E. Heacox, Ph.D. and David M. Fronk, dated May 4, 2006. (Incorporated herein by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.)

8. Form of Secrecy and Noncompete Agreement, by and between the Company and its Officers. (Incorporated herein by reference to Exhibit 10.9 to the Registrant's Registration Statement on Form S-1 (No. 33-56388).)

9. Form of Key Employee Secrecy and Noncompete Agreement, by and between the Company and its Officers and Key Employees. (Incorporated herein by reference to Exhibit 10.11 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.)

10. CryoLife, Inc. Non-Employee Directors Stock Option Plan, as amended. (Incorporated herein by reference to Appendix 2 to the Registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on April 17, 1998.)

11. CryoLife, Inc. 1998 Long-Term Incentive Plan. (Incorporated herein by reference to Appendix 2 to the Registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on April 17, 1998.)

12. CryoLife, Inc. 2002 Stock Incentive Plan. (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.)

13. CryoLife, Inc. 2004 Employee Stock Incentive Plan, adopted on June 29, 2004. (Incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.)

14. CryoLife, Inc. 2004 Non-Employee Directors Stock Option Plan , as amended, adopted on June 29, 2004. (Incorporated herein by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.)

15. CryoLife, Inc. 2007 Executive Incentive Plan. (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Form 10-Q for the quarter ended March 31, 2007.)

16. Form of Directors Stock Option Agreement and Grant pursuant to the CryoLife, Inc. 2004 Non-Employee Directors Stock Option Plan. (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004.)

17. Form of Non-Qualified Employee Stock Option Agreement and Grant pursuant to the CryoLife, Inc. 2004 Employee Stock Incentive Plan. (Incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004.)

18. Form of Incentive Employee Stock Option Agreement and Grant pursuant to the CryoLife, Inc. 2004 Employee Stock Incentive Plan. (Incorporated herein by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004.)

19. Form of Section 16 Officer Stock Option Agreement pursuant to the CryoLife, Inc. 2004 Employee Stock Incentive Plan. (Incorporated herein by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed February 27, 2006.)

20. Form of Restricted Stock Award Agreement pursuant to the CryoLife, Inc. 2004 Employee Stock Incentive Plan. (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed February 27, 2006.)

21. Grant of Incentive Stock Option to D. Ashley Lee, dated May 4, 2006. (Incorporated herein by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006.)

22. Form of Purchase Agreement between CryoLife, Inc. and Piper Jaffray & Co. dated March 15, 2005. (Incorporated by reference to Exhibit 1.1 to the Registrant's Current Report on Form 8-K filed with the Commission on March 15, 2005.)

23. Form of Incentive Stock Option Agreement and Grant pursuant to the CryoLife, Inc. 1998 Long-Term Incentive Plan. (Incorporated herein by reference to Exhibit 10.29 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.)

24. Form of Non-Qualified Stock Option Agreement and Grant pursuant to the CryoLife, Inc. 1998 Long-Term Incentive Plan. (Incorporated herein by reference to Exhibit 10.30(a) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.)

25. Form of Director Non-Qualified Stock Option Agreement and Grant pursuant to the CryoLife, Inc. 1998 Long-Term Incentive Plan. (Incorporated herein by reference to Exhibit 10.30(b) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.)

26. Form of Non-Employee Directors Stock Option Agreement and Grant pursuant to the Amended and Restated Non-Employee Directors Stock Option Plan. (Incorporated herein by reference to Exhibit 10.31 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.)

27. Form of Incentive Stock Option Agreement and Grant pursuant to the CryoLife, Inc. 2002 Stock Incentive Plan. (Incorporated herein by reference to Exhibit 10.32 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.)

28. Form of Non-Qualified Stock Option Agreement and Grant pursuant to the CryoLife, Inc. 2002 Stock Incentive Plan. (Incorporated herein by reference to Exhibit 10.33 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.)

29. Form of Restricted Stock Award Agreement and Grant pursuant to the CryoLife, Inc. 2002 Stock Incentive Plan. (Incorporated herein by reference to Exhibit 10.34 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.)

30. Form of Non-Qualified Employee Stock Option Agreement and Grant pursuant to the CryoLife, Inc. 2004 Employee Stock Incentive Plan. (Incorporated herein by reference to Exhibit 10.35 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.)

31. Form of Grant of Non-Qualified Stock Option to Directors. (Incorporated herein by reference to Exhibit 10.36 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.)

32. Grant of Incentive Stock Option to Steven G. Anderson, dated May 4, 2006. (Incorporated herein by reference to Exhibit 10.37 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.)

33. Form of Grant pursuant to the CryoLife, Inc. 2007 Executive Incentive Plan. (Incorporated herein by reference to Exhibit 10.2 to the Registrant's Form 10-Q for the quarter ended March 31, 2007.)

34. Form of Incentive Stock Option Grant Agreement under the 1998 Long-Term Incentive Plan. (Incorporated herein by reference to Exhibit 10.3 to the Registrant's Form 10-Q for the quarter ended March 31, 2007.)

35. Form of Non-Qualified Stock Option Grant Agreement under 1998 Long-Term Incentive Plan. (Incorporated herein by reference to Exhibit 10.4 to the Registrant's Form 10-Q for the quarter ended March 31, 2007.)

36. Form of Restricted Stock Award Agreement and Grant pursuant to the CryoLife, Inc. 1998 Long-Term Incentive Plan. (Incorporated herein by reference to Exhibit 10.5 to the Registrant's Form 10-Q for the quarter ended March 31, 2007.)

37.* Summary of Compensation Arrangements with Non-Employee Directors.

38. Form of Restricted Stock Award Agreement and Grant pursuant to the CryoLife, Inc. 2004 Employee Stock Incentive Plan. (Incorporated herein by reference to Exhibit 10.6 to the Registrant's Form 10-Q for the quarter ended March 31, 2007.)

* Filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

February 21, 2008

By /s/ STEVEN G. ANDERSON
Steven G. Anderson
President, Chief Executive Officer, and Chairman of the Board of Directors

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ STEVEN G. ANDERSON **Steven G. Anderson**	President, Chief Executive Officer, and Chairman of the Board of Directors (Principal Executive Officer)	February 21, 2008
/s/ D. ASHLEY LEE **D. Ashley Lee**	Executive Vice President, Chief Operating Officer, and Chief Financial Officer (Principal Financial Officer)	February 21, 2008
/s/ AMY D. HORTON **Amy D. Horton**	Chief Accounting Officer (Principal Accounting Officer)	February 21, 2008
/s/ THOMAS F. ACKERMAN **Thomas F. Ackerman**	Director	February 21, 2008
/s/ JAMES S. BENSON **James S. Benson**	Director	February 21, 2008
/s/ DANIEL J. BEVEVINO **Daniel J. Bevevino**	Director	February 21, 2008
/s/ JOHN M. COOK **John M. Cook**	Director	February 21, 2008
/s/ RONALD C. ELKINS, M.D. **Ronald C. Elkins, M.D.**	Director	February 21, 2008
/s/ RONALD D. MCCALL **Ronald D. McCall**	Director	February 21, 2008

Management's Report on Internal Controls over Financial Reporting under Sarbanes-Oxley Section 404.

The management of CryoLife, Inc. and subsidiaries ("CryoLife", "we") is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. CryoLife's internal control system was designed to provide reasonable assurance to CryoLife's management and Board of Directors regarding the preparation and fair presentation of published financial statements. CryoLife's internal control over financial reporting includes policies and procedures that:

(i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of CryoLife;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of CryoLife; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of CryoLife's assets that could have a material effect on the financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

CryoLife management assessed the effectiveness of CryoLife's internal control over financial reporting as of December 31, 2007. In making this assessment, we used the criteria set forth in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment, we believe that, as of December 31, 2007, the company's internal control over financial reporting is effective based on those criteria.

CryoLife's independent registered public accounting firm has issued an audit report on our assessment of CryoLife's internal control over financial reporting.

CryoLife, Inc.
February 21, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
CryoLife, Inc.
Kennesaw, Georgia

We have audited the internal control over financial reporting of CryoLife, Inc. and subsidiaries (the "Company") as of December 31, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting appearing under Item 8. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2007 of the Company and our report dated February 21, 2008 expressed an unqualified opinion on those financial statements and financial statement schedule and included an explanatory paragraph relating to the Company's adoption on October 1, 2005 of Statement of Financial Accounting Standards No. 123R "Share Based Payment" and the Company's adoption on January 1, 2007 of Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainly in Income Taxes".

DELOITTE & TOUCHE LLP
Atlanta, Georgia
February 21, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
CryoLife, Inc.
Kennesaw, Georgia

We have audited the accompanying consolidated balance sheets of CryoLife, Inc. and subsidiaries (the "Company") as of December 31, 2007 and 2006, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2007. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of CryoLife, Inc. and subsidiaries at December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for share based payments effective October 1, 2005 in accordance with the adoption of Statement of Financial Accounting Standards No. 123R "Share Based Payment". Also, as discussed in Note 14 to the consolidated financial statements, the Company changed the manner in which it accounts for uncertain tax positions effective January 1, 2007 in accordance with the adoption of Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes".

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2007, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 21, 2008 expressed an unqualified opinion on the Company's internal control over financial reporting.

DELOITTE & TOUCHE LLP
Atlanta, Georgia
February 21, 2008

CRYOLIFE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands)

	December 31, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 14,460	$ 4,133
Marketable securities, at market	2,987	3,965
Restricted securities	—	571
Receivables:		
Trade accounts, less allowance for doubtful accounts of $180 in 2007 and $130 in 2006	12,311	12,553
Income taxes	—	148
Other	1,373	1,255
Total receivables	13,684	13,956
Deferred preservation costs, net	26,903	19,278
Inventories	5,607	5,153
Prepaid expenses and other assets	1,811	2,329
Total current assets	**65,452**	**49,385**
Property and equipment:		
Equipment	19,472	19,911
Furniture and fixtures	5,295	5,196
Leasehold improvements	28,946	28,937
Construction in progress	38	30
Total property and equipment	53,751	54,074
Less accumulated depreciation and amortization	35,111	32,684
Net property and equipment	**18,640**	**21,390**
Other assets:		
Patents, less accumulated amortization of $1,648 in 2007 and $1,372 in 2006	3,906	4,226
Trademarks and other intangibles, less accumulated amortization of $417 in 2007 and $192 in 2006	3,213	3,362
Deferred income taxes	148	—
Other	1,325	1,502
Total assets	**$ 92,684**	**$ 79,865**

See accompanying notes to consolidated financial statements.

CRYOLIFE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands)

	December 31, 2007	December 31, 2006
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,956	$ 2,475
Accrued compensation	2,963	2,599
Accrued expenses	5,611	5,637
Accrued procurement fees	5,161	4,734
Deferred income	1,111	1,223
Deferred income taxes	175	26
Derivative liability	—	235
Line of credit	4,506	4,507
Current maturities of capital lease obligations	43	40
Other current liabilities	2,176	1,437
Total current liabilities	**24,702**	**22,913**
Capital lease obligations, less current maturities	81	124
Deferred income taxes	—	200
Other	5,274	4,540
Total liabilities	**30,057**	**27,777**
Shareholders' equity:		
Preferred stock $.01 par value per share, 5,000 shares authorized; Series A junior participating preferred stock, 2,000 shares authorized, no shares issued	—	—
Convertible preferred stock, 460 shares authorized, 325 shares issued and outstanding in 2006	—	3
Common stock $.01 par value per share, 75,000 shares authorized, 28,526 shares issued in 2007 and 25,813 shares issued in 2006	285	258
Additional paid-in capital	120,562	115,605
Retained deficit	(52,981)	(59,177)
Accumulated other comprehensive income	—	160
Treasury stock at cost, 949 shares in 2007 and 906 shares in 2006	(5,239)	(4,761)
Total shareholders' equity	**62,627**	**52,088**
Total liabilities and shareholders' equity	**$ 92,684**	**$ 79,865**

See accompanying notes to consolidated financial statements.

CRYOLIFE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Year Ended December 31,		
	2007	2006	2005
Revenues:			
Preservation services	$ 49,002	$ 40,078	$ 30,307
Products	44,712	41,037	38,932
Other	1,049	196	43
Total revenues	**94,763**	**81,311**	**69,282**
Costs and expenses:			
Preservation services (including write-downs of $819 in 2007, $4,537 in 2006, and $1,797 in 2005)	28,433	29,958	24,357
Products	7,108	7,463	8,065
General, administrative, and marketing	46,470	41,545	53,225
Gain on exit activities	—	(2,620)	—
Research and development	4,453	3,547	3,724
Interest expense	677	657	346
Interest income	(527)	(409)	(531)
Change in valuation of derivative	821	121	(140)
Other (income) expense, net	(241)	399	199
Total costs and expenses	**87,194**	**80,661**	**89,245**
Income (loss) before income taxes	**7,569**	**650**	**(19,963)**
Income tax expense (benefit)	368	285	(428)
Net income (loss)	**$ 7,201**	**$ 365**	**$ (19,535)**
Effect of preferred stock dividends	(243)	(973)	(777)
Net income (loss) applicable to common shares	**$ 6,958**	**$ (608)**	**$ (20,312)**
Income (loss) per common share:			
Basic	$ 0.26	$ (0.02)	$ (0.85)
Diluted	$ 0.26	$ (0.02)	$ (0.85)
Weighted average common shares outstanding:			
Basic	26,331	24,829	23,959
Diluted	26,974	24,829	23,959

See accompanying notes to consolidated financial statements.

CRYOLIFE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	2007	2006	2005
Net cash flows from operating activities:			
Net income (loss)	$ 7,201	$ 365	$(19,535)
Adjustments to reconcile net income (loss) to net cash from operating activities:			
Gain on sale of marketable equity securities	—	—	(3)
Loss on disposal of assets	130	426	108
Depreciation of property and equipment	3,929	4,560	4,759
Amortization	527	284	277
Provision for doubtful accounts	167	65	57
Write-down of deferred preservation costs and inventories	819	1,758	1,797
Net non-cash gain on exit activities	—	(31)	—
Deferred income taxes	(961)	226	—
Non-cash compensation	2,127	1,620	322
Change in valuation of derivative	821	121	(140)
Other non-cash adjustments to income	(220)	(182)	1,771
Changes in operating assets and liabilities:			
Trade and other receivables	(23)	(2,431)	(1,854)
Income taxes	30	213	1,024
Deferred preservation costs	(8,444)	(9,800)	(6,934)
Inventories	(454)	(600)	158
Prepaid expenses and other assets	685	397	27
Accounts payable	842	155	(712)
Accrued expenses and other liabilities	2,116	1,783	361
Net cash flows provided by (used in) operating activities	**9,292**	**(1,071)**	**(18,517)**
Net cash flows from investing activities:			
Capital expenditures	(1,207)	(1,642)	(989)
Net proceeds from sale of assets	19	13	12
Purchases of marketable securities	(12,331)	(17,385)	(21,690)
Sales and maturities of marketable securities	14,155	18,562	20,841
Other	(190)	(105)	(208)
Net cash flows provided by (used in) investing activities	**446**	**(557)**	**(2,034)**
Net cash flows from financing activities:			
Proceeds from debt issuance	532	710	4,847
Principal payments of debt	(533)	(553)	(317)
Principal payments on capital leases	(40)	(570)	(741)
Proceeds from financing of insurance policies	1,912	2,349	2,482
Principal payments on short-term note payable	(1,912)	(2,349)	(2,482)
Proceeds from exercise of options and issuance of stock	1,748	468	372
Proceeds from equity offering	—	—	19,098
Payment of preferred stock dividend and make whole payments	(486)	(973)	(533)
Purchase of treasury stock	(478)	(50)	—
Net cash flows provided by (used in) financing activities	**743**	**(968)**	**22,726**
Increase (decrease) in cash	**10,481**	**(2,596)**	**2,175**
Effect of exchange rate changes on cash	(154)	98	(257)
Cash and cash equivalents, beginning of year	4,133	6,631	4,713
Cash and cash equivalents, end of year	**$ 14,460**	**$ 4,133**	**$ 6,631**

See accompanying notes to consolidated financial statements.

CRYOLIFE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands)

	Preferred Stock		Common Stock		Additional Paid In Capital	Retained Deficit	Accumulated Other Comprehensive Income	Treasury Stock		Total Shareholders' Equity
	Shares	Amount	Shares	Amount				Shares	Amount	
Balance at December 31, 2004	**—**	**—**	**24,805**	**$ 248**	**$ 94,624**	**$ (38,257)**	**$ 361**	**(1,390)**	**$(7,316)**	**$ 49,660**
Net loss	—	—	—	—	—	(19,535)	—	—	—	(19,535)
Other comprehensive loss	—	—	—	—	—	—	(238)	—	—	(238)
Comprehensive loss										(19,773)
Equity offering	417	4	—	—	18,054	—	—	—	—	18,058
Conversion of preferred stock and dividend make-whole payments	(92)	(1)	694	7	779	—	—	—	—	785
Dividend payments on preferred stock	—	—	—	—	—	(777)	—	—	—	(777)
Exercise of options	—	—	36	—	111	—	—	(2)	(17)	94
Equity compensation	—	—	(3)	—	322	—	—	—	—	322
Employee stock purchase plan	—	—	50	1	278	—	—	—	—	279
Payment of treasury shares	—	—	—	—	(661)	—	—	500	2,634	1,973
Balance at December 31, 2005	**325**	**$ 3**	**25,582**	**$ 256**	**$113,507**	**$ (58,569)**	**$ 123**	**(892)**	**$ (4,699)**	**$ 50,621**
Net income	—	—	—	—	—	365	—	—	—	365
Other comprehensive income	—	—	—	—	—	—	37	—	—	37
Comprehensive income										402
Dividend payments on preferred stock	—	—	—	—	—	(973)	—	—	—	(973)
Exercise of options	—	—	101	1	227	—	—	(2)	(12)	216
Equity compensation	—	—	54	—	1,620	—	—	(12)	(50)	1,570
Employee stock purchase plan	—	—	76	1	251	—	—	—	—	252
Balance at December 31, 2006	**325**	**$ 3**	**25,813**	**$ 258**	**$ 115,605**	**$ (59,177)**	**$ 160**	**(906)**	**$(4,761)**	**$ 52,088**
Cumulative effect of change in accounting for income taxes	—	—	—	—	—	(762)	—	—	—	(762)
Net income	—	—	—	—	—	7,201	—	—	—	7,201
Other comprehensive loss	—	—	—	—	—	—	(160)	—	—	(160)
Comprehensive income										7,041
Conversion of preferred stock and dividend make-whole payments	(325)	(3)	2,100	21	1,038	—	—	—	—	1,056
Dividend payments on preferred stock	—	—	—	—	—	(243)	—	—	—	(243)
Exercise of options	—	—	410	4	1,428	—	—	(43)	(478)	954
Equity compensation	—	—	157	1	2,126	—	—	—	—	2,127
Excess tax benefits	—	—	—	—	50	—	—	—	—	50
Employee stock purchase plan	—	—	46	1	315	—	—	—	—	316
Balance at December 31, 2007	**—**	**—**	**28,526**	**$ 285**	**$120,562**	**$ (52,981)**	**$ —**	**(949)**	**$(5,239)**	**$ 62,627**

See accompanying notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

Nature of Business

CryoLife, Inc. ("CryoLife", the "Company", "we", or "us"), incorporated January 19, 1984 in Florida, develops and commercializes biomaterials and implantable medical devices and preserves and distributes human tissues for cardiac and vascular transplant applications. The Company's biomaterials and implantable medical devices include BioGlue® Surgical Adhesive ("BioGlue"), CryoLife-O'Brien® Stentless Porcine Aortic Bioprosthesis, and ProPatch Soft Tissue Repair Matrix ("ProPatch"). Additionally, the Company distributes CardioWrap® for MAST BioSurgery, Inc ("MAST"). Historically, the Company preserved and distributed human orthopaedic tissue for transplant applications. CryoLife ceased processing human orthopaedic tissue effective January 1, 2007 but will continue to market and distribute its existing orthopaedic tissues through June 30, 2008.

CryoLife distributes preserved human cardiac, vascular, and orthopaedic tissue to implanting institutions throughout the U.S., Canada, and Europe, although distribution of orthopaedic tissue is being phased out. On February 7, 2008 the Company received 510(k) clearance from the FDA for its CryoValve® SG pulmonary human heart valve processed with the Company's proprietary SynerGraft technology. CryoLife is authorized to distribute BioGlue throughout the United States and in more than 70 other countries for designated applications. In the U.S. BioGlue is U.S. Food and Drug Administration ("FDA") approved as an adjunct to sutures and staples for use in adult patients in open surgical repair of large vessels. CryoLife distributes BioGlue under Conformité Européene ("CE") Mark product certification in the European Economic Area ("EEA") for soft tissue repair procedures (which includes cardiac, vascular, pulmonary, and additional soft tissue repair procedures). CryoLife has also received approval and distributes BioGlue for soft tissue repairs in Canada and Australia. Additional marketing approvals have been granted for specified applications in several other countries in Central and South America, and Asia. CryoLife also distributes the CryoLife-O'Brien Stentless Porcine Aortic Bioprosthesis in Europe. In December 2006 CryoLife received 510(k) clearance from the FDA for its ProPatch™ Soft Tissue Repair Matrix ("ProPatch"). In 2007 CryoLife began exclusive distribution of CardioWrap, a product of MAST, in the U.S. and the United Kingdom. CardioWrap is a bioresorbable sheet used to replace the pericardium in cardiac reconstruction and other cardiac surgeries where the patient may face re-operation within six months.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of the accompanying consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Estimates and assumptions are used when accounting for depreciation, allowance for doubtful accounts, deferred preservation costs, valuation of long-lived tangible and intangible assets, valuation of deferred income taxes, commitments and contingencies, including product liability claims, claims incurred but not reported, and amounts recoverable from insurance companies, cost of share based payments and the related income statement expense or pro-forma expense, and certain accrued expenses, including accrued procurement fees, income taxes, and derivative instruments.

Revenue Recognition

The Company recognizes revenue in accordance with Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition" ("SAB 104"), which provides guidance on applying generally accepted accounting principles to revenue recognition issues. Revenues for preservation services are recognized when services are completed and tissue is shipped to the customer. Revenues for products are recognized at the time the product is shipped, at which time title passes to the customer and there are no further performance obligations. The Company assesses the likelihood of collection based on a number of factors, including past transaction history with the customer and the credit-worthiness of the customer. Revenues from research grants are recognized in the period the associated costs are incurred. Revenues from upfront licensing agreements are recognized ratably over the period the Company expects to fulfill its obligations.

Shipping and Handling Charges

Fees charged to customers for shipping and handling of preserved tissues and products are included in preservation services revenues and product revenues, respectively. The costs for shipping and handling of preserved tissues and products are included as a component of cost of preservation services and cost of products, respectively.

Advertising Costs

The costs to produce and communicate the Company's advertising are expensed as incurred and are classified as general, administrative, and marketing expenses in accordance with the American Institute of Certified Public Accountants ("AICPA") Statement of Position 93-7 "Reporting on Advertising Costs" ("SOP 93-7"). The Company records the cost of certain sales materials as a prepaid expense and amortizes these costs as advertising expense over the period they are expected to be used, typically six months to one year. The total amount of advertising expense included in the Company's Consolidated Statements of Operations was $1.0 million, $796,000, and $700,000 for the years ended December 31, 2007, 2006, and 2005, respectively.

Cash and Cash Equivalents

Cash equivalents consist primarily of highly liquid investments with maturity dates of 90 days or less at the time of acquisition. The carrying value of cash equivalents approximates fair value.

The Company's cash equivalents include advance funding received under the U.S. Congress 2005 Defense Appropriations Conference Report (the "2005 DOD Grant") and the U.S. Congress 2006 Defense Appropriations Conference Report (the "2006 DOD Grant") for the continued development of protein hydrogel technology for use on the battlefield. The advance funding is accounted for as deferred income on the Consolidated Balance Sheets and is recognized as other revenue as expenses are incurred related to these grants. As of December 31, 2007 and 2006 $1.0 million and $770,000, respectively, of cash equivalents and deferred income were recorded on the Company's Consolidated Balance Sheets related to the 2005 and 2006 DOD grants.

Supplemental disclosures of cash flow information for the years ended December 31 (in thousands):

	2007	2006	2005
Cash paid during the year for:			
Interest	$ 691	$ 635	$ 276
Income taxes	416	34	216
Non-cash investing and financing activities:			
Payment of make whole payments in common stock	$1,056	$ —	$ 786
Non-cash acquisition of intangibles	—	2,909	—
Assets acquired under capital leases	—	180	—
Payment of legal settlement in stock	—	—	1,973
Accounts payable and accrued expenses for the purchase of property and equipment	—	—	21

Marketable Securities

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

Debt securities are classified as held-to-maturity when the Company has the intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at amortized cost. Trading securities are securities that are acquired principally for the purpose of generating a profit from short-term fluctuations in price. Trading securities are stated at their fair values, with the realized and unrealized gains and losses, interest, and dividends included in other income. Debt securities not classified as held-to-maturity or marketable equity securities not classified as trading are classified as available-for-sale. Available-for-

sale securities are stated at their fair values, with the unrealized gains and losses, net of applicable income taxes, reported in a separate component of shareholders' equity. Interest, dividends, realized gains and losses, and declines in value judged to be other than temporary are included in other income. The cost of securities sold is based on the specific identification method.

The Company uses the market approach to measure the fair value of its marketable securities in accordance with Statement of Financial Accounting Standards ("SFAS") 115 (as amended) "Accounting For Certain Investments in Debt and Equity Securities" ("SFAS 115"). Each month the Company's investment broker provides quoted prices in active markets for each available-for-sale security. The Company then adjusts each investment to its quoted price and records the unrealized gains or losses in accumulated other comprehensive income for these securities.

As of December 31, 2007 $3.0 million of marketable securities were designated as available-for-sale. As of December 31, 2006 $4.0 million of marketable securities were designated as available-for-sale, and $571,000 of marketable securities were designated as held-to-maturity. These securities were designated as held-to-maturity due to a contractual commitment to hold the securities as pledged collateral relating to one of the Company's product liability insurance policies and, therefore, they were reported as restricted securities on the December 31, 2006 Consolidated Balance Sheet.

Deferred Preservation Costs

By federal law, human tissues cannot be bought or sold. Therefore, the tissues the Company preserves and further processes cannot be held as inventory. Tissue is procured from deceased human donors by organ and tissue procurement agencies, which consign the tissue to the Company for processing, preservation, and distribution. Preservation costs consist primarily of direct labor and materials (including salary and fringe benefits, laboratory expenses, tissue procurement fees, and freight-in charges) and indirect costs (including allocations of costs from departments that support processing activities and facility allocations). Although the Company cannot own human tissue, the preservation process is a manufacturing process that is accounted for in accordance with ARB No. 43 Chapter 4, "Inventory Pricing" ("ARB 43"). Preservation costs are stated at the lower of cost or market on a first-in, first-out basis and are deferred until revenue is recognized upon shipment of the tissue to the implanting facilities. Cost of preservation services also includes idle facility expense, excessive spoilage, double freight, and rehandling costs and requires allocation of fixed production overheads to be based on the normal capacity of the production facilities in accordance with SFAS No. 151 "Inventory Costs" ("SFAS 151").

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

The Company regularly evaluates its deferred preservation costs to determine if the costs are appropriately recorded at the lower of cost or market value and to determine if there are any impairments to the book value of the Company's deferred preservation costs. CryoLife records a charge to cost of preservation services to write-down the amount of deferred preservation costs that are not deemed to be recoverable. These write-downs are permanent impairments that create a new cost basis, which cannot be restored to its previous levels when tissues are shipped or become available for shipment.

The Company recorded write-downs of $453,000, $1.2 million, and $1.8 million in the years ended December 31, 2007, 2006, and 2005, respectively, for the value of certain deferred preservation costs that exceeded market value. The amount of these write-downs are primarily due to excess current period tissue processing costs that exceeded market value based on recent average service fees. Actual results may differ from these estimates.

The Company also recorded write-downs of $366,000 for the year ended December 31, 2007 due to the impairment of certain vascular and orthopaedic tissues. The Company also recorded write-downs of $588,000 for the year ended December 31, 2006 due to the impairment of certain orthopaedic tissues. The tissues were impaired in the period that the Company determined that the tissues were not expected to ship prior to the expiration date of the tissue's packaging. The Company also recorded a write-down of $2.8 million in the year ended December 31, 2006 due to the impairment of certain orthopaedic tissues and processing materials as a result of the exchange and service agreement with Regeneration Technologies, Inc., (the "RTI Agreement") discussed in Note 2 below. This write-down was based on the Company's estimate of the tissues that would be shipped during the 18-month period subsequent to December 31, 2006 in which the Company can continue to distribute its existing orthopaedic tissues.

As of December 31, 2007 deferred preservation costs consisted of $7.6 million for allograft heart valve tissues, $2.1 million for non-valved cardiac tissues, $17.1 million for vascular tissues, and $123,000 for orthopaedic tissues. As of December 31, 2006 deferred preservation costs consisted of $4.7 million for allograft heart valve tissues, $1.0 million for non-valved cardiac tissues, $11.3 million for vascular tissues, and $2.3 million for orthopaedic tissues.

Inventories

Inventories are comprised of implantable surgical adhesives and other implantable medical devices and are valued at the lower of cost or market on a first-in, first-out basis. Cost of products also includes idle facility expense, excessive spoilage, double freight, and rehandling costs and requires allocation of fixed production overheads to be based on the normal capacity of the production facilities as necessary in accordance with SFAS 151.

Property and Equipment

Property and equipment is stated at cost. Depreciation is provided over the estimated useful lives of the assets, generally three to ten years, on a straight-line basis. Leasehold improvements are amortized on a straight-line basis over the lease term or the estimated useful lives of the assets, whichever is shorter.

Intangible Assets

The Company's intangible assets consist of patents, trademarks, customer lists, non-compete agreements, procurement contracts, and access to the procurement of cardiac and vascular human tissues previously received by RTI as a result of the RTI Agreement discussed in Note 2 below. The Company amortizes its definite lived intangible assets over their expected useful lives using the straight-line method. The Company's indefinite lived intangible assets do not amortize, but are instead subject to periodic impairment testing in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142").

As of December 31, 2007 and 2006 gross values, accumulated amortization, and approximate amortization periods of the Company's definite lived intangible assets are as follows (in thousands):

	Gross Carrying Value	Accumulated Amortization	Amortization Period
December 31, 2007			
Patents	$ 5,554	$ 1,648	17 Years
Customer lists	611	187	3 Years
Non-compete agreement	381	38	10 Years
December 31, 2006			
Patents	$5,598	$ 1,372	17 Years
Customer lists	515	—	3 Years
Non-compete agreement	381	—	10 Years

As of December 31, 2007 and 2006 the carrying values of the Company's indefinite lived intangible assets are as follows (in thousands):

	2007	2006
Trademarks	$ 433	$ 453
Procurement contracts	2,013	2,013

As of December 31, 2007 scheduled amortization of intangible assets for the next five years is as follows (in thousands):

	2008	2009	2010	2011	2012	Total
Amortization expense	$549	$547	$357	$334	$318	$2,105

Impairments of Long-Lived Assets

The Company assesses the potential impairment of its long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors 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, or
- Significant decline in the Company's market capitalization relative to net book value.

SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), requires the write-down of a long-lived asset to be held and used if the carrying value of the asset or the asset group to which the asset belongs is not recoverable. The carrying value of the asset or asset group is not recoverable if it exceeds the sum of the undiscounted future cash flows expected to result from the use and eventual disposition of the asset or asset group. For the year ended December 31, 2007 the Company did not experience any factors that indicated an SFAS 144 impairment review was warranted. For the years ended December 31, 2006 and 2005, the Company performed an SFAS 144 impairment analysis, due to a variety of triggering factors including its operating performance. In these periods the undiscounted future cash flows of the Company's asset groups exceeded their carrying values. Therefore, management concluded that there was not an impairment of the Company's long-lived tangible and amortizing intangible assets.

SFAS No. 142 requires that goodwill resulting from business acquisitions and other non-amortizing intangible assets be subject to annual impairment testing. The Company's non-amortizing intangible assets as of December 31, 2007 consist of trademarks and, as a result of the RTI Agreement discussed in Note 2 below, procurement contracts and access to the procurement of cardiac and vascular human tissues previously received by RTI. In accordance with SFAS 142, the Company performed an analysis on its non-amortizing intangible assets as of December 31, 2007. Based of the results of its analysis, the Company does not believe that an impairment existed related to its non-amortizing intangible assets as of December 31, 2007. Management will continue to evaluate the recoverability of these non-amortizing intangible assets on an annual basis in accordance with SFAS 142.

Accrued Procurement Fees

Tissue is procured from deceased human donors by organ and tissue procurement agencies ("Agencies"), which consign the tissue to the Company for processing, preservation, and distribution. The Company reimburses the Agencies for their costs to recover the tissue and passes on these costs to the customer when the tissue is shipped and the service is complete. The Company accrues the estimated procurement fees due to the Agencies at the time the tissue is received based on contractual agreements between the Company and the Agencies.

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. The Company maintains claims-made insurance policies to mitigate its financial exposure to product liability claims. Claims-made insurance policies generally cover only those asserted claims and incidents that are reported to the insurance carrier while the policy is in effect. Thus, a claims-made policy does not generally represent a transfer of risk for claims and incidents that have been incurred but not reported to the insurance carrier during the policy period. The Company periodically evaluates its exposure to unreported product liability claims, and records accruals as necessary for the estimated cost of unreported claims related to services performed and products used. In January 2008 the Company retained an independent actuarial firm to perform revised estimates of the unreported claims, the latest of which was performed as of December 31, 2007. 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 Company records accruals for estimated costs for unreported product liability claims based on the information included in the actuarial valuation.

In addition to the Company's evaluation of its exposure related to unreported product liability claims, the Company periodically evaluates its exposure related to settled but unpaid claims and pending product liability claims based on settlement negotiations to date, advice from counsel, and historical claim settlements. The Company then records accruals for settled but unpaid claims and pending product liability claims based on its analysis.

Uncertain Tax Positions

On January 1, 2007 the Company adopted the provisions of FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 establishes a threshold for recognizing tax benefits if they are "more-likely-than-not" to be upheld upon review by the appropriate taxing authority and the requirement that companies recognize the maximum amount of tax benefit that has a "greater than 50 percent likelihood" of ultimately being realized. See Note 14 for further discussion of the Company's uncertain tax liabilities.

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 primarily as a result of write-downs of deferred preservation costs, accruals for product liability claims, and operating losses. The Company periodically assesses the recoverability of its deferred tax assets, in accordance with SFAS No. 109 "Accounting for Income Taxes" ("SFAS 109"), as necessary, when the Company experiences changes that could materially affect its determination of the recoverability of its deferred tax assets. Management provides a valuation allowance when, as a result of this analysis, management believes it is more likely than not that its deferred tax assets will not be realized. In assessing the recoverability of its deferred tax assets at December 31, 2007 the Company reviewed its historical operating results, including the reasons for its operating losses in prior years and uncertainties regarding projected future operating results. Based on the results of this analysis, discussed further below, at December 31, 2007 the Company determined that it was more likely than not that the Company's deferred tax assets would not be realized.

Based on the Company's results for the year ended December 31, 2007 and its projections for 2008, the Company anticipates that it will utilize a portion of its net operating loss carryforwards in the 2008 income tax year to offset its U.S. taxable income, as it did in the 2007 and 2006 tax years. Although CryoLife is beginning to utilize its net operating loss carryforwards, the Company currently believes that a change in its determination of the recoverability of its deferred tax assets is not yet warranted. CryoLife will continue to evaluate its determination in accordance with the guidance in SFAS 109, which indicates the Company's net losses in recent years constitute significant evidence against the recoverability of its deferred tax assets that is difficult to overcome. CryoLife will reverse the remaining valuation allowance, or a portion thereof, when and if its deferred tax assets meet the SFAS 109 "more likely than not" standard for recognition. Also, the realizability of the Company's deferred tax assets could be limited in future periods following a change in control as mandated by 382 of the Internal Revenue Code of 1986, as amended.

As of December 31, 2007 the Company had a total of $28.2 million in valuation allowances against deferred tax assets and a net deferred tax liability of $27,000. As of December 31, 2006 the Company had a total of $33.0 million in valuation allowances against deferred tax assets and a net deferred tax liability of $226,000 related to taxes in a foreign jurisdiction.

The tax years 2004-2007 remain open to examination by the major taxing jurisdictions to which the Company is subject.

Income (Loss) Per Common Share

Income (loss) per common share is computed in accordance with SFAS No. 128, "Earnings Per Share" ("SFAS 128") on the basis of the weighted average number of common shares outstanding plus, if applicable, the dilutive effects of outstanding stock options and contingently returnable shares, computed using the treasury stock method, the dilutive effect of outstanding convertible preferred stock, computed using the if converted method, and the dilutive effect of contingent stock awards.

Stock-Based Compensation

The Company has stock option and stock incentive plans that provide for grants to employees and directors of shares and options to purchase shares of the Company's common stock at exercise prices generally equal to the fair values of such stock at the dates of grant.

The Company adopted SFAS 123 Revised "Share-Based Payment" ("SFAS 123R") on October 1, 2005. SFAS 123R requires companies to recognize the cost of all share-based payments in the financial statements using a fair-value based measurement method. The Company adopted SFAS 123R using the modified version of prospective application, as defined in SFAS 123R.

In periods prior to October 1, 2005 the Company elected to follow Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations ("APB 25") in accounting for its employee stock options. Under APB 25, because the exercise price of the Company's employee stock options equaled the market price of the underlying stock on the date of the grant, no compensation expense was recognized. In accordance with APB 25 the compensation recorded for employee stock grants was equal to the value of the grant on the measurement date, the date of the grant, as determined by the closing price of the Company's common stock on that date. Some employee stock grants vest in future periods based on a requirement of continued service to the Company. For these stock grants the amount of the stock grant was recorded as additional paid-in capital in the equity section of the Company's Consolidated Balance Sheets, and was expensed over the vesting period.

Prior to the adoption of SFAS 123R, the Company followed the provisions of SFAS 123 which required that the Company provide pro forma information regarding net income (loss) and income (loss) per common share and that the pro forma information be determined as if the Company had accounted for its employee stock options granted under the fair value method of that statement. The fair values for the options accounted for under APB 25 were estimated at the dates of grant using a Black-Scholes option-pricing model. For purposes of pro forma disclosures, the estimated fair values of the options were amortized to expense over the options' vesting periods.

Translation of Foreign Currencies

Assets and liabilities of the Company denominated in foreign currencies are translated at the exchange rate in effect as of the balance sheet date. Translation adjustments are recorded as a separate component of other comprehensive income in the shareholders' equity section of the Company's Consolidated Balance Sheets. All revenue and expense accounts are translated as transactions occur at exchange rates in effect at the time of each transaction.

Derivative Instruments

In accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), the Company was required to separate and account for the Dividend Make-Whole Payment feature, as defined in Note 6, of its 6% convertible preferred stock as an embedded derivative. At issuance, the Company determined the fair value of its derivative and recorded the value as a current liability on the Company's Consolidated Balance Sheet. Prior to the conversion of the preferred stock, changes in the fair value of the derivative were recognized as a non-operating income (expense) on the Company's Consolidated Statements of Operations.

Fair Values of Financial Instruments

SFAS No. 107, "Disclosures about Fair Value of Financial Instruments" ("SFAS 107") requires the Company to disclose estimated fair values for its financial instruments. The carrying amounts of receivables and accounts payable approximate their fair values due to the short-term maturity of these instruments. The carrying value of the Company's other financial instruments, including the Company's debt and derivative liabilities, approximated fair value at December 31, 2007 and 2006.

New Accounting Pronouncements

In December 2007 the FASB issued SFAS No. 141 Revised "Business Combinations" ("SFAS 141R"). SFAS 141R revises the accounting and disclosure requirements for business combinations and is effective for fiscal years beginning after December 15, 2008. The Company is in the process of evaluating the impact of SFAS 141R on its results of operations and financial position.

The Company will be required to adopt SFAS No. 157 "Fair Value Measurements" ("SFAS 157") for the fiscal year beginning January 1, 2008. SFAS 157 provides a single definition of fair value and a hierarchical framework for measuring it, as well as establishing additional disclosure requirements about the use of fair value to measure assets and liabilities. The Company does not anticipate that the adoption of SFAS 157 will have a material affect on its results of operations or financial position.

The Company will be required to adopt SFAS No. 159 "The Fair Value Option for Financial Assets and Liabilities" ("SFAS 159") for the fiscal year beginning January 1, 2008. SFAS 159 provides the option to report certain financial assets and liabilities at fair value, with the intent to mitigate volatility in financial reporting that can occur when related assets and liabilities are measured differently. The Company does not expect to voluntarily implement the optional fair value measurements portions of SFAS 159 for eligible items. Therefore, the Company does not anticipate that the adoption of SFAS 159 will have a material affect on its results of operations or financial position.

2. Exchange and Service Agreement

On December 19, 2006 CryoLife announced that it had entered into an exchange and service agreement (the "RTI Agreement") with Regeneration Technologies, Inc., and certain of its affiliates, (collectively, "RTI"), respecting procurement, processing, and distribution activities for cardiac and vascular tissue processed and distributed by RTI and orthopaedic tissue for the knee processed and distributed by CryoLife. In accordance with the RTI Agreement, CryoLife ceased accepting donated human orthopaedic tissue for processing commencing January 1, 2007 and began work to transition existing arrangements for recovery of human orthopaedic tissue to RTI. Likewise, on January 1, 2007 RTI ceased accepting donated human cardiac and vascular tissues for processing and began work to transition its arrangements for recovery of these tissues to CryoLife. No cash was exchanged in the transaction. CryoLife will continue to distribute its existing orthopaedic tissue inventory, and RTI will continue to distribute its existing cardiac and vascular tissue inventory, through June 30, 2008. After that date CryoLife will become entitled to distribute RTI's remaining cardiac and vascular tissue inventory, and RTI will become entitled to distribute CryoLife's remaining orthopaedic tissue inventory. CryoLife will pay RTI a commission with respect to any of CryoLife's orthopaedic tissue distributed by RTI and will receive a commission from RTI with respect to any RTI cardiac tissue distributed by CryoLife. Under the RTI Agreement, from July 1, 2008 through December 31, 2016, except as set forth above, CryoLife has agreed not to market or solicit orders for certain human orthopaedic tissues and RTI has agreed not to market or solicit orders for human cardiac and vascular tissues. The agreement also provides for a non-exclusive license of technology from CryoLife to RTI, and contains customary provisions regarding indemnification and confidentiality.

As a result of the RTI Agreement, the Company recorded a net $159,000 loss during the fourth quarter of 2006, which was composed of a write-down of $2.8 million in cost of preservation services and a $2.6 million gain on exit activities on the Company's Consolidated Statement of Operations.

The $2.8 million write-down was due to the impairment of certain orthopaedic tissues and processing materials. The write-down of deferred tissue preservation costs was based on an estimate of the tissues that would be shipped during the 18-month period subsequent to December 31, 2006 in which the Company can continue to distribute its existing orthopaedic tissues.

The $2.6 million gain on exit activities was primarily due to a gain on the recording of intangible assets received from RTI, partially offset by several individually immaterial asset write-downs and expense accruals incurred as a result of the transaction. The intangibles acquired from RTI in the transaction include procurement contracts and access to the procurement of cardiac and vascular human tissues previously received by RTI, customer lists, and a non-compete agreement. The assets transferred to RTI were internally developed intangible assets, and as such, had no book value on CryoLife's Consolidated Balance Sheets prior to the transaction. The RTI Agreement was accounted for as a non-monetary exchange in accordance with Accounting Principles Board Opinion No. 29 (As Amended) "Accounting for Nonmonetary Transactions", as clarified by Emerging Issues Task Force ("EITF") 01-2 "Interpretations of APB Opinion No. 29" and SFAS 153 "Exchanges of Nonmonetary Assets" and based upon a valuation study prepared by an independent valuation consultant.

3. Cash Equivalents and Marketable Securities

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

December 31, 2007	Cost Basis	Unrealized Holding Gains	Estimated Market Value
Cash equivalents:			
Money market funds	$11,724	$ —	$11,724
Marketable securities:			
Government entity sponsored debt securities	$ 2,984	$ 3	$ 2,987

December 31, 2006	Cost Basis	Unrealized Holding Gains	Estimated Market Value
Cash equivalents:			
Money market funds	$ 2,484	$ —	$ 2,484
Marketable securities:			
Government entity sponsored debt securities	$ 3,964	$ 1	$ 3,965
Restricted securities:			
Government entity sponsored debt securities	$ 571	$ —	$ 571

There were no gross realized gains or losses on sales of available-for-sale securities for the years ended December 31, 2007 and 2006. Differences between cost and market listed above, consisting of a net unrealized holding gain of $3,000 and $1,000 at December 31, 2007 and 2006, respectively, are included as a separate component of other comprehensive income in the shareholders' equity section of the Consolidated Balance Sheets.

At December 31, 2007 and 2006 all of the Company's marketable securities had a maturity date within 90 days.

4. Inventories

Inventories at December 31 are comprised of the following (in thousands):

	2007	2006
Raw materials	$2,956	$ 3,048
Work-in-process	650	479
Finished goods	2,001	1,626
Total Inventories	$ 5,607	$ 5,153

5. Debt

On February 8, 2005 CryoLife and its subsidiaries entered into a credit agreement with Wells Fargo Foothill, Inc. as lender (the "Credit Agreement"). The Credit Agreement provided for a revolving credit facility in an aggregate amount equal to the lesser of $15.0 million (including a letter of credit sub facility of up to an aggregate of $2.0 million) or a borrowing base determined in accordance with the terms of the Credit Agreement. Generally, the borrowing base was 20% of the appraised value of the business of CryoLife, reduced by specified lender reserves. The Credit Agreement placed limitations on the amount that the Company could borrow, and included various affirmative and negative covenants, including financial covenants such as a requirement that CryoLife either (i) maintain quarterly a minimum aggregate borrowing availability under the Credit Agreement, less certain payables incurred outside the Company's historical practices, plus unrestricted cash and cash equivalents, as defined ("Availability"), of at least $12.5 million or (ii) achieve as of each quarter end a minimum level of earnings before extraordinary gains, interest, taxes, depreciation, and amortization ("EBITDA"), BioGlue gross margins of at least 70% for the preceding twelve months, as well as Availability of at least $5.0 million. In the first quarter of 2007 the

Company obtained a $500,000 letter of credit sub facility relating to one of the Company's product liability insurance policies. This reduced the Company's aggregate borrowing capacity under the Credit Agreement to $14.5 million. The Credit Agreement also included customary conditions on incurring new indebtedness and prohibited payments of cash dividends on the Company's common stock. There was no restriction on the payment of stock dividends. Commitment fees were paid based on the unused portion of the facility.

Amounts borrowed under the Credit Agreement were secured by substantially all of the tangible and intangible assets of CryoLife and its subsidiaries and bore interest at the bank's prime rate plus 1%, which aggregated 8.25% as of December 31, 2007 and 9.25% as of December 31, 2006. As of December 31, 2007 and 2006 the outstanding balance of the Credit Agreement was $4.5 million.

The Credit Agreement expired on February 8, 2008, at which time the outstanding principal balance of $4.5 million was paid from cash on hand. The Company also remitted approximately $500,000 as collateral to cover the remaining term of the letter of credit agreement discussed above.

The Company routinely enters into agreements to finance insurance premiums for periods not to exceed the terms of the related insurance policies. In the second quarter of 2007 the Company entered into two agreements to finance approximately $1.4 million and $478,000 in insurance premiums associated with the yearly renewal of certain of the Company's insurance policies. The amounts financed accrued interest at 7.027% and were payable in equal monthly payments over a nine month and an eight month period, respectively. As of December 31, 2007 the aggregate outstanding balance under these agreements was zero.

In the second quarter of 2006 the Company entered into two agreements to finance approximately $1.6 million and $715,000 in insurance premiums associated with the yearly renewal of certain of the Company's insurance policies. The amounts financed accrued interest at 6.71% and 6.7%, respectively, and were payable in equal monthly payments over a nine month and an eight month period, respectively. As of December 31, 2007 the aggregate outstanding balance under these agreements was zero.

Total interest expense was $677,000, $657,000, and $346,000 in 2007, 2006, and 2005 respectively.

6. Convertible Preferred Stock

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

Dividends on the Preferred Stock were cumulative from the date of original issue at the annual rate of 6% of the liquidation preference of the Preferred Stock, payable quarterly on the first day of January, April, July, and October, commencing July 1, 2005. Any dividends were required to be declared by the Company's Board of Directors and to come from funds legally available for dividend payments. On March 13, 2007 the Company declared a dividend of $0.75 per share on its Preferred Stock. The dividend of approximately $243,000 was paid on April 2, 2007 to shareholders of record on March 22, 2007. No dividends were declared in the remainder of 2007. The Company made cash payments of $486,000, $973,000, and $533,000 in the years ended December 31, 2007, 2006, and 2005, respectively, for dividends declared.

The Preferred Stock was convertible at the option of the holder at any time into the Company's common stock at a conversion rate of approximately 6.2189 shares of common stock for each share of Preferred Stock, based on an initial conversion price of $8.04. The Company had reserved 4,600,000 shares of common stock for issuance upon conversion. Through June 4, 2007 holders had voluntarily converted a cumulative 139,000 shares of Preferred Stock into 867,000 shares of common stock, of which 47,000 shares of Preferred Stock were voluntarily converted into 292,000 shares of common stock in the second quarter of 2007.

The Preferred Stock contained provisions that allowed the Company to automatically convert its Preferred Stock into common stock if the closing price of the Company's common stock exceeded $12.06, which is 150% of the conversion price of the Preferred Stock, for at least 20 trading days during any 30-day trading period, ending within five trading days prior to notice of automatic conversion. This condition was satisfied on June 4, 2007 and on that day the Company exercised its right to automatically convert the Preferred Stock into common stock. As a result, on June 25, 2007 the Company automatically converted the remaining 278,000 shares of Preferred Stock into 1,726,000 shares of common stock at the conversion rate of approximately 6.2189 shares of common stock per share of Preferred Stock.

The Company was required to make additional payments for both the voluntary and automatic conversions of Preferred Stock equal to the aggregate amount of dividends that would have been payable on the Preferred Stock through April 1, 2008, less any dividends already paid on the Preferred Stock (the "Dividend Make-Whole Payment"). The Dividend Make-Whole Payment was payable in cash or, at the Company's option, in shares of the Company's common stock, or a combination of cash and shares of common stock. The Dividend Make-Whole Payment is discussed further in Note 7 below.

As of December 31, 2007 there were no outstanding shares of Preferred Stock as a result of the second quarter automatic conversion of the Preferred Stock to common stock.

7. Derivatives

In accordance with SFAS 133, the Company was required to separate and account for the Dividend Make-Whole Payment feature of its Preferred Stock as an embedded derivative (the "Derivative"). As an embedded derivative instrument, the Dividend Make-Whole Payment feature was measured at fair value and reflected as a current liability on the Company's Consolidated Balance Sheets prior to the conversion of the Preferred Stock as discussed in Note 6 above. Changes in the fair value of the Derivative were recognized in the line item change in valuation of derivative as a non-operating income/expense on the Company's Consolidated Statements of Operations.

The Company determined the fair value of the Derivative to be $1.0 million on March 18, 2005, the date of issuance. The Company determined the fair value of the Derivative related to the issuance of additional Preferred Stock upon exercise of the underwriter's over allotment option to be $32,000 on April 19, 2005, the date of issuance. The proceeds from the Preferred Stock recorded on the Consolidated Balance Sheets were reduced by these amounts, which were allocated to the Derivative.

As discussed in Note 6 above, on June 25, 2007 the Company automatically converted the remaining shares of the Preferred Stock into common stock, thereby triggering the payment of the remaining Dividend Make-Whole Payment. Through June 4, 2007 the Company had issued 132,000 shares of common stock to converting holders in satisfaction of the Dividend Make-Whole Payment. The value of voluntary conversions during 2007 was $178,000 based on the share prices on the respective dates of conversion. On June 25, 2007 the Company issued 69,000 shares of common stock to preferred shareholders to satisfy the Dividend Make-Whole Payment due to the automatic conversion. The value of the Dividend Make-Whole Payment was $878,000 based on the share price of $12.71 on the date of conversion.

The Company recorded other expense totaling $821,000 for the year ended December 31, 2007 related to the first quarter revaluation of the Derivative and the second quarter automatic and voluntary conversions of the Preferred Stock to common stock. The 2007 expenses for the voluntary and automatic conversions represent the value of the Dividend Make-Whole Payments paid by the Company that exceeded the derivative liability accrued in prior periods.

The Company recorded other expense of $121,000 for the year ended December 31, 2006 related to the quarterly revaluations of the Derivative. The Company recorded other income of $140,000 for the year ended December 31, 2005 related to voluntary conversions of the Preferred Stock to common stock and the quarterly revaluations of the Derivative.

At December 31, 2007 there was no remaining derivative liability as a result of the second quarter automatic conversion of the Preferred Stock into common stock.

8. Commitments and Contingencies

Leases

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

The term of the lease of the land and buildings that comprise the Company's corporate headquarters was originally 15 years and was later extended to 19 years. This lease expires in 2015. Certain leases contain escalation clauses and renewal options for

additional periods. Rent expense is computed on the straight-line method over the lease term with the offsetting accrual of $1.3 million for the years ended December 31, 2007 and 2006, respectively, recorded in other long-term liabilities.

Future minimum lease payments under non-cancelable leases as of December 31, 2007 are as follows (in thousands):

	Leases	
	Capital	Operating
2008	$ 53	$ 2,415
2009	52	2,275
2010	35	2,153
2011	—	2,145
2012	—	2,187
Thereafter	—	6,337
Total minimum lease payments	$ 140	$17,512
Less amount representing interest at a weighted average 9% interest rate	16	
Present value of net minimum lease payments	124	
Less current maturities	43	
Capital lease obligations, less current maturities	$ 81	

The gross amount of property acquired under capital leases included in the Consolidated Balance Sheets consists of the following (in thousands):

	2007	2006
Equipment	$ 937	$ 937
Furniture and fixtures	765	765
Leasehold improvements	1,244	1,244
Total	$2,946	$2,946

The amortization of the Company's assets acquired under capital leases is recorded as depreciation expense based on the life of the lease. Total rental expense for operating leases was $2.3 million, $2.3 million, and $2.4 million for 2007, 2006, and 2005 respectively. In 2005 the Company recorded rental income of $258,000 under a sublease that terminated during 2005.

Litigation, Claims, and Assessments

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. As of February 15, 2008 two product liability lawsuits were pending against the Company arising out of the Company's allograft heart valve and orthopaedic tissue preservation services. These lawsuits are covered by product liability insurance and are in the pre-discovery or discovery stages. Other parties have made complaints that may result in lawsuits in future periods.

The Company performed an analysis as of December 31, 2007 of the pending product liability lawsuits and other claims based on settlement negotiations to date and advice from counsel. As of December 31, 2007 the Company had accrued a total of approximately $330,000 for the pending product liability lawsuits. The $330,000 accrual was included as a component of accrued expenses and other current liabilities on the December 31, 2007 Consolidated Balance Sheet. As of December 31, 2006 the Company had accrued a total of approximately $330,000 for a pending product liability lawsuit. The lawsuit to which this accrual related was settled in the first quarter of 2007. The $330,000 accrual was included as a component of accrued expenses and other current liabilities on the December 31, 2006 Consolidated Balance Sheet.

On April 1, 2007 the Company bound coverage for the 2007/2008 insurance policy year. This policy is a five-year claims-made insurance policy, i.e. claims incurred during the period April 1, 2003 through March 31, 2008 and reported during the period April 1, 2007 through March 31, 2008 are covered by this policy. Claims incurred prior to April 1, 2003 that have not been reported are uninsured.

The Company maintains claims-made insurance policies to mitigate its financial exposure to product liability claims. Claims-made insurance policies generally cover only those asserted claims and incidents that are reported to the insurance carrier while the policy is in effect. Thus, a claims-made policy does not generally represent a transfer of risk for claims and

incidents that have been incurred but not reported to the insurance carrier during the policy period. The Company periodically evaluates its exposure to unreported product liability claims and records accruals as necessary for the estimated cost of unreported claims related to services performed and products used. In January 2008 the Company retained an independent actuarial firm to perform estimates of the unreported claims as of December 31, 2007. The independent firm estimated the unreported product loss liability using a frequency-severity approach, whereby projected losses were calculated by multiplying the estimated number of claims by the estimated average cost per claim. The estimated claims were calculated based on the reported claim development method and the Bornhuetter-Ferguson method using a blend of the Company's historical claim experience and industry data. The estimated cost per claim was calculated using a lognormal claims model blending the Company's historical average cost per claim with industry claims data. The independent actuarial firm used a number of assumptions in order to estimate the unreported product loss liability including:

- A ceiling of $5.0 million was selected for actuarial purposes in determining the liability per claim given the uncertainty in projecting claim losses in excess of $5.0 million,
- The future claim reporting lag time would be a blend of the Company's experiences and industry data,
- The frequency of unreported claims for accident years 2001 through 2007 would be lower than the Company's experience in the 2002/2003 policy year, but higher than the Company's historical claim frequency prior to the 2002/2003 policy year,
- The average cost per claim would be lower than the Company's experience since the 2002/2003 policy year, but higher than the Company's historical cost per claim prior to the 2002/2003 policy year,
- The average cost per BioGlue claim would be consistent with the Company's overall historical exposures until adequate historical data is available on this product line, and
- The number of BioGlue claims per million dollars of BioGlue revenue would be 50% lower than non-BioGlue claims per million dollars of revenue. The 50% factor was selected based on BioGlue claims experience to date and consultation with the actuary.

The Company believes that these assumptions provide a reasonable basis for the calculation of the unreported product liability loss, but the accuracy of the actuarial firm's estimates is limited by the general uncertainty that exists for any estimate of future activity due to uncertainties surrounding the assumptions used and due to Company specific conditions 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 assumptions used and amounts accrued.

Based on the actuarial valuation performed in January 2008 as of December 31, 2007, the Company estimated that its liability for unreported product liability claims was $6.3 million as of December 31, 2007. The $6.3 million balance is included as a component of accrued expenses and other current liabilities of $3.2 million and other long-term liabilities of $3.1 million on the December 31, 2007 Consolidated Balance Sheet. Further analysis indicated that the liability could be estimated to be as high as $11.9 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 December 31, 2007, $2.4 million of the accrual for unreported liability claims would be recoverable under the Company's insurance policies. The $2.4 million insurance recoverable is included as a component of other receivables of $1.1 million and other long-term assets of $1.3 million on the December 31, 2007 Consolidated Balance Sheet. These amounts represent management's estimate of the probable losses and anticipated recoveries for unreported product liability claims related to services performed and products sold prior to December 31, 2007. Actual results may differ from this estimate.

As of December 31, 2006 the Company accrued $6.6 million for unreported product liability claims and recorded a receivable of $2.3 million for unreported liability claims estimated to be recoverable under the Company's insurance policies. This $6.6 million accrual was included as a component of accrued expenses and other current liabilities of $3.3 million and other long-term liabilities of $3.3 million on the December 31, 2006 Consolidated Balance Sheet. The $2.3 million insurance recoverable was included as a component of other current receivables of $1.1 million and other long-term assets of $1.2 million on the December 31, 2006 Consolidated Balance Sheet.

Insurance Coverage Dispute

In September 2006 the Company favorably settled insurance coverage disputes with former insurance carriers for $2.1 million, net of associated legal fees. The disputes involved losses stemming from approximately $11.3 million paid in 2005 by the Company in settlement of outstanding claims. No party admitted any liability as part of the September 2006 settlement. The net proceeds of $2.1 million were received in October 2006 and are included as a component of general, administrative, and marketing expenses on the Consolidated Statements of Operations for the year ended December 31, 2006.

Class Action Lawsuit

Several putative class action lawsuits were filed in July through September 2002 against the Company and certain officers of the Company, alleging violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 based on a series of purportedly materially false and misleading statements to the market. The suits were consolidated, and a consolidated amended complaint filed, that principally alleged that the Company made misrepresentations and omissions relating to product safety and the Company did not comply with certain FDA regulations regarding the handling and processing of certain tissues and other product safety matters. The consolidated complaint sought certification of a class of purchasers between April 2, 2001 and August 14, 2002, compensatory damages, and other expenses of litigation.

On July 21, 2005 the Company reached an agreement in principle to settle the securities class action lawsuit. The settlement resolved all claims asserted against the Company and the individual defendants in this case. The terms of the settlement included a total settlement of $23.25 million in cash and stock. The cash payment, which included approximately $12.0 million in insurance proceeds and approximately $9.3 million in Company funds, was paid in the third and fourth quarters of 2005. The Company transferred 500,000 shares valued at $2.0 million in the fourth quarter of 2005 in payment of the stock portion of the settlement. The Company and the individual defendants have denied any wrongdoing and liability whatsoever, and the settlement does not contain any admission of liability.

9. Stock Compensation

Overview

The Company has stock option and stock incentive plans for employees and non-employee Directors that provide for grants of shares and options to purchase shares of Company common stock at exercise prices generally equal to the fair values of such stock at the dates of grant. The Company maintains a shareholder approved Employee Stock Purchase Plan (the “ESPP”) for the benefit of its employees. The ESPP allows eligible employees the right to purchase common stock on a quarterly basis at the lower of 85% of the market price at the beginning or end of each three-month offering period.

As of December 31, 2007 the Company is authorized to grant under the Company’s plans up to the following number of shares:

Plan	Shares
1998 Long-Term Incentive Plan	900,000
2002 Stock Incentive Plan	974,000
2004 Employee Stock Incentive Plan	2,000,000

As of December 31, 2007 and 2006 there were 1.3 million and 1.9 million, respectively, shares of common stock reserved for future issuance under the Company’s stock option and stock incentive plans after considering prior grants. Upon the exercise of stock options, the Company may issue the required shares out of authorized but unissued common stock or out of treasury stock, at management’s discretion. As of May 2, 2007 the Board of Directors terminated the 2004 Non-Employee Directors Stock Option Plan. Therefore, no further grants of shares will be made out of this plan.

Stock Grants

In February 2007 the Compensation Committee of the Company’s Board of Directors approved the terms of the Company’s 2007 performance-based bonus plans to recognize the performance of the Company’s executives and managers. A portion of the awards to be issued under these plans will be paid in Company stock pursuant to the Company’s existing stock incentive plans, if the required performance is achieved. The Company recorded a liability of $788,000 related to this stock grant during the year ended December 31, 2007. The Company expects to pay out cash and stock related to these bonus plans in the first quarter of 2008.

In 2007 the Compensation Committee of the Company's Board of Directors authorized grants of stock from approved stock incentive plans to certain Company executives and non-employee Directors totaling 172,000 shares of common stock. The stock, which had an aggregate value of $1.6 million, was valued based on the stock prices on the respective grant dates. The grants of stock in 2007 include 68,000 shares of common stock valued at $587,000 issued as part of the 2006 performance-based bonus plan for certain Company executives. The Company recorded the entire expense related to the 2006 performance-based bonus plan during the year ended December 31, 2006. The remaining value of the stock granted will be recorded as an expense on the Company's Consolidated Statements of Operations over the respective vesting periods in accordance with SFAS 123R as discussed below.

In 2006 the Compensation Committee of the Company's Board of Directors authorized grants of stock from approved stock incentive plans to certain Company executives and non-employee Directors totaling 54,000 shares of common stock. The stock, which had an aggregate value of $254,000, was valued based on the stock prices on the respective grant dates. The value of the stock granted will be recorded as an expense on the Company's Consolidated Statements of Operations over the respective vesting periods in accordance with SFAS 123R as discussed below.

In 2005 there were no stock grants issued by the Compensation Committee of the Company's Board of Directors.

As of December 31, 2007 and 2006 CryoLife had a total of $606,000 and $73,000, respectively, in additional paid-in capital related to stock grants in the shareholder's equity section of the Company's Consolidated Balance Sheets.

A summary of stock grant activity for the years ended December 31, 2007, 2006, and 2005 is as follows:

	Shares	Weighted Average Grant Date Fair Value
Unvested at December 31, 2004	32,000	$ 6.91
Vested	(29,000)	6.91
Canceled	(3,000)	6.91
Unvested at December 31, 2005	—	—
Granted	54,000	4.70
Vested	(41,000)	4.45
Unvested at December 31, 2006	13,000	5.47
Granted	172,000	9.61
Vested	(82,000)	8.06
Canceled	(15,000)	9.26
Unvested at December 31, 2007	88,000	$ 10.48

Stock Options

The Compensation Committee of the Company's Board of Directors authorized grants of stock options from approved stock incentive plans to certain Company executives and employees totaling 383,000, 948,000, and 115,000 shares in 2007, 2006, and 2005, respectively, with exercise prices equal to the stock prices on the respective grant dates. The value of the stock options granted will be recorded as an expense on the Company's Consolidated Statements of Operations over the respective vesting periods in accordance with SFAS 123R as discussed below.

A summary of Company's stock option transactions under the plans as of and for the year ended December 31, 2007, 2006, and 2005 follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2004	2,293,000	$ 11.04	2.78	$ 3,354,000
Granted	115,000	7.08		
Exercised	(36,000)	3.14		
Forfeited	(126,000)	5.62		
Expired	(492,000)	10.24		
Outstanding at December 31, 2005	1,754,000	11.55	2.42	505,000
Granted	948,000	4.98		
Exercised	(101,000)	2.25		
Forfeited	(103,000)	5.09		
Expired	(310,000)	26.67		
Outstanding at December 31, 2006	2,188,000	7.29	3.03	5,328,000
Granted	383,000	8.64		
Exercised	(410,000)	3.49		
Forfeited	(124,000)	8.27		
Expired	(179,000)	28.38		
Outstanding at December 31, 2007	1,858,000	$ 6.31	3.19	$ 3,993,000
Vested and Expected to Vest	1,777,000	$ 6.33	0.84	$ 3,817,000
Exercisable at December 31, 2007	809,000	$ 6.74	1.92	$ 1,768,000

The following table summarizes information concerning outstanding and exercisable options at December 31, 2007:

Options Outstanding				Options Exercisable	
Range of Exercise Price	Average Number Outstanding	Weighted Average Remaining Contract Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 2.20-4.78	381,000	2.52	$ 3.95	162,000	$ 3.48
4.88-5.05	455,000	3.54	5.02	152,000	5.00
5.27-5.80	403,000	2.96	5.56	183,000	5.43
6.16-8.70	482,000	3.87	7.87	200,000	7.28
9.06-30.86	137,000	2.20	13.89	112,000	14.97
$ 2.20-30.86	1,858,000	3.19	$ 6.31	809,000	$ 6.74

Other information concerning stock options for the years ended December 31 is as follows:

	2007	2006	2005
Weighted average fair value of options granted	$ 3.98	$ 2.64	$ 3.51
Intrinsic value of options exercised	$3,106,000	$362,000	$148,000

Employees purchased common stock totaling 46,000, 76,000, and 50,000 shares in 2007, 2006, and 2005, respectively, through the Company's ESPP. The value of the option portion of the stock purchased was recorded as an expense on the Company's Consolidated Statements of Operations in each quarterly period in accordance with SFAS 123R as discussed below.

Stock Compensation Expense

The Company adopted SFAS 123R on October 1, 2005. SFAS 123R requires companies to recognize the cost of all share-based payments in the financial statements using a fair-value based measurement method. The Company adopted SFAS 123R using the modified version of prospective application, as defined in SFAS 123R, and, as such, the adoption did not affect prior interim or year end periods.

In anticipation of the adoption of SFAS 123R on September 30, 2005, the Company's Board of Directors approved the accelerated vesting of unvested and "out-of-the-money" options with an exercise price equal to or greater than $6.97, the closing price of the Company's common stock on September 29, 2005. Vesting was accelerated on a total of 167,000 options for 29 employees with a range of exercise prices from $7.03 to $31.99. As a result of this accelerated vesting, the Company recorded on a pro forma basis an additional expense of $1.4 million for the three and nine months ended September 30, 2005. This expense is deducted from the net loss applicable to common shares – as reported to calculate net loss applicable to common shareholders – pro forma and the corresponding pro forma loss per share amounts in the tables below. The decision to initiate the accelerated vesting, which the Company believed to be in the best interest of the Company and its shareholders, was made primarily to reduce compensation expense related to unvested "out-of-the-money" options that might be recorded in future periods following the Company's adoption of SFAS 123R on October 1, 2005.

Beginning October 1, 2005 both the Company's 15% discount and the look back portion of ESPP stock purchases are considered a stock option, and as such, must be expensed as stock compensation on the Company's Consolidated Statements of Operations in accordance with SFAS 123R.

The Company uses the Black-Scholes model to value its stock option grants under SFAS 123R and expenses the related compensation cost using the straight-line method over the vesting period. The fair value of the Company's ESPP options is also determined using the Black-Scholes model and is expensed quarterly at the end of the purchase period, as the option is fully vested at that time. The fair value of stock options is determined on the grant date using assumptions for the expected term, expected volatility, dividend yield, and the risk free interest rate. The term assumption is primarily based on the contractual term of the option and historic data related to exercise and post-vesting cancellation history experienced by the Company, adjusted based on management's expectations of future results. The expected term is determined separately for options issued to the Company's directors and to employees. The Company's anticipated volatility level is primarily based on the historic volatility of the Company's common stock, adjusted to remove the effects of certain periods of unusual volatility not expected to recur, and adjusted based on management's expectations of future volatility, for the life of the option or option group. The Company's model includes a zero dividend yield assumption, as the Company has not historically paid nor does it anticipate paying dividends on its common stock. The risk free interest rate is based on recent U.S. treasury note auction results with a similar life to that of the option. The Company's model does not include a discount for post-vesting restrictions, as the Company has not issued awards with such restrictions. The period expense is then determined based on the valuation of the options and, at that time, an estimated forfeiture rate is used to reduce the expense recorded. The Company's estimate of pre-vesting forfeitures is primarily based on the recent historical experience of the Company and is adjusted to reflect actual forfeitures at each vesting date.

During the fourth quarter of 2007 the Company's valuation analyst performed its annual review of the underlying assumptions the Company uses in its Black-Scholes model for the valuation of options in accordance with SFAS 123R. During this review the Company evaluated the volatility, expected term, and forfeitures. The Company began using these revised assumptions for all options granted beginning in the fourth quarter of 2007.

The following weighted-average assumptions were used to determine the fair value of options under SFAS 123R:

	Twelve Months Ended December 31, 2007		Twelve Months Ended December 31, 2006	
	Stock Options	ESPP Options	Stock Options	ESPP Options
Expected dividend yield	0%	0%	0%	0%
Expected stock price volatility	.600	.527	.650	.417
Risk-free interest rate	4.62%	4.64%	4.80%	4.39%
Expected life of options	3.4 Years	.24 Years	4.1 Years	.24 Years

	Three Months Ended December 31, 2005	
	Stock Options	ESPP Options
Expected dividend yield	0%	0%
Expected stock price volatility	.650	.525
Risk-free interest rate	4.32%	3.55%
Expected life of options	5 Years	.25 Years

The modified prospective approach requires that the Company expense over the remaining vesting period the value it previously calculated under the fair value method for stock options issued prior to the adoption of SFAS 123R. As of October 1, 2005, the date of adoption, there was approximately $593,000 in total unrecognized compensation cost related to

unvested stock, before considering estimated forfeitures. That cost is expected to be recognized based on the vesting of the underlying option awards through the quarter ended June 30, 2010.

The following table summarizes stock compensation expenses:

	Year Ended December 31,		
	2007	2006	2005
Stock grant expense	$1,262,000	$ 768,000	$202,000
Stock option expense	865,000	852,000	120,000
Total stock compensation expense	$2,127,000	$1,620,000	$322,000

Included in this total stock compensation expense were expenses related to common stock grants, options issued prior and subsequent to the adoption of SFAS 123R, and compensation related to the Company's ESPP. These amounts were recorded as compensation expense and were subject to the Company's normal allocation of expenses to inventory and deferred preservation costs. The Company capitalized $87,000, $75,000, and $37,000 in the years ended December 31, 2007, 2006, and 2005, respectively, of the stock compensation expense into its deferred preservation costs and inventory costs. The Company did not recognize a tax benefit, or a related operating cash outflow and financing cash inflow, related to the compensation expense recorded in the years ended December 31, 2007, 2006, and 2005 as the Company is maintaining a full valuation allowance on its deferred tax assets. See Note 14 for additional discussions of the Company's income tax valuation.

As of December 31, 2007, 2006, and 2005 there was approximately $2.7 million, $2.1 million, and $495,000, respectively, in total unrecognized compensation costs related to nonvested share-based compensation arrangements, before considering the effect of expected forfeitures. As of December 31, 2007, 2006, and 2005 this expense is expected to be recognized over a weighted average period of 1.6 years, 2.0 years, and 1.5 years, respectively.

In periods prior to October 1, 2005 the Company elected to follow APB 25 in accounting for its employee stock options. Under APB 25, because the exercise price of the Company's employee stock options equaled the market price of the underlying stock on the date of the grant, no compensation expense was recognized. In accordance with APB 25, the compensation recorded for employee stock grants was equal to the value of the grant on the measurement date, the date of the grant, as determined by the closing price of the Company's common stock on that date. Some employee stock grants vested in future periods based on a requirement of continued service to the Company. For these stock grants, the amount of the stock grant was recorded as additional paid-in capital in the equity section of the Company's Consolidated Balance Sheets, and was expensed on a straight-line basis over the vesting period.

Pro forma information regarding net loss and loss per share was required by SFAS 123 for options accounted for under APB 25. SFAS 123 required that option valuation information be disclosed as if the Company accounted for its employee stock options granted under the fair value method of that statement. The fair values for these options were estimated at the dates of grant using a Black-Scholes option-pricing model and the following weighted-average assumptions were used:

	Nine Months Ended September 30, 2005 (unaudited)
Expected dividend yield	0%
Expected stock price volatility	.519
Risk-free interest rate	3.36%
Expected life of options	3.2 Years

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

	Nine Months Ended September 30, 2005 (unaudited)
Basic net loss applicable to common shares—as reported	$ (19,387)
Stock-based employee compensation:	
Add expense included in the determination of net loss	166
Deduct expense determined under the fair value based method for all awards	3,253
Basic net loss applicable to common shares—pro forma	$ (22,474)
Basic weighted-average shares	23,839
Basic loss per common share:	
As reported	$ (0.81)
Pro forma	$ (0.94)

	Nine Months Ended September 30, 2005 (unaudited)
Diluted net loss applicable to common shares—as reported	$ (19,387)
Stock-based employee compensation:	
Add expense included in the determination of net loss	166
Deduct expense determined under the fair value based method for all awards	3,253
Diluted net loss applicable to common shares—pro forma	$ (22,474)
Diluted weighted-average shares	23,839
Diluted loss per common share:	
As reported	$ (0.81)
Pro forma	$ (0.94)

10. Shareholder Rights Plan

On November 1, 2005 the CryoLife, Inc. Board of Directors approved the amendment and restatement of the shareholder rights agreement, which was previously adopted by the Board in 1995. The Board of Directors determined that the amendment and extension of the rights agreement protected the long-term share value for the Company's shareholders. Under the rights agreement each share of the Company's common stock outstanding on December 11, 1995 is entitled to one "Right," as defined in, and subject to, the terms of the rights agreement. A Right entitles the registered holder to purchase from the Company one one-hundredth of a share of Series A junior participating preferred stock ("Series A Stock") of the Company at $33.33 per one one-hundredth of a Preferred Share, subject to adjustment. Additionally, each common share that has or shall become outstanding after December 11, 1995 is also entitled to a Right, subject to the terms and conditions of the rights agreement. The Rights, which expire on November 23, 2015, may be exercised only if certain conditions are met, such as the acquisition of 15% or more of the Company's common stock by a person or affiliated group (together with its affiliates, associates, and transferees, an "Acquiring Person"). Rights beneficially owned by an Acquiring Person become void from and after the time such persons become Acquiring Persons, and Acquiring Persons have no rights whatsoever under the rights agreement.

Each share of Series A Stock purchasable upon exercise of a Right will be entitled, when, as, and if declared, to a minimum preferential quarterly dividend payment of $1.00 per share but will be entitled to an aggregate dividend of 100 times the dividend declared per share of common stock. In the event of liquidation each share of the Series A Stock will be entitled to a minimum preferential liquidation payment of 100 times the payment made per share of common stock. Finally in the event of any merger, consolidation, or other transaction in which shares of common stock are exchanged, each share of Series A Stock

will be entitled to receive 100 times the amount received per share of common stock. These rights are protected by customary antidilution provisions.

In the event the Rights become exercisable, each Right will enable the owner, other than Acquiring Persons, to purchase shares of the Company's Series A Stock as described above. Alternatively, if the Rights become exercisable, the holder of a Right may elect to receive, upon exercise of the Right and in lieu of receiving Series A Stock, that number of shares of common stock of the Company having an exercise value of two times the exercise price of the Right. In the event that, after a person or group has become an Acquiring Person, the Company is acquired in a merger or other business combination transaction or 50% or more of its consolidated assets or earning power are sold, proper provision will be made so that each holder of a Right will thereafter have the right to receive, upon the exercise of a Right, and in lieu of Series A Stock of the Company, that number of shares of common stock of the person with whom the Company has engaged in the foregoing transaction (or its parent) that at the time of such transaction will have a market value of two times the exercise price of the Right. In addition, after any person or group becomes an Acquiring Person and prior to the acquisition by the person or group of 50% or more of the outstanding common stock, the Board of Directors may elect to exchange all outstanding Rights at an exchange ratio of one share of common stock (or fractional share of Series A Stock or other preferred shares) per Right (subject to adjustment).

11. Comprehensive Income (Loss)

Components of comprehensive income (loss) consist of the following, net of applicable taxes (in thousands):

	2007	2006	2005
Net income (loss)	$7,201	$365	$(19,535)
Unrealized gain (loss) on investments	2	3	(34)
Translation adjustment	(162)	34	(204)
Comprehensive income (loss)	$ 7,041	$ 402	$ (19,773)

The tax effect on the change in unrealized gain (loss) on investments is zero, zero, and $11,000 for the years ended December 31, 2007, 2006, and 2005, respectively.

At December 31, 2007, components of accumulated other comprehensive income consists of the following, (in thousands):

	2007	2006
Unrealized gain on investments	$ 3	$ 1
Translation adjustment	(3)	159
Total accumulated other comprehensive income	$—	$ 160

12. Employee Benefit Plans

The Company has a 401(k) savings plan (the "Plan") providing retirement benefits to all employees who have completed at least three months of service. The Company made matching contributions of 50% of each participant's contribution for up to 4% of each participant's salary in 2007, 2006, and 2005. Total Company contributions approximated $357,000, $340,000, and $296,000 for 2007, 2006, and 2005, respectively. Additionally, the Company may make discretionary contributions to the Plan that is allocated to each participant's account. In 2006 discretionary contributions of $56,000 were made by the plan administrator on behalf of the Company. No discretionary contributions were made in 2007 or 2005.

On May 16, 1996 the Company's shareholders approved the CryoLife, Inc. ESPP. The ESPP allows eligible employees the right to purchase common stock on a quarterly basis at the lower of 85% of the market price at the beginning or end of each three-month offering period. As of December 31, 2007 and 2006 there were 158,000 and 205,000, respectively, shares of common stock reserved under the ESPP and there were 742,000 and 695,000, respectively, shares issued under the plan.

13. Income (Loss) Per Common Share

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

	2007	2006	2005
Numerator for basic income (loss) per common share:			
Net income (loss)	$ 7,201	$ 365	$(19,535)
Effect of preferred stock [a]	(243)	(973)	(777)
Net income (loss) applicable to common shares	$ 6,958	$ (608)	$ (20,312)
Denominator for basic loss per common share:			
Basic weighted-average common shares	26,331	24,829	23,959
Basic income (loss) per common share	$ 0.26	$ (0.02)	$ (0.85)
Numerator for diluted income (loss) per common share:			
Net income (loss)	$ 7,201	$ 365	$(19,535)
Effect of preferred stock [a, b]	(243)	(973)	(777)
Net income (loss) applicable to common shares	$ 6,958	$ (608)	$ (20,312)
Denominator for diluted income (loss) per common share:			
Basic weighted-average common shares	26,331	24,829	23,959
Effect of dilutive convertible preferred stock [b]	—	—	—
Effect of dilutive stock options [c]	582	—	—
Effect of contingently returnable shares	10	—	—
Effect of contingent stock awards	51	—	—
Adjusted weighted-average common shares	26,974	24,829	23,959
Diluted income (loss) per common share	$ 0.26	$ (0.02)	$ (0.85)

[a] The amount of the accumulated dividend on the Preferred Stock reduced the Company's net income applicable to common shares by $243,000 for the year ended December 31, 2007, offset the Company's net income and resulted in a net loss applicable to common shares with a total unfavorable effect of $973,000 for the year ended December 31, 2006, and increased the net loss applicable to common shares by $777,000 for the year ended December 31, 2005.

[b] The amount of the accumulated dividend on the Preferred Stock reduced the Company's net income applicable to common shares by $243,000 for the year ended December 31, 2007. The adjustment for the Dividend Make-Whole Payment for conversions during the period and the adjustment for the quarterly revaluation of the derivative liability would have instead increased net income applicable to common shareholders by $821,000 for the year ended December 31, 2007. The common shares that would have been issued to shareholders at the beginning of the year for the conversion of the remaining Preferred Stock and in payment of the remaining Dividend Make-Whole Payment would have increased the weighted-average shares by 976,000 for the year ended December 31, 2007. These adjustments were excluded from the calculation above, as they were anti-dilutive pursuant to the provisions of SFAS 128.

The amount of the accumulated dividend on Preferred Stock offset the Company's net income and resulted in a net loss applicable to common shares with a total unfavorable effect of $973,000 for the year ended December 31, 2006. The adjustment for the quarterly revaluation of the derivative liability, would have instead increased the net income applicable to common shareholders by $121,000 for the year ended December 31, 2006, and the common shares that would be issued to shareholders upon conversion of the remaining Preferred Stock and in payment of the remaining Dividend Make-Whole Payment would have increased the weighted-average common shares by 2.2 million for the year ended December 31, 2006. These adjustments were excluded from the calculation above, as they were anti-dilutive pursuant to the provisions of SFAS 128.

The amount of the accumulated dividend on Preferred Stock increased the Company's net loss by $777,000 for the year ended December 31, 2005. The adjustment for voluntary conversions of Preferred Stock which took place during the period March 18, 2005 through December 31, 2005, and the adjustment for the quarterly revaluation of the derivative liability, would have instead increased the net loss applicable to common shareholders by $140,000 for the year ended December 31, 2005. The common shares that would be issued to shareholders upon conversion of the remaining

Preferred Stock and in payment of the remaining Dividend Make-Whole Payment would have increased the weighted-average common shares by 2.0 million for the year ended December 31, 2005. These adjustments were excluded from the calculation above, as they were anti-dilutive pursuant to the provisions of SFAS 128.

[c] Outstanding options to purchase the Company's common stock that would have resulted in additional dilutive common shares of 229,000 and 331,000 for the years ended December 31, 2006 and 2005, respectively, were excluded from the calculation above, as they were anti-dilutive pursuant to the provisions of SFAS 128.

In future periods the basic and diluted earnings per common share are expected to be affected by stock option transactions including the exercise of stock options and the issuance of additional stock options, contingently returnable shares, and contingent stock awards, as well as fluctuations in the fair value of the Company's common stock.

14. Income Taxes

Income (loss) before income taxes consists of the following (in thousands):

	2007	2006	2005
Domestic	$ 7,570	$358	$(19,956)
Foreign	(1)	292	(7)
Income (loss) before income taxes	$7,569	$650	$ (19,963)

Income tax expense (benefit) consists of the following (in thousands):

	2007	2006	2005
Current:			
Federal	$253	$ 85	$(557)
State	36	(58)	70
Foreign	79	(17)	123
	368	10	(364)
Deferred:			
Federal	$—	$—	$ —
State	—	—	—
Foreign	—	275	(64)
	—	275	(64)
Income tax expense (benefit)	$368	$285	$ (428)

The Company's income tax expense of $368,000 for 2007 was primarily due to alternative minimum tax on the Company's U.S. taxable income for 2007 that cannot be offset by the Company's net operating loss carryforwards, as well as taxes on the Company's wholly owned European subsidiary and certain state tax obligations.

Such amounts differ from the amounts computed by applying the U.S. federal income tax rate of 34% in 2007, 2006, and 2005 to pretax income as a result of the following (in thousands):

	2007	2006	2005
Tax expense (benefit) at statutory rate	$ 2,573	$ 221	$(6,787)
Increase (reduction) in income taxes resulting from:			
Deferred tax valuation allowance	(3,257)	(330)	6,493
Research and development credit	(70)	(126)	(100)
Extraterritorial income exclusion	—	(49)	(54)
State income taxes, net of federal benefit	359	3	(142)
Loss (gain) on preferred stock dividend make-whole payments	279	41	(48)
Equity compensation	275	175	30
Non-deductible entertainment expenses	99	81	74
Disallowed executive compensation deduction	82	—	—
Foreign income taxes	8	258	59
Other	20	11	47
	$ 368	$ 285	$ (428)

The tax effects of temporary differences which give rise to deferred tax liabilities and assets at December 31 are as follows (in thousands):

	2007	2006
Deferred tax assets:		
Allowance for bad debts	$ 67	$ 50
Property	851	62
Accrued expenses	3,579	2,926
Loss carryforwards	19,300	23,603
Credit carryforwards	4,223	5,372
Deferred preservation costs and inventory reserves	1,106	1,467
Other	384	237
Less valuation allowance	(28,228)	(32,978)
Net deferred tax assets	1,282	739
Deferred tax liabilities:		
Intangible assets	(872)	(239)
Prepaid items	(410)	(441)
Other	(27)	(285)
Total gross deferred tax liabilities	(1,309)	(965)
Total net deferred tax liabilities	$ (27)	$ (226)

The Company periodically assesses the recoverability of its deferred tax assets, in accordance with SFAS No. 109, as necessary, when the Company experiences changes that could materially affect its determination of the recoverability of its deferred tax assets. Management provides a valuation allowance when, as a result of this analysis, management believes it is more likely than not that its deferred tax assets will not be realized. In assessing the recoverability of its deferred tax assets at December 31, 2007 the Company reviewed its historical operating results, including the reasons for its operating losses in prior years and uncertainties regarding projected future operating results. Based on the results of this analysis, discussed further below, at December 31, 2007 the Company determined that it was more likely than not that the Company's deferred tax assets would not be realized.

Based on the Company's results for the year ended December 31, 2007 and its projections for 2008, the Company anticipates that it will utilize a portion of its net operating loss carryforwards in the 2008 income tax year to offset its U.S. taxable income, as it did in the 2007 and 2006 tax years. Although CryoLife is beginning to utilize its net operating loss carryforwards, the Company currently believes that a change in its determination of the recoverability of its deferred tax assets is not yet warranted. CryoLife will continue to evaluate its determination in accordance with the guidance in SFAS 109, which indicates the Company's net losses in recent years constitute significant evidence against the recoverability of its deferred tax assets that is difficult to overcome. CryoLife will reverse the remaining valuation allowance, or a portion thereof, when and if its deferred tax assets meet the SFAS 109 "more likely than not" standard for recognition. Also, the realizability of the Company's deferred tax assets could be limited in future periods as mandated by 382 of the Internal Revenue Code of 1986, as amended.

The Company adopted the provisions of FIN 48 on January 1, 2007. As a result of the adoption of FIN 48, the Company recorded $1.7 million in liabilities for unrecognized tax benefits plus estimated interest and penalties of $283,000. The aggregate $2.0 million liability was accounted for as a decrease to the January 1, 2007 balance of retained earnings of $762,000 and a reclassification of a portion of the valuation allowances against the Company's deferred tax assets of $1.2 million to an uncertain tax liability which was recorded as a reduction to certain deferred tax assets on the Company's Consolidated Balance Sheet. To the extent these unrecognized tax benefits are ultimately recognized, it would not affect the annual effective income tax rate due to the existence of the valuation allowance. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2007
Balance at January 1, 2007	$1,694
Increases related to prior year tax positions	18
Increases related to current year tax positions	42
Settlements	(18)
Balance at December 31, 2007	$1,736

The Company recognized interest and penalties related to uncertain tax positions of $64,000 for the year ended December 31, 2007 in other income and expense on the Company's Consolidated Statements of Operations. As of December 31, 2007 the Company has approximately $347,000 of accrued interest and penalties related to uncertain tax positions. The total uncertain tax liability of $2.1 million as of December 31, 2007 was recorded as a reduction to deferred tax assets of $1.2 million and a non current liability of $839,000 on the Company's Consolidated Balance Sheet.

As of December 31, 2007 the Company had a total of $28.2 million in valuation allowances against deferred tax assets and a net deferred tax liability of $27,000.

The tax years 2004-2007 remain open to examination by the major taxing jurisdictions to which the Company is subject.

As of December 31, 2007, the Company had approximately $37.0 million of U.S. federal net operating loss carryforwards that will begin to expire in the 2023 tax year, approximately $6.5 million of state net operating loss carryforwards that will begin to expire in 2008, $2.9 million in research and development tax credit carryforwards that will begin to expire in 2009, and $2.0 million of capital loss carryforwards that will begin to expire in 2008. Additionally, at December 31, 2007 the Company had $2.4 million in alternative minimum tax credit carryforwards that do not expire.

15. Executive Insurance Plan

Pursuant to a supplemental life insurance program for certain executive officers of the Company, the Company and the executives shared in the premium payments and ownership of insurance policies on their lives. At death, policy proceeds equal to the premium contribution were due to the Company with the remaining proceeds due to the designated beneficiaries of the insured party. In 2003 the Company suspended all contributions to the plan in order to evaluate the plan in relation to Section 402(a) of the Sarbanes-Oxley Act of 2002. The Company's Board of Directors terminated this plan during 2005, and awarded as a bonus the Company's remaining interest in the plan to three executive officers who had participated in the plan. As a result the Company recorded compensation expense of approximately $253,000 related to this plan in 2005.

16. Transactions with Related Parties

The Company expensed $12,000, $135,000, and $27,000 in 2007, 2006, and 2005, respectively, relating to supplies for clinical trials purchased from a company whose CFO and Senior VP is a member of the Company's Board of Directors and a shareholder of the Company. The Company recorded products and preservation services revenue of $666,000, $151,000, and $18,000 in 2007, 2006, and 2005, respectively, and recorded research and development expenses of $5,000 and $26,000 in 2007 and 2006, respectively, relating to a company whose former Chief of Thoracic Surgery is a member of the Company's Board of Directors and a shareholder of the Company.

17. Segment and Geographic Information

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

The Preservation Services segment includes external services revenue from preservation of cardiac, vascular, and orthopaedic allograft tissues. The Implantable Medical Devices segment includes external revenue from product sales of BioGlue and bioprosthetic devices, including the CryoLife-O'Brien Stentless Aortic Bioprosthesis, SynerGraft processed bovine vascular grafts, and CardioWrap. 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):

	2007	2006	2005
Revenue:			
Preservation services	$ 49,002	$ 40,078	$ 30,307
Implantable medical devices	44,712	41,037	38,932
All other[a]	1,049	196	43
	$ 94,763	$ 81,311	$69,282
Cost of preservation services and products:			
Preservation services	$ 28,433	$29,958	$ 24,357
Implantable medical devices	7,108	7,463	8,065
	$ 35,541	$ 37,421	$ 32,422
Gross margin:			
Preservation services	$20,569	$ 10,120	$ 5,950
Implantable medical devices	37,604	33,574	30,867
All other[a]	1,049	196	43
	$59,222	$ 43,890	$ 36,860

[a] All other designation includes 1) grant revenue and 2) revenues related to the licensing of the Company's technology to a third party.

Net revenues by product for the years ended December 31, 2007, 2006, and 2005 were as follows (in thousands):

	2007	2006	2005
Preservation services:			
Cardiac tissue	$22,098	$ 15,988	$ 13,762
Vascular tissue	22,702	16,956	11,453
Orthopaedic tissue	4,202	7,134	5,092
Total preservation services	49,002	40,078	30,307
Products:			
BioGlue	43,884	40,025	37,985
Other implantable medical devices	828	1,012	947
Total products	44,712	41,037	38,932
All other[a]	1,049	196	43
	$94,763	$ 81,311	$69,282

[a] All other designation includes 1) grant revenue and 2) revenues related to the licensing of the Company's technology to a third party.

Net revenues by geographic location attributed to countries based on the location of the customer for the years ended December 31, 2007, 2006, and 2005 were as follows (in thousands):

	2007	2006	2005
U.S.	$ 81,023	$69,467	$58,869
International	13,740	11,844	10,413
Total	$94,763	$ 81,311	$ 69,282

At December 31, 2007, 2006, and 2005, over 95% of the long-lived assets of the Company were held in the U.S., where all Company manufacturing facilities and the corporate headquarters are located.

18. Subsequent Events

On February 7, 2008 CryoLife received 510(k) clearance from the FDA for its CryoValve SG pulmonary human heart valve processed with the Company's proprietary SynerGraft technology. CryoLife's proprietary SynerGraft technology is designed to remove donor cells and cellular remnants from the valve without compromising the integrity of the underlying collagen matrix. The CryoValve SG pulmonary human heart valve is indicated for the replacement of diseased, damaged, malformed, or malfunctioning native pulmonary valves. The valve can be used in conjunction with right ventricular outflow tract reconstruction procedures ("RVOT"), commonly performed in children with congenital heart defects. In addition, the valve can be used for pulmonary valve replacement during the Ross Procedure, an operation in which a patient's defective aortic valve is removed and replaced with his own pulmonary valve. The CryoValve SG is then surgically implanted in place of the removed native pulmonary valve.

At the FDA's request, CryoLife is planning a post-clearance study to seek evidence for the potential and implied long-term benefits of the SynerGraft process. Data to be collected is expected to include long-term safety and hemodynamic function, immune response, and explant analysis. CryoLife believes that this information may help it ascertain whether the SynerGraft process reduces the immune response of the transplanted heart valve and allows for the collagen matrix to recellularize with the recipient's own cells.

SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)
(in thousands, except per share data)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
REVENUE:				
2007	$ 24,524	$ 23,011	$ 22,160	$ 25,068
2006	19,449	20,754	20,018	21,090
2005	17,665	17,198	16,458	17,961
GROSS MARGIN:				
2007	$ 14,944	$ 14,154	$ 13,970	$ 16,154
2006	10,763	11,638	11,488	10,001
2005	9,650	9,049	8,503	9,658
NET INCOME (LOSS):				
2007	$ 1,354	$ 1,291	$ 1,907	$ 2,649
2006	(1,780)	217	1,978	(50)
2005	(1,357)	(14,379)	(3,118)	(681)
INCOME (LOSS) PER COMMON SHARE—DILUTED:				
2007	$ 0.04	$ 0.05	$ 0.07	$ 0.10
2006	(0.08)	(0.00)	0.07	(0.01)
2005	(0.06)	(0.61)	(0.14)	(0.04)

SCHEDULE II

CRYOLIFE, INC. AND SUBSIDIARIES
VALUATION AND QUALIFYING ACCOUNTS
Years ended December 31, 2007, 2006, and 2005

Description	Balance Beginning of Period	Additions	Deductions	Balance End of Period
Year ended December 31, 2007:				
Allowance for doubtful accounts	$ 130,000	$167,000	$117,000	$ 180,000
Year ended December 31, 2006:				
Allowance for doubtful accounts	$105,000	$ 65,000	$ 40,000	$ 130,000
Year ended December 31, 2005:				
Allowance for doubtful accounts	$ 85,000	$ 57,000	$ 37,000	$105,000

EXHIBIT 3.1

AMENDED AND RESTATED
ARTICLES OF INCORPORATION OF
CRYOLIFE, INC.
(restated solely for purposes of filing with
the Securities and Exchange Commission)

as of February 21, 2008

1. The name of the corporation is CRYOLIFE, INC.

2. Restated Articles of Incorporation: The Board of Directors adopted the Restated Articles of Incorporation on September 12, 1996. The text of the Restated Articles of Incorporation are as follows:

ARTICLE I

NAME

The name of this corporation shall be CRYOLIFE, INC.

ARTICLE II

EXISTENCE OF CORPORATION

This corporation shall have perpetual existence.

ARTICLE III

PURPOSES

The corporation may engage in the transaction of any or all lawful business for which corporations may be incorporated under the laws of the State of Florida.

ARTICLE IV

GENERAL POWERS

The corporation shall have power:

(a) To purchase, take, receive, lease, or otherwise acquire, own, hold, improve, use, or otherwise deal in and with real or personal property or any interest therein, wherever situated.

(b) To sell, convey, mortgage, pledge, create a security interest in, lease, exchange, transfer, and otherwise dispose of all or part of its property and assets.

(c) To lend money to, and use its credit to assist its officers and employees in accordance with Section 607.141, Florida Statutes (1976).

(d) To purchase, take, receive, subscribe for, or otherwise acquire, own, hold, vote, use, employ, sell, mortgage, lend, pledge, or otherwise dispose of, and otherwise use and deal in and with, shares or other interests in, or obligations of, other domestic or foreign corporations, associations, partnerships, or individuals, or direct or indirect obligations of the United States or of any other government, state, territory, governmental district, or municipality or of any instrumentality thereof.

(e) To make contracts and guarantees and incur liabilities, borrow money at such rates of interest as the corporation may determine, issue its notes, bonds, and other obligations, and secure any of its obligations by mortgage or pledge of all or any of its property, franchise, and income.

(f) To lend money for its corporate purposes, invest and reinvest its funds, and take and hold real and personal property as security for the payment of funds so loaned or invested.

(g) To conduct its business, carry on its operations, and have offices and exercise the powers granted by the State of Florida, within or without the state.

(h) To elect or appoint officers and agents of the corporation and define their duties and fix their compensation.

(i) To make and alter by-laws, not inconsistent with the laws of the State of Florida, for the administration and regulation of the affairs of the corporation.

(j) To make donations for the public welfare or for charitable, scientific or educational purposes.

(k) To transact any lawful business which the board of directors shall find will be in aid of governmental policy.

(l) To pay pensions and establish pension plans, profit sharing plans, stock bonus plans, stock option plans, and other incentive plans for any or all of its directors, officers, and employees and for any or all of the directors, officers, and employees of its subsidiaries.

(m) To be a promoter, incorporator, partner, member, associate, or manager of any corporation, partnership, joint venture, trust, or other enterprise.

(n) To have and exercise all powers necessary or convenient to effect its purposes.

ARTICLE V

CAPITAL STOCK

(a)(1) The number of shares of capital stock authorized to be issued by this corporation shall be Fifty Million (50,000,000) shares of common stock, each with a par value of One Cent ($.01) and Five Million (5,000,000) shares of preferred stock, each with a par value of One Cent ($.01). The shares of preferred stock may be divided into and issued in series.

(a)(2) Pursuant to Section 607.047 of the Florida Statutes, the Board of Directors is expressly authorized and empowered to divide any or all of the shares of preferred stock into series and, within the limitations set forth in Section 607.047 of the Florida Statutes, to fix and determine the relative rights and preferences of the shares of any series so established. The Board of Directors is expressly authorized to designate each series of preferred stock so as to distinguish the shares thereof from the shares of all other series and classes.

(a)(3) Each share of issued and outstanding common stock shall entitle the holder thereof to one (1) vote on each matter with respect to which shareholders have the right to vote, to fully participate in all shareholder meetings, and to share ratably in the net assets of the corporation upon liquidation and/or dissolution. Each share of issued and outstanding preferred stock shall have such rights to share in the net assets of the corporation upon liquidation and/or dissolution as are determined and fixed by the Board of Directors pursuant to Florida Statutes Section 607.047. All or any part of said capital stock may be paid for in cash, in property or in labor or services at a fair valuation to be fixed by the Board of Directors at a meeting called for such purposes. All stock when issued shall be paid for and shall be nonassessable.

(b) In the election of directors of this corporation, there shall be no cumulative voting of the stock entitled to vote at such election.

(c) There shall be a series of Preferred Stock, par value $.01 per share, of the Corporation with the following designated number of shares, relative rights, preferences, and limitations thereof:

(1) Designation and Amount. The shares of such series shall be designated as "Series A Junior Participating Preferred Stock" (the "Series A Preferred Stock") and the number of shares constituting the Series A Preferred Stock shall be two million (2,000,000) shares of the five million (5,000,000) authorized preferred shares. The two million (2,000,000) Series A Preferred Stock shares shall be reserved for issuance in connection with the exercise of certain rights granted pursuant to a First Amended and Restated Rights Agreement, amended effective as of November 23, 2005, by and between the Corporation and American Stock Transfer & Trust Company, as Rights Agent thereunder. Such number of shares may be increased or decreased by resolution of the Board of Directors; provided, that no decrease shall reduce the number of shares of Series A Preferred Stock to a number less than the number of shares then outstanding plus the number of shares reserved for issuance upon the exercise of outstanding options, rights or warrants or upon the conversion of any outstanding securities issued by the Corporation convertible into Series A Preferred Stock.

(2) Dividends and Distributions.

(A) Subject to the rights of the holders of any shares of any series of Preferred Stock (or any similar stock) ranking prior and superior to the Series A Preferred Stock with respect to dividends, the holders of shares of Series A Preferred Stock, in preference to the holders of Common Stock, par value $.01 per share (the "Common Stock"), of the Corporation, and of any other junior stock, shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on the first day of March, June, September and December in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series A Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (a) $1.00 or (b) subject to the provision for adjustment hereinafter set forth, 100 times the aggregate per share amount of all cash dividends, and 10 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions, other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the Common Stock since the immediately preceding Quarterly Dividend Payment Date or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series A Preferred Stock. In the event the Corporation shall at any time after issuance of Series A Preferred Stock declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the amount to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event under clause (b) of the preceding sentence shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event

and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) The Corporation shall declare a dividend or distribution on the Series A Preferred Stock as provided in paragraph (A) above immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock); provided that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of $1.00 per share on the Series A Preferred Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

(C) Dividends shall begin to accrue and be cumulative on outstanding shares of Series A Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares, unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series A Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series A Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series A Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be not more than 60 days prior to the date fixed for the payment thereof.

(3) Voting Rights. The holders of shares of Series A Preferred Stock shall have the following voting rights:

(A) Subject to the provision for adjustment hereinafter set forth, each share of Series A Preferred Stock shall entitle the holder thereof to 100 votes on all matters submitted to a vote of the stockholders of the Corporation. In the event the Corporation shall at any time after issuance of Series A Preferred Stock declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the number of votes per share to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) Except as otherwise provided herein, in any other document or filing creating a series of Preferred Stock or any similar stock, or by law, the holders of shares of Series A Preferred Stock and the holders of shares of Common Stock and any other capital stock of the Corporation having general voting rights shall vote together as one class on all matters submitted to a vote of stockholders of the Corporation.

(C) Except as set forth herein, or as otherwise provided by law, holders of Series A Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

(4) Certain Restrictions.

(A) Whenever quarterly dividends or other dividends or distributions payable on the Series A Preferred Stock as provided in subparagraph 2 are in arrears, thereafter and until all accrued and

unpaid dividends and distributions, whether or not declared, on shares of Series A Preferred Stock outstanding shall have been paid in full, the Corporation shall not:

(i) declare or pay dividends, or make any other distributions, on any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock;

(ii) declare or pay dividends, or make any other distributions, on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preferred Stock, except dividends paid ratably on the Series A Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) redeem or purchase or otherwise acquire for consideration shares of any stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock, provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such junior stock in exchange for shares of any stock of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series A Preferred Stock; or

(iv) redeem or purchase or otherwise acquire for consideration any shares of Series A Preferred Stock, or any shares of stock ranking on a parity with the Series A Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(B) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under paragraph (A) of this subparagraph 4, purchase or otherwise acquire such shares at such time and in such manner.

(5) Reacquired Shares. Any shares of Series A Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and cancelled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preferred Stock and may be reissued as part of a new series of Preferred Stock subject to the conditions and restrictions on issuance set forth herein, in the Certificate of Incorporation, or in any other document or filing creating a series of Preferred Stock or any similar stock or as otherwise required by law.

(6) Liquidation, Dissolution or Winding Up. Upon any liquidation, dissolution or winding up of the Corporation, no distribution shall be made (1) to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock unless, prior thereto, the holders of shares of Series A Preferred Stock shall have received $1.00 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment, provided that the holders of shares of Series A Preferred Stock shall be entitled to receive an aggregate amount per share, subject to the provision for adjustment hereinafter set forth, equal to 100 times the aggregate amount to be distributed per share to holders of shares of Common Stock, or (2) to the holders of shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preferred Stock, except distributions made ratably on the Series A Preferred Stock and all such parity stock in proportion to the total amounts to which the holders of all such shares are entitled upon such liquidation, dissolution or winding up. In the event the Corporation shall at any time after issuance of Series A Preferred Stock declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares

of Common Stock, then in each such case the aggregate amount to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event under the proviso in clause (1) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(7) Consolidation, Merger, etc. In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case each share of Series A Preferred Stock shall at the same time be similarly exchanged or changed into an amount per share, subject to the provision for adjustment hereinafter set forth, equal to 100 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. In the event the Corporation shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of common stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series A Preferred Stock shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event. In the event both this subparagraph 7 and subparagraph 2 appear to apply to a transaction, this subparagraph 7 will control.

(8) No Redemption; No Sinking Fund. The shares of Series A Preferred Stock shall not be redeemable; provided, however, that the Corporation may purchase or otherwise acquire outstanding shares of Series A Preferred Stock in the open market or by offer to any holder or holders of shares of Series A Preferred Stock. The shares of Series A Preferred Stock shall not be subject to or entitled to the operation of a retirement or sinking fund.

(9) Rank. The Series A Preferred Stock shall rank, with respect to the payment of dividends and the distribution of assets, junior to all series of any other class of the Corporation's Preferred Stock, unless the Board of Directors shall specifically determine otherwise in fixing the powers, preferences, and relative, participating, optional and other special rights of the shares of such series and the qualifications, limitations and restrictions thereof.

(10) Fractional Shares. The Series A Preferred Stock shall be issuable upon exercise of the Rights issued pursuant to the Rights Agreement in whole shares or in any fraction of a share that is one one-hundredth of a share or any integral multiple of such fraction which shall entitle the holder, in proportion to such holders fractional shares, to receive dividends, exercise voting rights, participate in distributions and to have the benefit of all other rights of holders of Series A Preferred Stock. In lieu of fractional shares, the Corporation, prior to the first issuance of a share or a fraction of a share of Series A Preferred Stock, may elect (1) to make a cash payment as provided in the Rights Agreement for fractions of a share other than one one-hundredth of a share or any integral multiple thereof or (2) to issue depository receipt evidencing such authorized fraction of a share of Series A Preferred Stock pursuant to an appropriate agreement between the Corporation and a depository selected by the Corporation; provided that such agreement shall provide that the holders of such depository receipts shall have all the rights, privileges and preferences to which they are entitled as holders of the Series A Preferred Stock.

(11) Amendment. These Articles of Incorporation of the Corporation shall not be amended in any manner which would materially alter or change the powers, preferences or special rights of the Series A Preferred Stock so as to affect them adversely without the affirmative vote of the holders of at least two-thirds of the outstanding shares of Series A Preferred Stock, voting together as a single class.

ARTICLE VI

REGISTERED OFFICE AND REGISTERED AGENT

The street address of the corporation's registered office is 601 North Florida Avenue, Suite 500, Tampa, Florida 33602, and the name of the corporation's registered agent at such address is Ronald D. McCall. The Corporation may change its registered office or its registered agent or both by filing with the Department of State of the State of Florida, a statement complying with Section 607.037 of the Florida Statutes.

ARTICLE VII

INITIAL BOARD OF DIRECTORS

The number of Directors constituting the initial Board of Directors shall be one, and the name and address of the person who is to serve as a member thereof is as follows:

STEVEN G. ANDERSON
2211 New Market Parkway
Suite 142
Marietta, Georgia 30067

ARTICLE VIII

INCORPORATOR

The name and street address of the incorporator of this corporation is as follows:

STEVEN G. ANDERSON
2211 New Market Parkway
Suite 142
Marietta, Georgia 30067

ARTICLE IX

AMENDMENT OF ARTICLES OF INCORPORATION

The corporation reserves the right to amend, alter, change or repeal any provisions contained in these Articles of Incorporation in the manner now or hereafter prescribed by statute, and all rights conferred upon the stockholders herein are subject to this reservation.

ARTICLE X

INDEMNIFICATION

If in the judgment of the majority of the entire Board of Directors (excluding from such majority and director under consideration for indemnification), the criteria set forth in Section 607.014(1) or (2), Florida Statutes, have been met, then the corporation shall indemnify any officer or director, or former officer or

director, his personal representatives, devisees or heirs, in the manner and to the extent contemplated by the said Section 607.014.

ARTICLE XI

SHAREHOLDERS PROHIBITED FROM TAKING
ACTION WITHOUT A MEETING

The shareholders may not take action by written consent. Any and all action by a shareholder is required to be taken at the annual shareholders meeting or at a special shareholders meeting. This provision applies to common stock and all classes of preferred stock.

ARTICLE XII

SPECIAL MEETINGS OF SHAREHOLDERS

Special meetings of the shareholders for any purpose may be called at the request in writing of shareholders owning not less than 50% of all votes entitled to be cast on any issue proposed to be considered at the proposed meeting by delivering one or more written demands for the meeting which are signed, dated and delivered to the Secretary of the Company and describing the purposes for which the meeting is to be held.

EXHIBIT 10.2

EXECUTION VERSION

CREDIT AGREEMENT

by and among

CRYOLIFE, INC.

and

EACH OF ITS SUBSIDIARIES THAT ARE SIGNATORIES HERETO

as Borrowers,

and

WELLS FARGO FOOTHILL, INC.

as Lender

Dated as of February 8, 2005

TABLE OF CONTENTS

TABLE OF CONTENTS
(continued)

TABLE OF CONTENTS
(continued)

EXHIBITS AND SCHEDULES

CREDIT AGREEMENT

THIS CREDIT AGREEMENT (this "Agreement"), is entered into as of February 8, 2005, by and among, on the one hand, **WELLS FARGO FOOTHILL, INC.,** a California corporation ("Lender"), and, on the other hand, **CRYOLIFE, INC.**, a Florida corporation ("Parent"), and each of Parent's Subsidiaries identified on the signature pages hereof (such Subsidiaries, together with Parent, are referred to hereinafter each individually as a " Borrower", and individually and collectively, jointly and severally, as the "Borrowers").

The parties agree as follows:

1. DEFINITIONS AND CONSTRUCTION.

1.1 **Definitions.** Capitalized terms used in this Agreement shall have the meanings specified therefor on Schedule 1.1.

1.2 **Accounting Terms.** All accounting terms not specifically defined herein shall be construed in accordance with GAAP. When used herein, the term "financial statements" shall include the notes and schedules thereto. Whenever the term "Borrowers" or the term "Parent" is used in respect of a financial covenant or a related definition, it shall be understood to mean Parent and its Subsidiaries on a consolidated basis unless the context clearly requires otherwise.

1.3 **Code.** Any terms used in this Agreement that are defined in the Code shall be construed and defined as set forth in the Code unless otherwise defined herein, provided, however, that to the extent that the Code is used to define any term herein and such term is defined differently in different Articles of the Code, the definition of such term contained in Article 9 shall govern.

1.4 **Construction.** Unless the context of this Agreement or any other Loan Document clearly requires otherwise, references to the plural include the singular, references to the singular include the plural, the terms "includes" and "including" are not limiting, and the term "or" has, except where otherwise indicated, the inclusive meaning represented by the phrase "and/or." The words "hereof," "herein," "hereby," "hereunder," and similar terms in this Agreement or any other Loan Document refer to this Agreement or such other Loan Document, as the case may be, as a whole and not to any particular provision of this Agreement or such other Loan Document, as the case may be. Section, subsection, clause, schedule, and exhibit references herein are to this Agreement unless otherwise specified. Any reference in this Agreement or in the other Loan Documents to any agreement, instrument, or document shall include all alterations, amendments, changes, extensions, modifications, renewals, replacements, substitutions, joinders, and supplements, thereto and thereof, as applicable (subject to any restrictions on such alterations, amendments, changes, extensions, modifications, renewals, replacements, substitutions, joinders, and supplements set forth herein). Any Event of Default shall "exist," "continue" or be "continuing" until such Event of Default has been waived in writing in accordance with Section 14.1. Any reference herein to the satisfaction or repayment in full of the Obligations shall mean the repayment in full in cash (or cash collateralization in accordance with the terms hereof) of all Obligations other than contingent indemnification Obligations and other than any Bank Product Obligations that, at such time, are allowed by the applicable Bank Product Provider to remain outstanding and are not required to be repaid or cash collateralized pursuant to the provisions of this Agreement. Any reference herein to any Person shall be construed to include such Person's successors and assigns. Any requirement of a writing contained herein or in the other Loan Documents shall be satisfied by the transmission of a Record and any Record transmitted shall constitute a representation and warranty as to the accuracy and completeness of the information contained therein.

1.5 **Schedules and Exhibits.** All of the schedules and exhibits attached to this Agreement shall be deemed incorporated herein by reference.

2. **LOAN AND TERMS OF PAYMENT.**

2.1 **Revolver Advances.**

(a) Subject to the terms and conditions of this Agreement, and during the term of this Agreement, Lender agrees to make advances (" Advances") to Borrowers in an amount at any one time outstanding not to exceed an amount equal *to the lesser of* (i) the Maximum Revolver Amount *less* the Letter of Credit Usage, or (ii) the Borrowing Base *less* the Letter of Credit Usage.

(b) Anything to the contrary in this Section 2.1 notwithstanding, Lender shall have the right to establish reserves in such amounts, and with respect to such matters, as Lender in its Permitted Discretion shall deem necessary or appropriate, against the Borrowing Base, including reserves (i) with respect to (A) sums that Borrowers are required to pay by any Section of this Agreement or any other Loan Document (such as taxes, assessments, insurance premiums, or, in the case of leased assets, rents or other amounts payable under such leases) and have failed to pay, and (B) amounts owing by Borrowers or their Subsidiaries to any Person to the extent secured by a Lien on, or trust over, any of the Collateral (other than a Permitted Lien), which Lien or trust, in the Permitted Discretion of Lender likely would have a priority superior to the Lender's Liens (such as Liens or trusts in favor of landlords, warehousemen, carriers, mechanics, materialmen, laborers, or suppliers, or Liens or trusts for *ad valorem*, excise, sales, or other taxes where given priority under applicable law) in and to such item of the Collateral, and (ii) after the occurrence and during the continuance of an Event of Default, with respect to such other matters as Lender in its Permitted Discretion shall deem necessary or appropriate. In addition to the foregoing, Lender shall have the right to have the Borrower's business reappraised by a qualified appraisal company selected by Lender from time to time after the occurrence of a Default or Event of Default for the purpose of redetermining the Enterprise Valuation and, as a result, redetermining the Borrowing Base.

(c) Amounts borrowed pursuant to this Section 2.1 may be repaid and, subject to the terms and conditions of this Agreement, reborrowed at any time during the term of this Agreement.

2.2 Intentionally omitted.

2.3 **Borrowing Procedures and Settlements.**

(a) **Procedure for Borrowing.** Each Borrowing shall be made by an irrevocable written request by an Authorized Person delivered to Lender. Such notice must be received by Lender no later than 10:00 a.m. (California time) on the Business Day that is the requested Funding Date specifying (i) the amount of such Borrowing, and (ii) the requested Funding Date, which shall be a Business Day. At Lender's election, in lieu of delivering the above-described written request, any Authorized Person may give Lender telephonic notice of such request by the required time. In such circumstances, Borrowers agree that any such telephonic notice will be confirmed in writing within 24 hours of the giving of such telephonic notice, but the failure to provide such written confirmation shall not affect the validity of the request.

(b) **Making of Advances**. If Lender has received a timely request for a Borrowing in accordance with the provisions hereof, and subject to the satisfaction of the applicable terms and conditions set forth herein, Lender shall make the proceeds of such Advance available to Borrowers on the applicable Funding Date by transferring available funds equal to such proceeds to Administrative Borrower's Designated Account.

2.4 **Payments.**

(a) **Payments by Borrowers.** Except as otherwise expressly provided herein, all payments by Borrowers shall be made to Lender's Account for the account of Lender and shall be made in immediately available funds, no later than 11:00 a.m. (California time) on the date specified herein. Any

payment received by Lender later than 11:00 a.m. (California time), shall be deemed to have been received on the following Business Day and any applicable interest or fee shall continue to accrue until such following Business Day.

(b) **Apportionment and Application.**

(i) All payments shall be remitted to Lender and all such payments, and all proceeds of Collateral received by Lender, shall be applied as follows:

(A) first, to pay any Lender Expenses then due to Lender under the Loan Documents, until paid in full,

(B) second, to pay any fees or premiums then due to Lender under the Loan Documents until paid in full,

(C) third, to pay interest due in respect of Advances until paid in full,

(D) fourth, so long as no Event of Default has occurred and is continuing, and at Lender's election, to pay amounts then due and owing by Administrative Borrower or its Subsidiaries in respect of Bank Products, until paid in full,

(E) fifth, so long as no Event of Default has occurred and is continuing, to pay the principal of all Advances until paid in full,

(F) sixth, if an Event of Default has occurred and is continuing, ratably (i) to pay the principal of all Advances until paid in full, (ii) to Lender, to be held by Lender as cash collateral in an amount up to 105% of the Letter of Credit Usage until paid in full, and (iii) to Lender, to be held by Lender, for the benefit of the Bank Product Providers, as cash collateral in an amount up to the amount of the Bank Product Reserve established prior to the occurrence of, and not in contemplation of, the subject Event of Default until Borrowers' and their Subsidiaries' obligations in respect of Bank Products have been paid in full or the cash collateral amount has been exhausted,

(G) seventh, if an Event of Default has occurred and is continuing, to pay any other Obligations (including the provision of amounts to Lender, to be held by Lender, for the benefit of the Bank Product Providers, as cash collateral in an amount up to the amount determined by Lender in its Permitted Discretion as the amount necessary to secure Borrowers' and its Subsidiaries' obligations in respect of Bank Products), and

(H) eighth, to Borrowers (to be wired to the Designated Account) or such other Person entitled thereto under applicable law; provided, however, that any such amount remitted to Borrowers from a Lender Deposit Account shall be limited to the amount of collected funds in such account (after payment of the amounts described in items (A) through (G) above) in excess of $10,000 (which $10,000 amount shall be held in such account as cash collateral (i) to pay any amounts due to the applicable depository bank from time to time in respect of such account or any lockbox services provided by such depository bank in connection with such account which are not otherwise paid by Borrowers directly, through a debit against the Designated Account or otherwise or (ii) to pay any other Obligations that may be due from time to time).

(ii) In each instance, so long as no Event of Default has occurred and is continuing, this Section 2.4(b) shall not apply to any payment made by Borrowers to Lender and specified by Borrowers to be for the payment of specific Obligations then due and payable (or prepayable) under any provision of this Agreement.

(iii) For purposes of the foregoing, "paid in full" means payment of all amounts owing under the Loan Documents according to the terms thereof, including loan fees, service fees, professional fees, interest (and specifically including interest accrued after the commencement of any Insolvency Proceeding), default interest, interest on interest, and expense reimbursements, whether or not any of the foregoing would be or is allowed or disallowed in whole or in part in any Insolvency Proceeding.

(iv) In the event of a direct conflict between the priority provisions of this Section 2.4 and other provisions contained in any other Loan Document, it is the intention of the parties hereto that such priority provisions in such documents shall be read together and construed, to the fullest extent possible, to be in concert with each other. In the event of any actual, irreconcilable conflict that cannot be resolved as aforesaid, the terms and provisions of this Section 2.4 shall control and govern.

2.5 **Overadvances.** If, at any time or for any reason, the amount of Obligations owed by Borrowers to Lender pursuant to Section 2.1 or Section 2.12 is greater than any of the limitations set forth in Section 2.1 or Section 2.12, as applicable (an "Overadvance"), Borrowers immediately shall pay to Lender, in cash, the amount of such excess, which amount shall be used by Lender to reduce the Obligations in accordance with the priorities set forth in Section 2.4(b). In addition, Borrowers hereby promise to pay the Obligations (including principal, interest, fees, costs, and expenses) in Dollars in full as and when due and payable under the terms of this Agreement and the other Loan Documents.

2.6 **Interest Rates and Letter of Credit Fee: Rates, Payments, and Calculations** .

(a) **Interest Rates.** Except as provided in clause (c) below, all Obligations (except for undrawn Letters of Credit and except for Bank Product Obligations) that have been charged to the Loan Account pursuant to the terms hereof shall bear interest on the Daily Balance thereof at a per annum rate equal to the Base Rate plus the Base Rate Margin.

The foregoing notwithstanding, at no time shall any portion of the Obligations (other than Bank Product Obligations) bear interest on the Daily Balance thereof at a per annum rate less than 5.25%. To the extent that interest accrued hereunder at the rate set forth herein would be less than the foregoing minimum daily rate, the interest rate chargeable hereunder for such day automatically shall be deemed increased to the minimum rate.

(b) **Letter of Credit Fee.** Borrowers shall pay Lender a Letter of Credit fee (in addition to the charges, commissions, fees, and costs set forth in Section 2.12(d)) which shall accrue at a rate equal to 2.00% per annum times the Daily Balance of the undrawn amount of all outstanding Letters of Credit.

(c) **Default Rate.** Upon the occurrence and during the continuation of an Event of Default (and at the election of Lender),

(i) all Obligations (except for undrawn Letters of Credit and except for Bank Product Obligations) that have been charged to the Loan Account pursuant to the terms hereof shall bear interest on the Daily Balance thereof at a per annum rate equal to 2 percentage points above the per annum rate otherwise applicable hereunder, and

(ii) the Letter of Credit fee provided for above shall be increased to 2 percentage points above the per annum rate otherwise applicable hereunder.

(d) **Payment.** Except as provided to the contrary in Section 2.11, interest, Letter of Credit fees, and all other fees payable hereunder shall be due and payable, in arrears, on the first day of each month at any time that any Obligations are outstanding or at any time that Lender has an obligation to extend credit hereunder. Borrowers hereby authorize Lender, from time to time, without prior notice to Borrowers,

to charge all interest and fees (when due and payable), all Lender Expenses (as and when incurred), all charges, commissions, fees, and costs provided for in Section 2.12(e) (as and when accrued or incurred), all fees and costs provided for in Section 2.11 (as and when accrued or incurred), and all other payments as and when due and payable under any Loan Document (including any amounts due and payable to the Bank Product Providers in respect of Bank Products up to the amount of the Bank Product Reserve) to Borrowers' Loan Account, which amounts thereafter shall constitute Advances hereunder and shall accrue interest at the rate then applicable to Advances hereunder. Any interest not paid when due shall be compounded by being charged to Borrowers' Loan Account and shall thereafter constitute Advances hereunder and shall accrue interest at the rate then applicable to Advances.

(e) **Computation.** All interest and fees chargeable under the Loan Documents shall be computed on the basis of a 360 day year for the actual number of days elapsed. In the event the Base Rate is changed from time to time hereafter, the rates of interest hereunder based upon the Base Rate automatically and immediately shall be increased or decreased by an amount equal to such change in the Base Rate.

(f) **Intent to Limit Charges to Maximum Lawful Rate.** In no event shall the interest rate or rates payable under this Agreement, plus any other amounts paid in connection herewith, exceed the highest rate permissible under any law that a court of competent jurisdiction shall, in a final determination, deem applicable. Borrowers and Lender, in executing and delivering this Agreement, intend legally to agree upon the rate or rates of interest and manner of payment stated within it; provided, however, that, anything contained herein to the contrary notwithstanding, if said rate or rates of interest or manner of payment exceeds the maximum allowable under applicable law, then, *ipso facto*, as of the date of this Agreement, Borrowers are and shall be liable only for the payment of such maximum as allowed by law, and payment received from Borrowers in excess of such legal maximum, whenever received, shall be applied to reduce the principal balance of the Obligations to the extent of such excess.

2.7 **Cash Management.**

(a) Borrowers shall and shall cause each of their Subsidiaries to establish and maintain cash management services of a type and on terms satisfactory to Lender at one or more of the banks or securities intermediaries set forth on Schedule 2.7(a) (each a "Cash Management Bank"). Borrowers shall and shall cause each of their Subsidiaries to (i) request in writing and otherwise take such reasonable steps to ensure that all of their and their Subsidiaries' Account Debtors forward payment of the amounts owed by them directly to a Cash Management Account with respect to which the applicable Borrower or Subsidiary has delivered to Lender a Control Agreement or an account with respect to which Lender is the customer of the depository bank (each a "Lender Deposit Account"), and (ii) deposit or cause to be deposited promptly, and in any event no later than the first Business Day after the date of receipt thereof, all of their Collections (including those sent directly by their Account Debtors to Borrowers or their Subsidiaries) into a Cash Management Account with respect to which the applicable Borrower or Subsidiary has delivered a Control Agreement or a Lender Deposit Account; provided, however, that foreign Account Debtors of CryoLife Europa Ltd. may make payments directly to an Excluded Account and any Collections received by CryoLife Europa Ltd. in respect of its foreign Account Debtors may be deposited into an Excluded Account.

(b) Each Cash Management Bank shall establish and maintain Control Agreements with Lender and a Borrower or Subsidiary of a Borrower, as applicable, in form and substance acceptable to Lender; provided, however, that Borrowers and their Subsidiaries shall not be required to deliver a Control Agreement with respect to any Deposit Account or Securities Account so long as the aggregate balance in all such accounts not subject to Control Agreements does not exceed in the aggregate $5,000,000 at any time (or, if either (i) Parent has not received at least $15,000,000 in net proceeds from an offering of Stock on or before March 31, 2005 or (ii) at any time after March 31, 2005, the collected balance in Cash Management Accounts subject to Control Agreements is less than $10,000,000 in the aggregate, such $5,000,000 limit shall be reduced to $2,000,000 from and after March 31, 2005 or, in the case of clause (ii), from and after the date such collected balance in Cash Management Accounts subject to Control Agreements is less than

$10,000,000 in the aggregate) (collectively, such accounts with respect to which a Control Agreement is not required, the " Excluded Accounts" and each an "Excluded Account"). Each such Control Agreement shall provide, among other things, that (i) the Cash Management Bank will comply with any instructions originated by Lender directing the disposition of the funds in such Deposit Account (or, in the case of a Securities Account, entitlement orders originated by Lender) without further consent by Borrowers or their Subsidiaries, as applicable, (ii) the Cash Management Bank has no rights of setoff or recoupment or any other claim against the applicable Deposit Account or Securities Account, other than for payment of its service fees and other charges directly related to the administration of such account and, in the case of a Deposit Account, for returned checks or other items of payment, and (iii) upon written notice by Lender without further consent by Borrower or their Subsidiaries, it will forward by daily sweep all amounts in the applicable Deposit Account or Securities Account to the Lender's Account. Notwithstanding the foregoing, Lender agrees that it shall not send any such notice or otherwise direct the disposition of funds in any such Cash Management Account unless and until an Event of Default has occurred or Excess Availability first drops below $7,500,000 after the Closing Date.

(c) So long as no Default or Event of Default has occurred and is continuing, Administrative Borrower may amend Schedule 2.7(a) to add or replace a Cash Management Bank or Cash Management Account; provided, however, that (i) such prospective Cash Management Bank shall be reasonably satisfactory to Lender, and (ii) unless such account is an Excluded Account, prior to the time of the opening of such Cash Management Account, a Borrower or its Subsidiary, as applicable, and such prospective Cash Management Bank shall have executed and delivered to Lender a Control Agreement. Borrowers (or their Subsidiaries, as applicable) shall close any of their Cash Management Accounts (and establish replacement cash management accounts in accordance with the foregoing sentence) promptly and in any event within 30 days of notice from Lender that such Cash Management Bank no longer has an issuer credit rating of A2 or A or better from Moody's or S&P, respectively, and is no longer acceptable to Lender in Lender's reasonable judgment, or as promptly as practicable and in any event within 60 days of notice from Lender that the operating performance, funds transfer, or availability procedures or performance of such Cash Management Bank with respect to such accounts or Lender's liability under any Control Agreement with such Cash Management Bank is no longer acceptable in Lender's reasonable judgment.

(d) Except for the Excluded Accounts, all Cash Management Accounts shall be cash collateral accounts subject to Control Agreements.

2.8 **Crediting Payments; Clearance Charge.** The receipt of any payment item by Lender (whether from transfers to Lender by the Cash Management Banks pursuant to the Control Agreements or otherwise) shall not be considered a payment on account unless such payment item is a wire transfer of immediately available federal funds made to the Lender's Account or unless and until such payment item is honored when presented for payment. Should any payment item not be honored when presented for payment, then Borrowers shall be deemed not to have made such payment and interest shall be calculated accordingly. Anything to the contrary contained herein notwithstanding, any payment item shall be deemed received by Lender only if it is received into the Lender's Account on a Business Day on or before 11:00 a.m. (California time). If any payment item is received into the Lender's Account on a non-Business Day or after 11:00 a.m. (California time) on a Business Day, it shall be deemed to have been received by Lender as of the opening of business on the immediately following Business Day. The parties acknowledge and agree that the economic benefit of the foregoing provisions of this Section 2.8 shall be for the exclusive benefit of Lender.

2.9 **Designated Account.** Lender is authorized to make the Advances, and Lender is authorized to issue the Letters of Credit, under this Agreement based upon telephonic or other instructions received from anyone purporting to be an Authorized Person or, without instructions, if pursuant to Section 2.6(d). Administrative Borrower agrees to establish and maintain the Designated Account with the Designated Account Bank for the purpose of receiving the proceeds of the Advances requested by Borrowers and made by Lender hereunder. Unless otherwise agreed by Lender and Administrative Borrower, any Advance requested by Borrowers and made by Lender hereunder shall be made to the Designated Account.

2.10 **Maintenance of Loan Account; Statements of Obligations .** Lender shall maintain an account on its books in the name of Borrowers (the " Loan Account") on which Borrowers will be charged with, all Advances made by Lender to Borrowers or for Borrowers' account, the Letters of Credit issued by Lender for Borrowers' account, and with all other payment Obligations hereunder or under the other Loan Documents (except for Bank Product Obligations), including, accrued interest, fees and expenses, and Lender Expenses. In accordance with Section 2.8, the Loan Account will be credited with all payments received by Lender from Borrowers or for Borrowers' account, including all amounts received in the Lender's Account from any Cash Management Bank. Lender shall render statements regarding the Loan Account to Administrative Borrower, including principal, interest, fees, and including an itemization of all charges and expenses constituting Lender Expenses owing, and such statements, absent manifest error, shall be conclusively presumed to be correct and accurate and constitute an account stated between Borrowers and Lender unless, within 30 days after receipt thereof by Administrative Borrower, Administrative Borrower shall deliver to Lender written objection thereto describing the error or errors contained in any such statements.

2.11 **Fees.** Borrowers shall pay to Lender, as and when due and payable under the terms of the Fee Letter, the fees set forth in the Fee Letter.

2.12 **Letters of Credit.**

(a) Subject to the terms and conditions of this Agreement, Lender agrees to issue letters of credit for the account of Borrowers (each, an " L/C") or to purchase participations or execute indemnities or reimbursement obligations (each such undertaking, an " L/C Undertaking") with respect to letters of credit issued by an Underlying Issuer (as of the Closing Date, the prospective Underlying Issuer is to be Wells Fargo) for the account of Borrowers. Each request for the issuance of a Letter of Credit or the amendment, renewal, or extension of any outstanding Letter of Credit shall be made in writing by an Authorized Person and delivered to Lender via hand delivery, telefacsimile, or other electronic method of transmission reasonably in advance of the requested date of issuance, amendment, renewal, or extension. Each such request shall be in form and substance satisfactory to Lender in its Permitted Discretion and shall specify (i) the amount of such Letter of Credit, (ii) the date of issuance, amendment, renewal, or extension of such Letter of Credit, (iii) the expiration date of such Letter of Credit, (iv) the name and address of the beneficiary thereof (or the beneficiary of the Underlying Letter of Credit, as applicable), and (v) such other information (including, in the case of an amendment, renewal, or extension, identification of the outstanding Letter of Credit to be so amended, renewed, or extended) as shall be necessary to prepare, amend, renew, or extend such Letter of Credit. If requested by Lender, Borrowers also shall be an applicant under the application with respect to any Underlying Letter of Credit that is to be the subject of an L/C Undertaking. Lender shall have no obligation to issue a Letter of Credit if any of the following would result after giving effect to the issuance of such requested Letter of Credit:

(i) the Letter of Credit Usage would exceed the Borrowing Base *less* the outstanding amount of Advances, or

(ii) the Letter of Credit Usage would exceed $2,000,000, or

(iii) the Letter of Credit Usage would exceed the Maximum Revolver Amount *less* the outstanding amount of Advances.

Borrowers and Lender acknowledge and agree that certain Underlying Letters of Credit may be issued to support letters of credit that already are outstanding as of the Closing Date. Each Letter of Credit (and corresponding Underlying Letter of Credit) shall be in form and substance acceptable to Lender (in the exercise of its Permitted Discretion), including the requirement that the amounts payable thereunder must be payable in Dollars. If Lender is obligated to advance funds under a Letter of Credit, Borrowers immediately shall reimburse such L/C Disbursement to Lender by paying to Lender an amount equal to such L/C Disbursement not later than 11:00 a.m., California time, on the date that such L/C Disbursement is made, if

Administrative Borrower shall have received written or telephonic notice of such L/C Disbursement prior to 10:00 a.m., California time, on such date, or, if such notice has not been received by Administrative Borrower prior to such time on such date, then not later than 11:00 a.m., California time, on the Business Day that Administrative Borrower receives such notice, if such notice is received prior to 10:00 a.m., California time, on the date of receipt, and, in the absence of such reimbursement, the L/C Disbursement immediately and automatically shall be deemed to be an Advance hereunder and, thereafter, shall bear interest at the rate then applicable to Advances under Section 2.6. To the extent an L/C Disbursement is deemed to be an Advance hereunder, Borrowers' obligation to reimburse such L/C Disbursement shall be discharged and replaced by the resulting Advance.

(b) Each Borrower hereby agrees to indemnify, save, defend, and hold Lender harmless from any loss, cost, expense, or liability, and reasonable attorneys fees incurred by Lender arising out of or in connection with any Letter of Credit; provided, however, that no Borrower shall be obligated hereunder to indemnify for any loss, cost, expense, or liability to the extent that it is caused by the gross negligence or willful misconduct of Lender. Each Borrower agrees to be bound by the Underlying Issuer's regulations and interpretations of any Underlying Letter of Credit or by Lender's interpretations of any L/C issued by Lender to or for such Borrower's account, even though this interpretation may be different from such Borrower's own, and each Borrower understands and agrees that Lender shall not be liable for any error, negligence, or mistake, whether of omission or commission, in following Borrowers' instructions or those contained in the Letter of Credit or any modifications, amendments, or supplements thereto. Each Borrower understands that the L/C Undertakings may require Lender to indemnify the Underlying Issuer for certain costs or liabilities arising out of claims by Borrowers against such Underlying Issuer. Each Borrower hereby agrees to indemnify, save, defend, and hold Lender harmless with respect to any loss, cost, expense (including reasonable attorneys fees), or liability incurred by Lender under any L/C Undertaking as a result of Lender's indemnification of any Underlying Issuer; provided, however, that no Borrower shall be obligated hereunder to indemnify for any loss, cost, expense, or liability to the extent that it is caused by the gross negligence or willful misconduct of Lender. Each Borrower hereby acknowledges and agrees that Lender shall not be responsible for delays, errors, or omissions resulting from the malfunction of equipment in connection with any Letter of Credit.

(c) Each Borrower hereby authorizes and directs any Underlying Issuer to deliver to Lender all instruments, documents, and other writings and property received by such Underlying Issuer pursuant to such Underlying Letter of Credit and to accept and rely upon Lender's instructions with respect to all matters arising in connection with such Underlying Letter of Credit and the related application.

(d) Any and all issuance charges, commissions, fees, and costs incurred by Lender relating to Underlying Letters of Credit shall be Lender Expenses for purposes of this Agreement and immediately shall be reimbursable by Borrowers to Lender for the account of Lender; it being acknowledged and agreed by each Borrower that, as of the Closing Date, the issuance charge imposed by the prospective Underlying Issuer is .825% per annum times the face amount of each Underlying Letter of Credit, that such issuance charge may be changed from time to time, and that the Underlying Issuer also imposes a schedule of charges for amendments, extensions, drawings, and renewals.

(e) If by reason of (i) any change after the Closing Date in any applicable law, treaty, rule, or regulation or any change in the interpretation or application thereof by any Governmental Authority, or (ii) compliance by the Underlying Issuer or Lender with any direction, request, or requirement (irrespective of whether having the force of law) of any Governmental Authority or monetary authority including, Regulation D of the Federal Reserve Board as from time to time in effect (and any successor thereto):

(i) any reserve, deposit, or similar requirement is or shall be imposed or modified in respect of any Letter of Credit issued hereunder, or

(ii) there shall be imposed on the Underlying Issuer or Lender any other condition regarding any Underlying Letter of Credit or any Letter of Credit issued pursuant hereto;

and the result of the foregoing is to increase, directly or indirectly, the cost to Lender of issuing, making, guaranteeing, or maintaining any Letter of Credit or to reduce the amount receivable in respect thereof by Lender, then, and in any such case, Lender may, at any time within a reasonable period after the additional cost is incurred or the amount received is reduced, notify Administrative Borrower, and Borrowers shall pay on demand such amounts as Lender may specify to be necessary to compensate Lender for such additional cost or reduced receipt, together with interest on such amount from the date of such demand until payment in full thereof at the rate then applicable to Advances. The determination by Lender of any amount due pursuant to this Section, as set forth in a certificate setting forth the calculation thereof in reasonable detail, shall, in the absence of manifest or demonstrable error, be final and conclusive and binding on all of the parties hereto.

2.13 **Intentionally Omitted.**

2.14 **Capital Requirements.** If, after the date hereof, Lender determines that (i) the adoption of or change in any law, rule, regulation or guideline regarding capital requirements for banks or bank holding companies, or any change in the interpretation or application thereof by any Governmental Authority charged with the administration thereof, or (ii) compliance by Lender or its parent bank holding company with any guideline, request or directive of any such entity regarding capital adequacy (whether or not having the force of law), has the effect of reducing the return on Lender's or such holding company's capital as a consequence of Lender's obligations hereunder to a level below that which Lender or such holding company could have achieved but for such adoption, change, or compliance (taking into consideration Lender's or such holding company's then existing policies with respect to capital adequacy and assuming the full utilization of such entity's capital) by any amount deemed by Lender to be material, then Lender may notify Administrative Borrower thereof. Following receipt of such notice, Borrowers agree to pay Lender on demand the amount of such reduction of return of capital as and when such reduction is determined, payable within 90 days after presentation by Lender of a statement in the amount and setting forth in reasonable detail Lender's calculation thereof and the assumptions upon which such calculation was based (which statement shall be deemed true and correct absent manifest error). In determining such amount, Lender may use any reasonable averaging and attribution methods.

2.15 **Joint and Several Liability of Borrowers.**

(a) Each Borrower is accepting joint and several liability hereunder and under the other Loan Documents in consideration of the financial accommodations to be provided by Lender under this Agreement, for the mutual benefit, directly and indirectly, of each Borrower and in consideration of the undertakings of the other Borrowers to accept joint and several liability for the Obligations.

(b) Each Borrower, jointly and severally, hereby irrevocably and unconditionally accepts, not merely as a surety but also as a co-debtor, joint and several liability with the other Borrowers, with respect to the payment and performance of all of the Obligations (including, without limitation, any Obligations arising under this Section 2.15), it being the intention of the parties hereto that all the Obligations shall be the joint and several obligations of each Borrower without preferences or distinction among them.

(c) If and to the extent that any Borrower shall fail to make any payment with respect to any of the Obligations as and when due or to perform any of the Obligations in accordance with the terms thereof, then in each such event the other Borrowers will make such payment with respect to, or perform, such Obligation.

(d) The Obligations of each Borrower under the provisions of this Section 2.15 constitute the absolute and unconditional, full recourse Obligations of each Borrower enforceable against

each such Borrower to the full extent of its properties and assets, irrespective of the validity, regularity or enforceability of this Agreement or any other circumstances whatsoever.

(e) Except as otherwise expressly provided in this Agreement, each Borrower hereby waives notice of acceptance of its joint and several liability, notice of any Advances or Letters of Credit issued under or pursuant to this Agreement, notice of the occurrence of any Default, Event of Default, or of any demand for any payment under this Agreement, notice of any action at any time taken or omitted by Lender under or in respect of any of the Obligations, any requirement of diligence or to mitigate damages and, generally, to the extent permitted by applicable law, all demands, notices and other formalities of every kind in connection with this Agreement (except as otherwise provided in this Agreement). Each Borrower hereby assents to, and waives notice of, any extension or postponement of the time for the payment of any of the Obligations, the acceptance of any payment of any of the Obligations, the acceptance of any partial payment thereon, any waiver, consent or other action or acquiescence by Lender at any time or times in respect of any default by any Borrower in the performance or satisfaction of any term, covenant, condition or provision of this Agreement, any and all other indulgences whatsoever by Lender in respect of any of the Obligations, and the taking, addition, substitution or release, in whole or in part, at any time or times, of any security for any of the Obligations or the addition, substitution or release, in whole or in part, of any Borrower. Without limiting the generality of the foregoing, each Borrower assents to any other action or delay in acting or failure to act on the part of Lender with respect to the failure by any Borrower to comply with any of its respective Obligations, including, without limitation, any failure strictly or diligently to assert any right or to pursue any remedy or to comply fully with applicable laws or regulations thereunder, which might, but for the provisions of this Section 2.15 afford grounds for terminating, discharging or relieving any Borrower, in whole or in part, from any of its Obligations under this Section 2.15, it being the intention of each Borrower that, so long as any of the Obligations hereunder remain unsatisfied, the Obligations of each Borrower under this Section 2.15 shall not be discharged except by performance and then only to the extent of such performance. The Obligations of each Borrower under this Section 2.15 shall not be diminished or rendered unenforceable by any winding up, reorganization, arrangement, liquidation, reconstruction or similar proceeding with respect to any Borrower or Lender.

(f) Each Borrower represents and warrants to Lender that such Borrower is currently informed of the financial condition of Borrowers and of all other circumstances which a diligent inquiry would reveal and which bear upon the risk of nonpayment of the Obligations. Each Borrower further represents and warrants to Lender that such Borrower has read and understands the terms and conditions of the Loan Documents. Each Borrower hereby covenants that such Borrower will continue to keep informed of Borrowers' financial condition, the financial condition of other guarantors, if any, and of all other circumstances which bear upon the risk of nonpayment or nonperformance of the Obligations.

(g) Each Borrower waives all rights and defenses arising out of an election of remedies by Lender, even though that election of remedies, such as a nonjudicial foreclosure with respect to security for a guaranteed obligation, has destroyed Lender's rights of subrogation and reimbursement against such Borrower.

(h) Intentionally omitted.

(i) The provisions of this Section 2.15 are made for the benefit of Lender and its successors and assigns, and may be enforced by it or them from time to time against any or all Borrowers as often as occasion therefor may arise and without requirement on the part of Lender, successor or assign first to marshal any of its or their claims or to exercise any of its or their rights against any Borrower or to exhaust any remedies available to it or them against any Borrower or to resort to any other source or means of obtaining payment of any of the Obligations hereunder or to elect any other remedy. The provisions of this Section 2.15 shall remain in effect until all of the Obligations shall have been paid in full or otherwise fully satisfied. If at any time, any payment, or any part thereof, made in respect of any of the Obligations, is rescinded or must otherwise be restored or returned by Lender upon the insolvency, bankruptcy or

reorganization of any Borrower, or otherwise, the provisions of this Section 2.15 will forthwith be reinstated in effect, as though such payment had not been made.

(j) Each Borrower hereby agrees that it will not enforce any of its rights of contribution or subrogation against any other Borrower with respect to any liability incurred by it hereunder or under any of the other Loan Documents, any payments made by it to Lender with respect to any of the Obligations or any collateral security therefor until such time as all of the Obligations have been paid in full in cash. Any claim which any Borrower may have against any other Borrower with respect to any payments to Lender hereunder or under any other Loan Documents are hereby expressly made subordinate and junior in right of payment, without limitation as to any increases in the Obligations arising hereunder or thereunder, to the prior payment in full in cash of the Obligations and, in the event of any insolvency, bankruptcy, receivership, liquidation, reorganization or other similar proceeding under the laws of any jurisdiction relating to any Borrower, its debts or its assets, whether voluntary or involuntary, all such Obligations shall be paid in full in cash before any payment or distribution of any character, whether in cash, securities or other property, shall be made to any other Borrower therefor.

(k) Each Borrower hereby agrees that, after the occurrence and during the continuance of any Default or Event of Default, the payment of any amounts due with respect to the indebtedness owing by any Borrower to any other Borrower is hereby subordinated to the prior payment in full in cash of the Obligations. Each Borrower hereby agrees that after the occurrence and during the continuance of any Default or Event of Default, such Borrower will not demand, sue for or otherwise attempt to collect any indebtedness of any other Borrower owing to such Borrower until the Obligations shall have been paid in full in cash. If, notwithstanding the foregoing sentence, such Borrower shall collect, enforce or receive any amounts in respect of such indebtedness, such amounts shall be collected, enforced and received by such Borrower as trustee for Lender, and such Borrower shall deliver any such amounts to Lender for application to the Obligations in accordance with Section 2.4(b).

3. CONDITIONS; TERM OF AGREEMENT.

3.1 **Conditions Precedent to the Initial Extension of Credit.** The obligation of Lender to make the initial extension of credit provided for hereunder, is subject to the fulfillment, to the satisfaction of Lender of each of the conditions precedent set forth on Schedule 3.1 (the making of such initial extension of credit by Lender being conclusively deemed to be its satisfaction or waiver of the conditions precedent).

3.2 **Conditions Precedent to all Extensions of Credit.** The obligation of Lender to make any Advances hereunder at any time (or to extend any other credit hereunder) shall be subject to the following conditions precedent:

(a) the representations and warranties contained in this Agreement or in the other Loan Documents shall be true and correct in all material respects on and as of the date of such extension of credit, as though made on and as of such date (except to the extent that such representations and warranties relate solely to an earlier date);

(b) no Default or Event of Default shall have occurred and be continuing on the date of such extension of credit, nor shall either result from the making thereof;

(c) no injunction, writ, restraining order, or other order of any nature restricting or prohibiting, directly or indirectly, the extending of such credit shall have been issued and remain in force by any Governmental Authority against any Borrower, Lender, or any of their Affiliates; and

(d) no Material Adverse Change shall have occurred.

3.3 **Term.** This Agreement shall continue in full force and effect for a term ending on the date three (3) years following the Closing Date (the " Maturity Date"). The foregoing notwithstanding, Lender shall have the right to terminate its obligations under this Agreement immediately and without notice upon the occurrence and during the continuation of an Event of Default.

3.4 **Effect of Termination.** On the date of termination of this Agreement, all Obligations (including contingent reimbursement obligations of Borrowers with respect to outstanding Letters of Credit and including all Bank Product Obligations) immediately shall become due and payable without notice or demand (including (a) either (i) providing cash collateral to be held by Lender in an amount equal to 105% of the Letter of Credit Usage, or (ii) causing the original Letters of Credit to be returned to Lender, and (b) providing cash collateral (in an amount determined by Lender as sufficient to satisfy the reasonably estimated credit exposure) to be held by Lender for the benefit of the Bank Product Providers with respect to the Bank Product Obligations). No termination of this Agreement, however, shall relieve or discharge Borrowers or their Subsidiaries of their duties, Obligations, or covenants hereunder or under any other Loan Document and the Lender's Liens in the Collateral shall remain in effect until all Obligations have been paid in full and Lender's obligations to provide additional credit hereunder have been terminated. When this Agreement has been terminated and all of the Obligations have been paid in full and Lender's obligations to provide additional credit under the Loan Documents have been terminated irrevocably, Lender will, at Borrowers' sole expense, execute and deliver any termination statements, lien releases, mortgage releases, re-assignments of trademarks, discharges of security interests, and other similar discharge or release documents (and, if applicable, in recordable form) as are reasonably necessary to release, as of record, the Lender's Liens and all notices of security interests and liens previously filed by Lender with respect to the Obligations.

3.5 **Early Termination by Borrowers.** Borrowers have the option, at any time upon 90 days prior written notice by Administrative Borrower to Lender, to terminate this Agreement by paying to Lender, in cash, the Obligations (including (a) either (i) providing cash collateral to be held by Lender in an amount equal to 105% of the Letter of Credit Usage, or (ii) causing the original Letters of Credit to be returned to Lender, and (b) providing cash collateral (in an amount determined by Lender as sufficient to satisfy the reasonably estimated credit exposure) to be held by Lender for the benefit of the Bank Product Providers with respect to the Bank Product Obligations), in full. If Administrative Borrower has sent a notice of termination pursuant to the provisions of this Section, then Lender's obligations to extend credit hereunder shall terminate and Borrowers shall be obligated to repay the Obligations (including (a) either (i) providing cash collateral to be held by Lender in an amount equal to 105% of the Letter of Credit Usage, or (ii) causing the original Letters of Credit to be returned to Lender, and (b) providing cash collateral (in an amount determined by Lender as sufficient to satisfy the reasonably estimated credit exposure) to be held by Lender for the benefit of the Bank Product Providers with respect to the Bank Products Obligations), in full, on the date set forth as the date of termination of this Agreement in such notice.

4. REPRESENTATIONS AND WARRANTIES.

In order to induce Lender to enter into this Agreement, each Borrower makes the following representations and warranties to Lender which shall be true, correct, and complete, in all material respects, as of the date hereof, and shall be true, correct, and complete, in all material respects, as of the Closing Date, and at and as of the date of the making of each Advance (or other extension of credit) made thereafter, as though made on and as of the date of such Advance (or other extension of credit) (except to the extent that such representations and warranties relate solely to an earlier date) and such representations and warranties shall survive the execution and delivery of this Agreement:

4.1 **No Encumbrances.** Each Borrower and its Subsidiaries has good and indefeasible title to, or a valid leasehold interest in, their personal property assets and good and marketable title to, or a valid leasehold interest in, their Real Property, in each case, free and clear of Liens except for Permitted Liens.

4.2 **Intentionally Omitted.**

4.3 **Intentionally Omitted.**

4.4 **Equipment.** Each material item of Equipment of Borrowers and their Subsidiaries is used or held for use in their business and is in good working order, ordinary wear and tear and damage by casualty excepted.

4.5 **Location of Inventory and Equipment.** The Inventory and Equipment (other than vehicles or Equipment out for repair) of Borrowers and their Subsidiaries are not stored with a bailee, warehouseman, or similar party and are located only at, or in-transit between, the locations identified on Schedule 4.5 (as such Schedule may be updated pursuant to Section 5.9).

4.6 **Inventory Records.** Each Borrower keeps correct and accurate records itemizing and describing the type, quality, and quantity of its and its Subsidiaries' Inventory and the book value thereof.

4.7 **State of Incorporation; Location of Chief Executive Office; Organizational Identification Number; Commercial Tort Claims.**

(a) The jurisdiction of organization of each Borrower and each of its Subsidiaries is set forth on Schedule 4.7(a).

(b) The chief executive office of each Borrower and each of its Subsidiaries is located at the address indicated on Schedule 4.7(b) (as such Schedule may be updated pursuant to Section 5.9).

(c) Each Borrower's and each of its Subsidiaries' organizational identification number, if any, is identified on Schedule 4.7(c).

(d) As of the Closing Date, Borrowers and their Subsidiaries do not hold any commercial tort claims, except as set forth on Schedule 4.7(d).

4.8 **Due Organization and Qualification; Subsidiaries.**

(a) Each Borrower and each Subsidiary of a Borrower is duly organized and existing and in good standing under the laws of the jurisdiction of its organization and qualified to do business in any state where the failure to be so qualified reasonably could be expected to result in a Material Adverse Change.

(b) Set forth on Schedule 4.8(b), is a complete and accurate description of the authorized capital Stock of each Borrower, by class, and, as of the Closing Date, a description of the number of shares of each such class that are issued and outstanding. Other than as described on Schedule 4.8(b), there are no subscriptions, options, warrants, or calls relating to any shares of each Borrower's capital Stock, including any right of conversion or exchange under any outstanding security or other instrument.

(c) Set forth on Schedule 4.8(c), is a complete and accurate list of each Borrower's direct and indirect Subsidiaries, showing: (i) the jurisdiction of their organization, (ii) the number of shares of each class of common and preferred Stock authorized for each of such Subsidiaries, and (iii) the number and the percentage of the outstanding shares of each such class owned directly or indirectly by the applicable Borrower. All of the outstanding capital Stock of each such Subsidiary has been validly issued and is fully paid and non-assessable.

(d) Except as set forth on Schedule 4.8(c), there are no subscriptions, options, warrants, or calls relating to any shares of any Borrower's Subsidiaries' capital Stock, including any right of conversion or exchange under any outstanding security or other instrument. No Borrower or any of its respective Subsidiaries is subject to any obligation (contingent or otherwise) to repurchase or otherwise acquire or retire

any shares of any Borrower's Subsidiaries' capital Stock or any security convertible into or exchangeable for any such capital Stock.

4.9 **Due Authorization; No Conflict.**

(a) As to each Borrower, the execution, delivery, and performance by such Borrower of this Agreement and the other Loan Documents to which it is a party have been duly authorized by all necessary action on the part of such Borrower.

(b) As to each Borrower, the execution, delivery, and performance by such Borrower of this Agreement and the other Loan Documents to which it is a party do not and will not (i) violate any provision of federal, state, or local law or regulation applicable to any Borrower, the Governing Documents of any Borrower, or any order, judgment, or decree of any court or other Governmental Authority binding on any Borrower, (ii) conflict with, result in a breach of, or constitute (with due notice or lapse of time or both) a default under any material contractual obligation of any Borrower, (iii) result in or require the creation or imposition of any Lien of any nature whatsoever upon any properties or assets of Borrower, other than Permitted Liens, or (iv) require any approval of any Borrower's interestholders or any approval or consent of any Person under any material contractual obligation of any Borrower, other than consents or approvals that have been obtained and that are still in force and effect.

(c) Other than the filing of financing statements, and the recordation of the Mortgages, the execution, delivery, and performance by each Borrower of this Agreement and the other Loan Documents to which such Borrower is a party do not and will not require any registration with, consent, or approval of, or notice to, or other action with or by, any Governmental Authority, other than consents or approvals that have been obtained and that are still in force and effect.

(d) As to each Borrower, this Agreement and the other Loan Documents to which such Borrower is a party, and all other documents contemplated hereby and thereby, when executed and delivered by such Borrower will be the legally valid and binding obligations of such Borrower, enforceable against such Borrower in accordance with their respective terms, except as enforcement may be limited by equitable principles or by bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or limiting creditors' rights generally.

(e) The Lender's Liens are validly created, perfected, and first priority Liens, subject only to Permitted Liens.

(f) The execution, delivery, and performance by each Guarantor of the Loan Documents to which it is a party have been duly authorized by all necessary action on the part of such Guarantor.

(g) The execution, delivery, and performance by each Guarantor of the Loan Documents to which it is a party do not and will not (i) violate any provision of federal, state, or local law or regulation applicable to such Guarantor, the Governing Documents of such Guarantor, or any order, judgment, or decree of any court or other Governmental Authority binding on such Guarantor, (ii) conflict with, result in a breach of, or constitute (with due notice or lapse of time or both) a default under any material contractual obligation of such Guarantor, (iii) result in or require the creation or imposition of any Lien of any nature whatsoever upon any properties or assets of such Guarantor, other than Permitted Liens, or (iv) require any approval of such Guarantor's interestholders or any approval or consent of any Person under any material contractual obligation of such Guarantor, other than consents or approvals that have been obtained and that are still in force and effect.

(h) Other than the filing of financing statements and the recordation of the Mortgages, the execution, delivery, and performance by each Guarantor of the Loan Documents to which such Guarantor

is a party do not and will not require any registration with, consent, or approval of, or notice to, or other action with or by, any Governmental Authority, other than consents or approvals that have been obtained and that are still in force and effect.

(i) The Loan Documents to which each Guarantor is a party, and all other documents contemplated hereby and thereby, when executed and delivered by such Guarantor will be the legally valid and binding obligations of such Guarantor, enforceable against such Guarantor in accordance with their respective terms, except as enforcement may be limited by equitable principles or by bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or limiting creditors' rights generally.

4.10 **Litigation.** Other than those matters disclosed on Schedule 4.10, and other than matters arising after the Closing Date that reasonably could not be expected to result in a Material Adverse Change, there are no actions, suits, or proceedings pending or, to the best knowledge of each Borrower, threatened against any Borrower or any of its Subsidiaries.

4.11 **No Material Adverse Change.** All financial statements relating to Borrowers and their Subsidiaries or Guarantor that have been delivered by Borrowers to Lender have been prepared in accordance with GAAP (except, in the case of unaudited financial statements, for the lack of footnotes and being subject to year-end audit adjustments) and present fairly in all material respects, Borrowers' and their Subsidiaries' (or any Guarantor's, as applicable) financial condition as of the date thereof and results of operations for the period then ended. There has not been a Material Adverse Change with respect to Borrowers and their Subsidiaries (or any Guarantor, as applicable) since the date of the latest financial statements submitted to Lender on or before the Closing Date.

4.12 **Fraudulent Transfer.**

(a) Each Borrower and each Subsidiary of a Borrower is Solvent.

(b) No transfer of property is being made by any Borrower or any Subsidiary of a Borrower and no obligation is being incurred by any Borrower or any Subsidiary of a Borrower in connection with the transactions contemplated by this Agreement or the other Loan Documents with the intent to hinder, delay, or defraud either present or future creditors of Borrowers or their Subsidiaries.

4.13 **Employee Benefits.** None of Borrowers, any of their Subsidiaries, or any of their ERISA Affiliates maintains or contributes to any Benefit Plan.

4.14 **Environmental Condition.** Except as set forth on Schedule 4.14, (a) to Borrowers' knowledge, none of Borrowers' or their Subsidiaries' properties or assets has ever been used by Borrowers, their Subsidiaries, or by previous owners or operators in the disposal of, or to produce, store, handle, treat, release, or transport, any Hazardous Materials, where such use, production, storage, handling, treatment, release or transport was in violation, in any material respect, of any applicable Environmental Law, (b) to Borrowers' knowledge, none of Borrowers' nor their Subsidiaries' properties or assets has ever been designated or identified in any manner pursuant to any environmental protection statute as a Hazardous Materials disposal site, (c) none of Borrowers nor any of their Subsidiaries have received notice that a Lien arising under any Environmental Law has attached to any revenues or to any Real Property owned or operated by Borrowers or their Subsidiaries, and (d) none of Borrowers nor any of their Subsidiaries have received a summons, citation, notice, or directive from the United States Environmental Protection Agency or any other federal or state governmental agency concerning any action or omission by any Borrower or any Subsidiary of a Borrower resulting in the releasing or disposing of Hazardous Materials into the environment.

4.15 **Intellectual Property.** Each Borrower and each Subsidiary of a Borrower owns, or holds licenses in, all trademarks, trade names, copyrights, patents, patent rights, and licenses that are necessary to the conduct of its business as currently conducted, and attached hereto as Schedule 4.15 (as updated from time to

time) is a true, correct, and complete listing of all material patents, patent applications, trademarks, trademark applications, copyrights, and copyright registrations as to which each Borrower or one of its Subsidiaries is the owner or is an exclusive licensee.

4.16 **Leases.** Borrowers and their Subsidiaries enjoy peaceful and undisturbed possession under all leases material to their business and to which they are parties or under which they are operating and all of such material leases are valid and subsisting and no material default by Borrowers or their Subsidiaries exists under any of them.

4.17 **Deposit Accounts and Securities Accounts.** Set forth on Schedule 2.7 is a listing of all of Borrowers' and their Subsidiaries' Deposit Accounts and Securities Accounts, including, with respect to each bank or securities intermediary (a) the name and address of such Person, and (b) the account numbers of the Deposit Accounts or Securities Accounts maintained with such Person.

4.18 **Complete Disclosure.** All factual information (taken as a whole) furnished by or on behalf of Borrowers or their Subsidiaries in writing to Lender (including all information contained in the Schedules hereto or in the other Loan Documents) for purposes of or in connection with this Agreement, the other Loan Documents, or any transaction contemplated herein or therein is, and all other such factual information (taken as a whole) hereafter furnished by or on behalf of Borrowers or their Subsidiaries in writing to Lender will be, true and accurate in all material respects on the date as of which such information is dated or certified and not incomplete by omitting to state any fact necessary to make such information (taken as a whole) not misleading in any material respect at such time in light of the circumstances under which such information was provided. On the Closing Date, the Closing Date Projections represent, and as of the date on which any other Projections are delivered to Lender, such additional Projections represent Borrowers' good faith estimate of their and their Subsidiaries' future performance for the periods covered thereby.

4.19 **Indebtedness.** Set forth on Schedule 4.19 is a true and complete list of all Indebtedness of each Borrower and each Subsidiary of a Borrower outstanding immediately prior to the Closing Date that is to remain outstanding after the Closing Date and such Schedule accurately reflects the aggregate principal amount of such Indebtedness and describes the principal terms thereof.

5. AFFIRMATIVE COVENANTS.

Each Borrower covenants and agrees that, so long as any credit hereunder shall be available and until the payment in full of the Obligations, Borrowers shall and shall cause each of their respective Subsidiaries to do all of the following:

5.1 **Accounting System.** Maintain a system of accounting that enables Borrowers to produce financial statements in accordance with GAAP and maintain records pertaining to the Collateral that contain information as from time to time reasonably may be requested by Lender. Borrowers also shall keep a reporting system that shows all additions, sales, claims, returns, and allowances with respect to their and their Subsidiaries' sales.

5.2 **Collateral Reporting.** Provide Lender with each of the reports set forth on Schedule 5.2 at the times specified therein.

5.3 **Financial Statements, Reports, Certificates.** Deliver to Lender each of the financial statements, reports, or other items set forth on Schedule 5.3 at the times specified herein. In addition, Parent agrees that no Subsidiary of Parent will have a fiscal year different from that of Parent.

5.4 **Intentionally Omitted.**

5.5 **Inspection.** Permit Lender, and its duly authorized representatives or agents to visit any of its properties and inspect any of its assets or books and records, to examine and make copies of its books and records, and to discuss its affairs, finances, and accounts with, and to be advised as to the same by, its officers and employees at such reasonable times and intervals as Lender may designate and, so long as no Default or Event of Default exists, with reasonable prior notice to Administrative Borrower.

5.6 **Maintenance of Properties.** Maintain and preserve all of their properties which are necessary or useful in the proper conduct to their business in good working order and condition, ordinary wear, tear, and casualty excepted (and except where the failure to do so could not be expected to result in a Material Adverse Change), and comply at all times with the provisions of all material leases to which it is a party as lessee, so as to prevent any loss or forfeiture thereof or thereunder; provided, however, that if Borrowers determine in their reasonable business judgment not to continue their tissue business, they shall not be required to maintain assets used solely for such business.

5.7 **Taxes.** Cause all assessments and taxes, whether real, personal, or otherwise, due or payable by, or imposed, levied, or assessed against Borrowers, their Subsidiaries, or any of their respective assets to be paid in full, before delinquency or before the expiration of any extension period, except to the extent that the validity of such assessment or tax shall be the subject of a Permitted Protest. Borrowers will and will cause their Subsidiaries to make timely payment or deposit of all tax payments and withholding taxes required of them by applicable laws, including those laws concerning F.I.C.A., F.U.T.A., state disability, and local, state, and federal income taxes, and will, upon request, furnish Lender with proof satisfactory to Lender indicating that the applicable Borrower or Subsidiary of a Borrower has made such payments or deposits.

5.8 **Insurance; Litigation Settlement.**

(a) At Borrowers' expense, maintain insurance respecting their and their Subsidiaries' assets wherever located, covering loss or damage by fire, theft, explosion, and all other hazards and risks as ordinarily are insured against by other Persons engaged in the same or similar businesses. Borrowers also shall maintain business interruption, public liability, and product liability insurance, as well as insurance against larceny, embezzlement, and criminal misappropriation. All such policies of insurance shall be in such amounts and with such insurance companies as are reasonably satisfactory to Lender. Borrowers shall deliver copies of all such policies to Lender with an endorsement naming Lender as the sole loss payee (under a satisfactory lender's loss payable endorsement) or additional insured, as appropriate. Each policy of insurance or endorsement shall contain a clause requiring the insurer to give not less than 30 days prior written notice to Lender in the event of cancellation of the policy for any reason whatsoever.

(b) Administrative Borrower shall give Lender prompt notice of any casualty loss or liability claim exceeding $250,000 that is not already disclosed on Schedule 4.10. With respect to losses or liability claims arising under litigation matters disclosed on Schedule 4.10, Borrowers shall have the exclusive right to adjust any losses payable under any insurance policies described above and, so long as (i) no Event of Default has occurred and is continuing and (ii) Excess Availability is equal to or greater than $7,500,000, Borrowers shall have the exclusive right to settle any such liability claims that are not covered by insurance. Following the occurrence and during the continuation of an Event of Default or if Excess Availability is less than $7,500,000, Borrowers shall not settle any such liability claim without the prior written consent of Lender. With respect to all other losses or liability claims, so long as no Event of Default has occurred and is continuing, Borrowers shall have the exclusive right to adjust any losses (other than property/casualty losses in excess of $250,000) payable under any such insurance policies or settle any liability claims of less than $250,000 not covered by insurance. Following the occurrence and during the continuation of an Event of Default, or in the case of any losses payable under such property/casualty insurance exceeding $250,000 or uninsured liability claims in excess of $250,000, Lender shall have the exclusive right to adjust any such losses payable under any such insurance policies, without any liability to Borrowers whatsoever in respect of such adjustments, and Borrowers shall not settle any such uninsured liability claims without the prior written consent of Lender. Any monies received as payment for any loss

under any insurance policy mentioned above (other than liability insurance policies) or as payment of any award or compensation for condemnation or taking by eminent domain, shall be paid over to Lender to be applied at the option of Lender either to the prepayment of the Obligations or to be disbursed to Administrative Borrower under staged payment terms reasonably satisfactory to Lender for application to the cost of repairs, replacements, or restorations; provided, however, that, with respect to any such monies in an aggregate amount during any 12 consecutive month period not in excess of $250,000, so long as (A) no Default or Event of Default shall have occurred and is continuing, (B) Borrowers' Excess Availability is greater than $7,500,000, (C) Administrative Borrower shall have given Lender prior written notice of the Borrowers or their respective Subsidiaries' intention to apply such monies to the costs of repairs, replacement, or restoration of the property which is the subject of the loss, destruction, or taking by condemnation, (D) the monies are held in a cash collateral account in which Lender has a perfected first-priority security interest, and (E) Borrowers or their Subsidiaries complete such repairs, replacements, or restoration within 180 days after the initial receipt of such monies, Borrowers shall have the option to apply such monies to the costs of repairs, replacement, or restoration of the property which is the subject of the loss, destruction, or taking by condemnation unless and to the extent that such applicable period shall have expired without such repairs, replacements, or restoration being made, in which case, any amounts remaining in the cash collateral account shall be paid to Lender and applied as set forth above.

5.9 **Location of Inventory and Equipment.** Keep Borrowers' and their Subsidiaries' Inventory and Equipment (other than vehicles and Equipment out for repair) only at the locations identified on Schedule 4.5 and their chief executive offices only at the locations identified on Schedule 4.7(b); provided, however, that Administrative Borrower may amend Schedule 4.5 or Schedule 4.7(b) so long as such amendment occurs by written notice to Lender not less than 30 days prior to the date on which such Inventory or Equipment is moved to such new location or such chief executive office is relocated, so long as such new location is within the continental United States, and so long as, at the time of such written notification, the applicable Borrower provides Lender a Collateral Access Agreement with respect thereto.

5.10 **Compliance with Laws.** Comply with the requirements of all applicable laws, rules, regulations, and orders of any Governmental Authority, other than laws, rules, regulations, and orders the non-compliance with which, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Change.

5.11 **Leases.** Pay when due all rents and other amounts payable under any material leases to which any Borrower or any Subsidiary of a Borrower is a party or by which any Borrower's or any of its Subsidiaries' properties and assets are bound, unless such payments are the subject of a Permitted Protest.

5.12 **Existence.** At all times preserve and keep in full force and effect each Borrower's and each of its Subsidiaries' valid existence and good standing and any rights and franchises material to their businesses.

5.13 **Environmental.**

(a) Keep any property either owned or operated by any Borrower or any Subsidiary of a Borrower free of any Environmental Liens or post bonds or other financial assurances sufficient to satisfy the obligations or liability evidenced by such Environmental Liens, (b) comply, in all material respects, with Environmental Laws and provide to Lender documentation of such compliance which Lender reasonably requests, (c) promptly notify Lender of any release of a Hazardous Material in any reportable quantity from or onto property owned or operated by any Borrower or any Subsidiary of a Borrower and take any Remedial Actions required to abate said release or otherwise to come into compliance with applicable Environmental Law, and (d) promptly, but in any event within 5 days of its receipt thereof, provide Lender with written notice of any of the following: (i) notice that an Environmental Lien has been filed against any of the real or personal property of any Borrower or any Subsidiary of a Borrower, (ii) commencement of any Environmental Action or notice that an Environmental Action will be filed against any Borrower or any

Subsidiary of a Borrower, and (iii) notice of a violation, citation, or other administrative order which reasonably could be expected to result in a Material Adverse Change.

5.14 **Disclosure Updates.** Promptly and in no event later than 5 Business Days after obtaining knowledge thereof, notify Lender if any written information, exhibit, or report furnished to Lender contained, at the time it was furnished, any untrue statement of a material fact or omitted to state any material fact necessary to make the statements contained therein not misleading in light of the circumstances in which made. The foregoing to the contrary notwithstanding, any notification pursuant to the foregoing provision will not cure or remedy the effect of the prior untrue statement of a material fact or omission of any material fact nor shall any such notification have the affect of amending or modifying this Agreement or any of the Schedules hereto.

5.15 **Control Agreements.** Take all reasonable steps in order for Lender to obtain control in accordance with Sections 8-106, 9-104, 9-105, 9-106, and 9-107 of the Code with respect to (subject to the proviso contained in Section 6.12) all of its Securities Accounts, Deposit Accounts, electronic chattel paper, investment property, and letter of credit rights.

5.16 **Formation of Subsidiaries.** At the time that any Borrower or any Guarantor forms any direct or indirect Subsidiary or acquires any direct or indirect Subsidiary after the Closing Date, such Borrower or such Guarantor shall (a) cause such new Subsidiary to provide to Lender a joinder to the Guaranty and the Security Agreement, together with such other security documents (including Mortgages with respect to any Real Property of such new Subsidiary), as well as appropriate financing statements (and with respect to all property subject to a Mortgage, fixture filings), all in form and substance satisfactory to Lender (including being sufficient to grant Lender a first priority Lien (subject to Permitted Liens) in and to the assets of such newly formed or acquired Subsidiary), (b) provide to Lender a pledge agreement and appropriate certificates and powers or financing statements, hypothecating all of the direct or beneficial ownership interest in such new Subsidiary, in form and substance satisfactory to Lender, and (c) provide to Lender all other documentation, including one or more opinions of counsel satisfactory to Lender (which opinions shall be substantially similar to the opinion delivered on the Closing Date or in such other form as shall be acceptable to Lender), which in its opinion is appropriate with respect to the execution and delivery of the applicable documentation referred to above (including policies of title insurance or other documentation with respect to all property subject to a Mortgage). Any document, agreement, or instrument executed or issued pursuant to this Section 5.16 shall be a Loan Document.

6. NEGATIVE COVENANTS.

Each Borrower covenants and agrees that, so long as any credit hereunder shall be available and until the payment in full of the Obligations, Borrowers will not and will not permit any of their respective Subsidiaries to do any of the following:

6.1 **Indebtedness.** Create, incur, assume, suffer to exist, guarantee, or otherwise become or remain, directly or indirectly, liable with respect to any Indebtedness, except:

(a) Indebtedness evidenced by this Agreement and the other Loan Documents, together with Indebtedness owed to Underlying Issuers with respect to Underlying Letters of Credit,

(b) Indebtedness set forth on Schedule 4.19,

(c) Permitted Purchase Money Indebtedness,

(d) Indebtedness arising from issuances by Borrowers of subordinated debt or debentures, provided that Borrowers enter into a subordination agreement relating to such Indebtedness in form and substance satisfactory to Lender, or

(e) refinancings, renewals, or extensions of Indebtedness permitted under clauses (b) and (c) of this Section 6.1 (and continuance or renewal of any Permitted Liens associated therewith) so long as: (i) the terms and conditions of such refinancings, renewals, or extensions do not, in Lender's reasonable judgment, materially impair the prospects of repayment of the Obligations by Borrowers or materially impair Borrowers' creditworthiness, (ii) such refinancings, renewals, or extensions do not result in an increase in the principal amount of, or interest rate (by more than two percent (2%)) with respect to, the Indebtedness so refinanced, renewed, or extended or add one or more Borrowers as liable with respect thereto if such additional Borrowers were not liable with respect to the original Indebtedness, (iii) such refinancings, renewals, or extensions do not result in a shortening of the average weighted maturity of the Indebtedness so refinanced, renewed, or extended, nor are they on terms or conditions, that, taken as a whole, are materially more burdensome or restrictive to the applicable Borrower, (iv) if the Indebtedness that is refinanced, renewed, or extended was subordinated in right of payment to the Obligations, then the terms and conditions of the refinancing, renewal, or extension Indebtedness must include subordination terms and conditions that are at least as favorable to Lender as those that were applicable to the refinanced, renewed, or extended Indebtedness, and (v) the Indebtedness that is refinanced, renewed, or extended is not recourse to any Person that is liable on account of the Obligations other than those Persons which were obligated with respect to the Indebtedness that was refinanced, renewed, or extended,

(f) endorsement of instruments or other payment items for deposit,

(g) Indebtedness composing Permitted Investments, and

(h) Indebtedness owed to insurance companies consisting of financed insurance premiums by such insurance companies so long as the aggregate principal amount of such Indebtedness does not exceed $3,000,000 at any time outstanding and the term of any such notes payable does not exceed one year.

6.2 **Liens.** Create, incur, assume, or suffer to exist, directly or indirectly, any Lien on or with respect to any of its assets, of any kind, whether now owned or hereafter acquired, or any income or profits therefrom, except for Permitted Liens (including Liens that are replacements of Permitted Liens to the extent that the original Indebtedness is refinanced, renewed, or extended under Section 6.1(e) and so long as the replacement Liens only encumber those assets that secured the refinanced, renewed, or extended Indebtedness).

6.3 **Restrictions on Fundamental Changes.**

(a) Enter into any merger, consolidation, reorganization, or recapitalization, or reclassify its Stock; provided, however, that Parent may reorganize its tissue and products lines into separate lines of business,

(b) Liquidate, wind up, or dissolve itself (or suffer any liquidation or dissolution),

(c) Convey, sell, lease, license, assign, transfer, or otherwise dispose of, in one transaction or a series of transactions, all or any substantial part of its assets,

(d) Suspend or go out of a substantial portion of its or their business; provided, however, that Parent may elect to sell or discontinue its tissue line of business upon the prior written consent of Lender,

(e) Create or acquire any Subsidiary; provided, however, that Borrowers may create any wholly owned United States domestic Subsidiary so long as Borrowers and such Subsidiary comply with Section 5.16.

6.4 **Disposal of Assets.** Other than Permitted Dispositions, convey, sell, lease, license, assign, transfer, or otherwise dispose of any of the assets of any Borrower or any Subsidiary of a Borrower.

6.5 **Change Name.** Change any Borrower's or any of its Subsidiaries' name, organizational identification number, state of organization, or organizational identity; provided, however, that a Borrower or a Subsidiary of a Borrower may change its name upon at least 30 days prior written notice by Administrative Borrower to Lender of such change and so long as, at the time of such written notification, such Borrower or such Subsidiary provides any financing statements necessary to perfect and continue perfected the Lender's Liens.

6.6 **Nature of Business.** Make any change in the principal nature of their business other than changes that are reasonable extensions of their business as of the Closing Date.

6.7 **Prepayments and Amendments.** Except in connection with a refinancing permitted by Section 6.1(e),

(a) optionally prepay, redeem, defease, purchase, or otherwise acquire any Indebtedness of any Borrower or any Subsidiary of a Borrower, other than the Obligations in accordance with this Agreement, and on the Closing Date Borrower may prepay certain Capitalized Lease Obligations described on Schedule 6.7,

(b) make any payment on account of Indebtedness that has been contractually subordinated in right of payment if such payment is not permitted at such time under the subordination terms and conditions, or

(c) directly or indirectly, amend, modify, alter, increase, or change any of the terms or conditions of any agreement, instrument, document, indenture, or other writing evidencing or concerning Indebtedness permitted under Section 6.1(b) or (c).

6.8 **Change of Control.** Cause, permit, or suffer, directly or indirectly, any Change of Control.

6.9 **Consignments.** Except for Inventory with an aggregate market value of less than $500,000, consign any of their Inventory or sell any of their Inventory on bill and hold, sale or return, sale on approval, or other conditional terms of sale.

6.10 **Distributions.** Other than (a) distributions or declaration and payment of dividends by a Borrower or a Subsidiary of a Borrower to a Borrower or (b) so long as Excess Availability plus Qualified Cash exceeds $7,500,000, declaration and payment of dividends by Parent on any of its preferred stock (whether currently outstanding or hereafter issued), make any distribution or declare or pay any dividends (in cash or other property, other than common Stock) on, or purchase, acquire, redeem, or retire any of any Borrower's Stock, of any class, whether now or hereafter outstanding.

6.11 **Accounting Methods.** Modify or change their fiscal year or their method of accounting (other than as may be required to conform to GAAP) or enter into, modify, or terminate any agreement currently existing, or at any time hereafter entered into with any third party accounting firm or service bureau for the preparation or storage of Borrowers' or their Subsidiaries' accounting records without said accounting firm or service bureau agreeing to provide Lender information regarding Borrowers' and their Subsidiaries' financial condition; provided, however, that Borrowers and their Subsidiaries shall be entitled to change their accounting firm to the extent required pursuant to any settlement agreement entered into in connection with any litigation matter referred to on Schedule 4.10 or as required by an order of a court of competent jurisdiction.

6.12 **Investments.** Except for Permitted Investments, directly or indirectly, make or acquire any Investment, or incur any liabilities (including contingent obligations) for or in connection with any Investment; provided, however, that Administrative Borrower and its Subsidiaries shall not have Permitted Investments in Deposit Accounts or Securities Accounts at any time unless either (a) Administrative Borrower or its Subsidiary, as applicable, and the applicable securities intermediary or bank have entered into Control Agreements governing such Permitted Investments in order to perfect (and further establish) the Lender's Liens in such Permitted Investments or (b) such Deposit Accounts or Securities Accounts are Excluded Accounts. Subject to the foregoing proviso, Borrowers shall not and shall not permit their Subsidiaries to establish or maintain any Deposit Account or Securities Account unless Lender shall have received a Control Agreement in respect of such Deposit Account or Securities Account.

6.13 **Transactions with Affiliates.** Directly or indirectly enter into or permit to exist any transaction with any Affiliate of any Borrower except for transactions that (a) are in the ordinary course of Borrowers' business, (b) are upon fair and reasonable terms, (c) if they involve one or more payments by any Borrower or any of its Subsidiaries in excess of $5,000,000, are fully disclosed to Lender, and (d) are no less favorable to Borrowers or their respective Subsidiaries, as applicable, than would be obtained in an arm's length transaction with a non-Affiliate.

6.14 **Use of Proceeds.** Use the proceeds of the Advances for any purpose other than (a) on the Closing Date, to pay transactional fees, costs, and expenses incurred in connection with this Agreement, the other Loan Documents, and the transactions contemplated hereby and thereby, and (b) thereafter, consistent with the terms and conditions hereof, for its lawful and permitted purposes.

6.15 **Inventory and Equipment with Bailees.** Store the Inventory or Equipment of Borrowers or their Subsidiaries at any time now or hereafter with a bailee, warehouseman, or similar party, provided, however, that (i) Borrowers and their Subsidiaries may store Inventory from their BioGlue Product Line in hospitals that use such products in the ordinary course of business so long as such products are segregated from Inventory owned by such hospitals and so long as such products are clearly marked as property of Borrowers and their Subsidiaries and (ii) Borrowers and their Subsidiaries may store Inventory at leased or bailee locations so long as a Collateral Access Agreement with respect to each such location (other than leased or bailee locations that in the aggregate do not have in excess of $500,000 of Inventory located there at any time) is delivered to Lender.

6.16 **Financial Covenants**.

With respect to any period ending as of the last day of any quarter, fail to maintain or achieve either:

(a) average Excess Availability plus Qualified Cash of at least $12,500,000 for the quarter then ended, or

(b) each of the following:

(i) EBITDA, measured on a quarter-end basis, of at least the required amount set forth in the following table for the applicable period set forth opposite thereto:

Applicable Amount	Applicable Period
($12,500,000)	For the 12 month period ending March 31, 2005
($11,000,000)	For the 12 month period ending June 30, 2005

($5,000,000)	For the 12 month period ending September 30, 2005
$770,000	For the 12 month period ending December 31, 2005
The greater of $770,000 or 80% of the EBITDA projected by Borrowers for such period as set forth in the most recently delivered Projections approved by Lender	For the 12 month period ending on each fiscal quarter end thereafter

(ii) a BioGlue Gross Margin, measured on a fiscal quarter-end basis for the immediately preceding 12 month period, of at least 70%, and

(iii) Excess Availability plus Qualified Cash, as of any date, of at least $5,000,000.

7. **EVENTS OF DEFAULT.**

Any one or more of the following events shall constitute an event of default (each, an " Event of Default") under this Agreement:

7.1 If Borrowers fail to pay when due and payable, or when declared due and payable, (a) all or any portion of the Obligations consisting of interest, fees, or charges due Lender, reimbursement of Lender Expenses, or other amounts (other than any portion thereof constituting principal) constituting Obligations (including any portion thereof that accrues after the commencement of an Insolvency Proceeding, regardless of whether allowed or allowable in whole or in part as a claim in any such Insolvency Proceeding), and such failure continues for a period of 3 Business Days, or (b) all or any portion of the principal of the Obligations);

7.2 If any Borrower or any Subsidiary of any Borrower

(a) fails to perform or observe any covenant or other agreement contained in any of Sections 2.7, 5.2, 5.3, 5.5, 5.8, 5.12, 5.14, 5.16, and 6.1 through 6.16 of this Agreement;

(b) fails to perform or observe any covenant or other agreement contained in any of Sections 5.6, 5.7, 5.9, 5.10, 5.11, and 5.15 of this Agreement and such failure continues for a period of 10 days after the earlier of (i) the date on which such failure shall first become known to any officer of any Borrower or (ii) written notice thereof is given to Administrative Borrower by Lender; or

(c) fails to perform or observe any covenant or other agreement contained in such Agreement, or in any of the other Loan Documents; in each case, other than any such covenant or agreement that is the subject of another provision of this Section 7 (in which event such other provision of this Section 7 shall govern), and such failure continues for a period of 20 days after the earlier of (i) the date on which such failure shall first become known to any officer of any Borrower or (ii) written notice thereof is given to Administrative Borrower by Lender;

7.3 If any material portion of any Borrower's or any of its Subsidiaries' assets is attached, seized, subjected to a writ or distress warrant, or is levied upon, or comes into the possession of any third Person and

the same is not discharged before the earlier of 30 days after the date it first arises or 5 days prior to the date on which such property or asset is subject to forfeiture by such Borrower or the applicable Subsidiary;

7.4 If an Insolvency Proceeding is commenced by any Borrower or any Subsidiary of a Borrower;

7.5 If an Insolvency Proceeding is commenced against any Borrower or any Subsidiary of a Borrower, and any of the following events occur: (a) the applicable Borrower or such Subsidiary consents to the institution of such Insolvency Proceeding against it, (b) the petition commencing the Insolvency Proceeding is not timely controverted, (c) the petition commencing the Insolvency Proceeding is not dismissed within 60 calendar days of the date of the filing thereof; (d) an interim trustee is appointed to take possession of all or any substantial portion of the properties or assets of, or to operate all or any substantial portion of the business of, any Borrower or any Subsidiary of a Borrower, or (e) an order for relief shall have been issued or entered therein;

7.6 If any Borrower or any Subsidiary of a Borrower is enjoined, restrained, or in any way prevented by court order from continuing to conduct all or any material part of its business affairs;

7.7 If one or more judgments or other claims involving an aggregate amount of $1,000,000, or more (except to the extent covered by insurance pursuant to which the insurer has accepted liability therefor in writing) shall be entered or filed against (or, in the case of a settlement claim, entered into by) any Borrower or any Subsidiary of any Borrower or with respect to any of their respective assets, and (except in the case of a settlement) the same is not released, discharged, bonded against, or stayed pending appeal before the earlier of 30 days after the date it first arises or 5 days prior to the date on which such asset is subject to being forfeited by the applicable Borrower or the applicable Subsidiary;

7.8 If there is a default in one or more agreements to which any Borrower or any Subsidiary of a Borrower is a party with one or more third Persons relative to Indebtedness of any Borrower or any Subsidiary of any Borrower involving an aggregate amount of $1,000,000 or more, and such default (i) occurs at the final maturity of the obligations thereunder, or (ii) results in a right by such third Person(s), irrespective of whether exercised, to accelerate the maturity of the applicable Borrower's or Subsidiary's obligations thereunder;

7.9 If any warranty, representation, statement, or Record made herein or in any other Loan Document or delivered to Lender in connection with this Agreement or any other Loan Document proves to be untrue in any material respect as of the date of issuance or making or deemed making thereof;

7.10 If the obligation of any Guarantor under the Guaranty is limited or terminated by operation of law or by such Guarantor;

7.11 If the Security Agreement or any other Loan Document that purports to create a Lien, shall, for any reason, fail or cease to create a valid and perfected and, except to the extent permitted by the terms hereof or thereof, first priority Lien on or security interest in the Collateral covered hereby or thereby, except as a result of a disposition of the applicable Collateral in a transaction permitted under this Agreement; or

7.12 Any provision of any Loan Document shall at any time for any reason be declared to be null and void, or the validity or enforceability thereof shall be contested by any Borrower or any Subsidiary of a Borrower, or a proceeding shall be commenced by any Borrower or any Subsidiary of a Borrower, or by any Governmental Authority having jurisdiction over any Borrower or any Subsidiary of a Borrower, seeking to establish the invalidity or unenforceability thereof, or any Borrower or any Subsidiary of a Borrower shall deny that it has any liability or obligation purported to be created under any Loan Document.

8. **LENDER'S RIGHTS AND REMEDIES.**

8.1 **Rights and Remedies.** Upon the occurrence, and during the continuation, of an Event of Default, Lender (at its election but without notice of its election and without demand) may do any one or more of the following, all of which are authorized by Borrowers:

(a) Declare all or any portion of the Obligations, whether evidenced by this Agreement, by any of the other Loan Documents, or otherwise, immediately due and payable;

(b) Cease advancing money or extending credit to or for the benefit of Borrowers under this Agreement, under any of the Loan Documents, or under any other agreement between Borrowers and Lender;

(c) Terminate this Agreement and any of the other Loan Documents as to any future liability or obligation of Lender, but without affecting any of the Lender's Liens in the Collateral and without affecting the Obligations; and

(d) Lender shall have all other rights and remedies available at law or in equity or pursuant to any other Loan Document.

The foregoing to the contrary notwithstanding, upon the occurrence of any Event of Default described in Section 7.4 or Section 7.5, in addition to the remedies set forth above, without any notice to Borrowers or any other Person or any act by Lender, Lender's obligation to extend credit hereunder shall terminate and the Obligations then outstanding, together with all accrued and unpaid interest thereon, and all fees and all other amounts due under this Agreement and the other Loan Documents, shall automatically and immediately become due and payable, without presentment, demand, protest, or notice of any kind, all of which are expressly waived by Borrowers.

8.2 **Remedies Cumulative.** The rights and remedies of Lender under this Agreement, the other Loan Documents, and all other agreements shall be cumulative. Lender shall have all other rights and remedies not inconsistent herewith as provided under the Code, by law, or in equity. No exercise by Lender of one right or remedy shall be deemed an election, and no waiver by Lender of any Event of Default shall be deemed a continuing waiver. No delay by Lender shall constitute a waiver, election, or acquiescence by it.

8.3 **Bank Product Providers**. Each Bank Product Provider shall be deemed a party hereto for purposes of any reference in any Loan Document with respect to the Bank Product Providers or the Bank Product Obligations; it being understood and agreed that the rights and benefits of such Bank Product Provider under the Loan Documents consist exclusively of such Bank Provider's right to share in payments and collections out of the Collateral as more fully set forth herein. In connection with any such distribution of payments and collections, Lender shall be entitled to assume no amounts are due to any Bank Product Provider unless such Bank Product Provider has notified Lender in writing of the amount of any such liability owed to it prior to such distribution.

9. **TAXES AND EXPENSES.**

If any Borrower fails to pay any monies (whether taxes, assessments, insurance premiums, or, in the case of leased properties or assets, rents or other amounts payable under such leases) due to third Persons, or fails to make any deposits or furnish any required proof of payment or deposit, all as required under the terms of this Agreement, then, Lender, in its sole discretion and without prior notice to any Borrower, may do any or all of the following: (a) make payment of the same or any part thereof, (b) set up such reserves against the Borrowing Base or the Maximum Revolver Amount as Lender deems necessary to protect Lender from the exposure created by such failure, or (c) in the case of the failure to comply with Section 5.8 hereof, obtain and maintain insurance policies of the type described in Section 5.8 and take any

action with respect to such policies as Lender deems prudent. Any such amounts paid by Lender shall constitute Lender Expenses and any such payments shall not constitute an agreement by Lender to make similar payments in the future or a waiver by Lender of any Event of Default under this Agreement. Lender need not inquire as to, or contest the validity of, any such expense, tax, or Lien and the receipt of the usual official notice for the payment thereof shall be conclusive evidence that the same was validly due and owing.

10. WAIVERS; INDEMNIFICATION.

10.1 **Demand; Protest; etc.** Each Borrower waives demand, protest, notice of protest, notice of default or dishonor, notice of payment and nonpayment, nonpayment at maturity, release, compromise, settlement, extension, or renewal of documents, instruments, chattel paper, and guarantees at any time held by Lender on which any such Borrower may in any way be liable.

10.2 **Lender's Liability for Borrower Collateral.** Each Borrower hereby agrees that: (a) so long as Lender complies with its obligations, if any, under the Code, Lender shall not in any way or manner be liable or responsible for: (i) the safekeeping of the Borrower Collateral, (ii) any loss or damage thereto occurring or arising in any manner or fashion from any cause, (iii) any diminution in the value thereof, or (iv) any act or default of any carrier, warehouseman, bailee, forwarding agency, or other Person, and (b) all risk of loss, damage, or destruction of the Borrower Collateral shall be borne by Borrowers.

10.3 **Indemnification.** Each Borrower shall pay, indemnify, defend, and hold the Lender-Related Persons and each Participant (each, an "Indemnified Person") harmless (to the fullest extent permitted by law) from and against any and all claims, demands, suits, actions, investigations, proceedings, and damages, and all reasonable attorneys fees and disbursements and other costs and expenses actually incurred in connection therewith or in connection with the enforcement of this indemnification (as and when they are incurred and irrespective of whether suit is brought), at any time asserted against, imposed upon, or incurred by any of them (a) in connection with or as a result of or related to the execution, delivery, enforcement, performance, or administration (including any restructuring or workout with respect hereto) of this Agreement, any of the other Loan Documents, or the transactions contemplated hereby or thereby or the monitoring of Borrowers' and their Subsidiaries' compliance with the terms of the Loan Documents, and (b) with respect to any investigation, litigation, or proceeding related to this Agreement, any other Loan Document, or the use of the proceeds of the credit provided hereunder (irrespective of whether any Indemnified Person is a party thereto), or any act, omission, event, or circumstance in any manner related thereto (all the foregoing, collectively, the "Indemnified Liabilities"). The foregoing to the contrary notwithstanding, Borrowers shall have no obligation to any Indemnified Person under this Section 10.3 with respect to any Indemnified Liability that a court of competent jurisdiction finally determines to have resulted from the gross negligence or willful misconduct of such Indemnified Person. This provision shall survive the termination of this Agreement and the repayment of the Obligations. If any Indemnified Person makes any payment to any other Indemnified Person with respect to an Indemnified Liability as to which Borrowers were required to indemnify the Indemnified Person receiving such payment, the Indemnified Person making such payment is entitled to be indemnified and reimbursed by Borrowers with respect thereto. **WITHOUT LIMITATION, THE FOREGOING INDEMNITY SHALL APPLY TO EACH INDEMNIFIED PERSON WITH RESPECT TO INDEMNIFIED LIABILITIES WHICH IN WHOLE OR IN PART ARE CAUSED BY OR ARISE OUT OF ANY NEGLIGENT ACT OR OMISSION OF SUCH INDEMNIFIED PERSON OR OF ANY OTHER PERSON.**

11. NOTICES.

Unless otherwise provided in this Agreement, all notices or demands by Borrowers or Lender to the other relating to this Agreement or any other Loan Document shall be in writing and (except for financial statements and other informational documents which may be sent by first-class mail, postage prepaid) shall be personally delivered or sent by registered or certified mail (postage prepaid, return receipt requested),

overnight courier or telefacsimile to Borrowers in care of Administrative Borrower or to Lender, as the case may be, at its address set forth below:

If to Administrative Borrower:	**CRYOLIFE, INC.** 1655 Roberts Boulevard N.W. Kennesaw, GA 30144 Attn: Mr. D. Ashley Lee Fax No.: (770) 419-3355
with copies to:	**ARNALL GOLDEN GREGORY LLP** 171 17th Street Suite 2100 Atlanta, Georgia 30363-1031 Attn: Sherman A. Cohen, Esq. Fax No.: (404) 873-8631
If to Lender:	**WELLS FARGO FOOTHILL, INC**. 1000 Abernathy Road, N.E., Suite 1450 Atlanta, GA 30328 Attn: Business Finance Division Manager Fax No.: 770 – 508-1374
with a copy to:	**FOOTHILL CAPITAL CORPORATION** 2450 Colorado Avenue, Suite 3000 West Santa Monica, CA 90404 Attn: Business Finance Division Manager Fax No.: 310 – 453-7442
with copies to:	**PAUL, HASTINGS, JANOFSKY & WALKER LLP** 600 Peachtree Street, NE, Suite 2400 Atlanta, GA 30308 Attn: Chris D. Molen, Esq. Fax No.: 404 – 815-2424

Lender and Borrowers may change the address at which they are to receive notices hereunder, by notice in writing in the foregoing manner given to the other party. All notices or demands sent in accordance with this Section 11, other than notices by Lender in connection with enforcement rights against the Borrower Collateral under the provisions of the Code, shall be deemed received on the earlier of the date of actual receipt or 3 Business Days after the deposit thereof in the mail. Each Borrower acknowledges and agrees that notices sent by Lender in connection with the exercise of enforcement rights against Borrower Collateral under the provisions of the Code shall be deemed sent when deposited in the mail or personally delivered, or, where permitted by law, transmitted by telefacsimile or any other method set forth above.

12. **CHOICE OF LAW AND VENUE; JURY TRIAL WAIVER.**

(a) **THE VALIDITY OF THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS (UNLESS EXPRESSLY PROVIDED TO THE CONTRARY IN ANOTHER LOAN DOCUMENT IN RESPECT OF SUCH OTHER LOAN DOCUMENT), THE CONSTRUCTION, INTERPRETATION, AND ENFORCEMENT HEREOF AND THEREOF, AND THE RIGHTS OF THE PARTIES HERETO AND THERETO WITH RESPECT TO ALL MATTERS ARISING HEREUNDER OR THEREUNDER OR RELATED HERETO OR THERETO SHALL BE**

DETERMINED UNDER, GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF GEORGIA.

(b) **THE PARTIES AGREE THAT ALL ACTIONS OR PROCEEDINGS ARISING IN CONNECTION WITH THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS SHALL BE TRIED AND LITIGATED ONLY IN THE STATE AND TO THE EXTENT PERMITTED BY APPLICABLE LAW, FEDERAL COURTS LOCATED IN THE COUNTY OF FULTON, STATE OF GEORGIA, PROVIDED, HOWEVER, THAT ANY SUIT SEEKING ENFORCEMENT AGAINST ANY COLLATERAL OR OTHER PROPERTY MAY BE BROUGHT, AT LENDER'S OPTION, IN THE COURTS OF ANY JURISDICTION WHERE LENDER ELECTS TO BRING SUCH ACTION OR WHERE SUCH COLLATERAL OR OTHER PROPERTY MAY BE FOUND. BORROWERS AND LENDER WAIVE, TO THE EXTENT PERMITTED UNDER APPLICABLE LAW, ANY RIGHT EACH MAY HAVE TO ASSERT THE DOCTRINE OF FORUM NON CONVENIENS OR TO OBJECT TO VENUE TO THE EXTENT ANY PROCEEDING IS BROUGHT IN ACCORDANCE WITH THIS SECTION 12(b).**

(c) **BORROWERS AND LENDER HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF ANY OF THE LOAN DOCUMENTS OR ANY OF THE TRANSACTIONS CONTEMPLATED THEREIN, INCLUDING CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW OR STATUTORY CLAIMS. BORROWERS AND LENDER REPRESENT THAT EACH HAS REVIEWED THIS WAIVER AND EACH KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL. IN THE EVENT OF LITIGATION, A COPY OF THIS AGREEMENT MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.**

13. **ASSIGNMENTS AND PARTICIPATIONS; SUCCESSORS.**

13.1 **Assignments and Participations.**

(a) Lender may assign and delegate to one or more assignees (each an "Assignee") that are Eligible Transferees all, or any ratable part of all, of the Obligations and the other rights and obligations of Lender hereunder and under the other Loan Documents, in a minimum amount of $5,000,000; provided, however, that Borrowers may continue to deal solely and directly with Lender in connection with the interest so assigned to an Assignee until (i) written notice of such assignment, together with payment instructions, addresses, and related information with respect to the Assignee, have been given to Administrative Borrower by Lender and the Assignee, and (ii) Lender and its Assignee have delivered to Administrative Borrower an Assignment and Acceptance. Anything contained herein to the contrary notwithstanding, the Assignee need not be an Eligible Transferee if such assignment is in connection with any merger, consolidation, sale, transfer, or other disposition of all or any substantial portion of the business or loan portfolio of the assigning Lender.

(b) From and after the date that Lender provides Administrative Borrower with such written notice and an executed Assignment and Acceptance, (i) the Assignee thereunder shall be a party hereto and, to the extent that rights and obligations hereunder have been assigned to it pursuant to such Assignment and Acceptance, shall have the rights and obligations of Lender under the Loan Documents, and (ii) Lender shall, to the extent that rights and obligations hereunder and under the other Loan Documents have been assigned by it pursuant to such Assignment and Acceptance, relinquish its rights (except with respect to Section 10.3 hereof) and be released from any future obligations under this Agreement (and in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Lender's rights and obligations under this Agreement and the other Loan Documents, Lender shall cease to be a party hereto and thereto), and such assignment shall effect a novation between Borrowers and the Assignee; provided,

however, that nothing contained herein shall release Lender from obligations that survive the termination of this Agreement, including such assigning Lender's obligations under Article 15 of this Agreement.

(c) By executing and delivering an Assignment and Acceptance, the assigning Lender thereunder and the Assignee thereunder confirm to and agree with each other and the other parties hereto as follows: (1) other than as provided in such Assignment and Acceptance, such assigning Lender makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or any other Loan Document furnished pursuant hereto, (2) such assigning Lender makes no representation or warranty and assumes no responsibility with respect to the financial condition of any Borrower or the performance or observance by any Borrower of any of its obligations under this Agreement or any other Loan Document furnished pursuant hereto, (3) such Assignee confirms that it has received a copy of this Agreement, together with such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance, (4) such Assignee will, independently and without reliance upon such assigning Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement, and (5) such Assignee agrees that it will perform all of the obligations which by the terms of this Agreement are required to be performed by it as a Lender.

(d) Immediately upon Borrower's receipt of the fully executed Assignment and Acceptance, this Agreement shall be deemed to be amended to the extent, but only to the extent, necessary to reflect the addition of the Assignee and the resulting adjustment of the rights and duties of Lender arising therefrom.

(e) Lender may at any time sell to one or more commercial banks, financial institutions, or other Persons (a " Participant") participating interests in Obligations and the other rights and interests of Lender hereunder and under the other Loan Documents; provided, however, that (i) Lender shall remain the "Lender" for all purposes of this Agreement and the other Loan Documents and the Participant receiving the participating interest in the Obligations and the other rights and interests of Lender hereunder shall not constitute a "Lender" hereunder or under the other Loan Documents and Lender's obligations under this Agreement shall remain unchanged, (ii) Lender shall remain solely responsible for the performance of such obligations, (iii) Borrowers and Lender shall continue to deal solely and directly with each other in connection with Lender's rights and obligations under this Agreement and the other Loan Documents, (iv) Lender shall not transfer or grant any participating interest under which the Participant has the right to approve any amendment to, or any consent or waiver with respect to, this Agreement or any other Loan Document, except to the extent such amendment to, or consent or waiver with respect to this Agreement or of any other Loan Document would (A) extend the final maturity date of the Obligations hereunder in which such Participant is participating, (B) reduce the interest rate applicable to the Obligations hereunder in which such Participant is participating, (C) release all or substantially all of the Collateral or guaranties (except to the extent expressly provided herein or in any of the Loan Documents) supporting the Obligations hereunder in which such Participant is participating, (D) postpone the payment of, or reduce the amount of, the interest or fees payable to such Participant through Lender, or (E) change the amount or due dates of scheduled principal repayments or prepayments or premiums, and (v) all amounts payable by Borrowers hereunder shall be determined as if Lender had not sold such participation, except that, if amounts outstanding under this Agreement are due and unpaid, or shall have been declared or shall have become due and payable upon the occurrence of an Event of Default, each Participant shall be deemed to have the right of set off in respect of its participating interest in amounts owing under this Agreement to the same extent as if the amount of its participating interest were owing directly to it as a Lender under this Agreement. The rights of any Participant only shall be derivative through Lender and no Participant shall have any rights under this Agreement or the other Loan Documents or any direct rights as to Borrowers, the Collections of Borrowers or their Subsidiaries, the Collateral, or otherwise in respect of the Obligations. No Participant shall have the right to participate directly in the making of decisions by Lender.

(f) In connection with any such assignment or participation or proposed assignment or participation, a Lender may, subject to the provisions of Section 15.8, disclose all documents and information which it now or hereafter may have relating to Borrowers and their Subsidiaries and their respective businesses.

(g) Any other provision in this Agreement notwithstanding, Lender may at any time create a security interest in, or pledge, all or any portion of its rights under and interest in this Agreement in favor of any Federal Reserve Bank in accordance with Regulation A of the Federal Reserve Bank or U.S. Treasury Regulation 31 CFR § 203.24, and such Federal Reserve Bank may enforce such pledge or security interest in any manner permitted under applicable law.

13.2 **Successors.** This Agreement shall bind and inure to the benefit of the respective successors and assigns of each of the parties; provided, however, that Borrowers may not assign this Agreement or any rights or duties hereunder without Lender's prior written consent and any prohibited assignment shall be absolutely void *ab initio*. No consent to assignment by Lender shall release any Borrower from its Obligations. Lender may assign this Agreement and the other Loan Documents and its rights and duties hereunder and thereunder pursuant to Section 13.1 hereof and, except as expressly required pursuant to Section 13.1 hereof, no consent or approval by any Borrower is required in connection with any such assignment.

14. AMENDMENTS; WAIVERS.

14.1 **Amendments and Waivers.** No amendment or waiver of any provision of this Agreement or any other Loan Document (other than Bank Product Agreements), and no consent with respect to any departure by Borrowers therefrom, shall be effective unless the same shall be in writing and signed by Lender and Administrative Borrower (on behalf of all Borrowers) and then any such waiver or consent shall be effective, but only in the specific instance and for the specific purpose for which given.

14.2 **No Waivers; Cumulative Remedies.** No failure by Lender to exercise any right, remedy, or option under this Agreement or any other Loan Document, or delay by Lender in exercising the same, will operate as a waiver thereof. No waiver by Lender will be effective unless it is in writing, and then only to the extent specifically stated. No waiver by Lender on any occasion shall affect or diminish Lender's rights thereafter to require strict performance by Borrowers of any provision of this Agreement. Lender's rights under this Agreement and the other Loan Documents will be cumulative and not exclusive of any other right or remedy that Lender may have.

15. GENERAL PROVISIONS.

15.1 **Effectiveness.** This Agreement shall be binding and deemed effective when executed by Borrowers and Lender.

15.2 **Section Headings.** Headings and numbers have been set forth herein for convenience only. Unless the contrary is compelled by the context, everything contained in each Section applies equally to this entire Agreement.

15.3 **Interpretation.** Neither this Agreement nor any uncertainty or ambiguity herein shall be construed against Lender or Borrowers, whether under any rule of construction or otherwise. On the contrary, this Agreement has been reviewed by all parties and shall be construed and interpreted according to the ordinary meaning of the words used so as to accomplish fairly the purposes and intentions of all parties hereto.

15.4 **Severability of Provisions.** Each provision of this Agreement shall be severable from every other provision of this Agreement for the purpose of determining the legal enforceability of any specific provision.

15.5 **Withholding Taxes**. All payments made by any Borrower hereunder or under any note or other Loan Document will be made without setoff, counterclaim, or other defense. In addition, all such payments will be made free and clear of, and without deduction or withholding for, any present or future Taxes, and in the event any deduction or withholding of Taxes is required, each Borrower shall comply with the penultimate sentence of this Section 15.5. "Taxes" shall mean, any taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature now or hereafter imposed by any jurisdiction or by any political subdivision or taxing authority thereof or therein with respect to such payments (but excluding any tax imposed by any jurisdiction or by any political subdivision or taxing authority thereof or therein measured by or based on the net income or net profits of Lender) and all interest, penalties or similar liabilities with respect thereto. If any Taxes are so levied or imposed, each Borrower agrees to pay the full amount of such Taxes and such additional amounts as may be necessary so that every payment of all amounts due under this Agreement, any note, or Loan Document, including any amount paid pursuant to this Section 15.5 after withholding or deduction for or on account of any Taxes, will not be less than the amount provided for herein; provided, however, that Borrowers shall not be required to increase any such amounts if the increase in such amount payable results from Lender's own willful misconduct or gross negligence (as finally determined by a court of competent jurisdiction). Each Borrower will furnish to Lender as promptly as possible after the date the payment of any Tax is due pursuant to applicable law certified copies of tax receipts evidencing such payment by any Borrower.

15.6 **Counterparts; Electronic Execution.** This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, shall be deemed to be an original, and all of which, when taken together, shall constitute but one and the same Agreement. Delivery of an executed counterpart of this Agreement by telefacsimile or other electronic method of transmission shall be equally as effective as delivery of an original executed counterpart of this Agreement. Any party delivering an executed counterpart of this Agreement by telefacsimile or other electronic method of transmission also shall deliver an original executed counterpart of this Agreement but the failure to deliver an original executed counterpart shall not affect the validity, enforceability, and binding effect of this Agreement. The foregoing shall apply to each other Loan Document *mutatis mutandis*.

15.7 **Revival and Reinstatement of Obligations.** If the incurrence or payment of the Obligations by any Borrower or Guarantor or the transfer to Lender of any property should for any reason subsequently be declared to be void or voidable under any state or federal law relating to creditors' rights, including provisions of the Bankruptcy Code relating to fraudulent conveyances, preferences, or other voidable or recoverable payments of money or transfers of property (collectively, a "Voidable Transfer"), and if Lender is required to repay or restore, in whole or in part, any such Voidable Transfer, or elects to do so upon the reasonable advice of its counsel, then, as to any such Voidable Transfer, or the amount thereof that Lender is required or elects to repay or restore, and as to all reasonable costs, expenses, and attorneys fees of Lender related thereto, the liability of Borrowers or Guarantor automatically shall be revived, reinstated, and restored and shall exist as though such Voidable Transfer had never been made.

15.8 **Confidentiality.** Lender agrees that material, non-public information regarding Borrowers and their Subsidiaries, their operations, assets, and existing and contemplated business plans shall be treated by Lender in a confidential manner, and shall not be disclosed by Lender to Persons who are not parties to this Agreement, except: (a) to attorneys for and other advisors, accountants, auditors, and consultants to any member of Lender, (b) to Subsidiaries and Affiliates of Lender (including the Bank Product Providers), provided that any such Subsidiary or Affiliate shall have agreed to receive such information hereunder subject to the terms of this Section 15.8, (c) as may be required by statute, decision, or judicial or administrative order, rule, or regulation, (d) as may be agreed to in advance by Administrative Borrower or its Subsidiaries or as requested or required by any Governmental Authority pursuant to any subpoena or other legal process, (e) as to any such information that is or becomes generally available to the public (other than as a result of prohibited disclosure by Lender), (f) in connection with any assignment, prospective assignment, sale, prospective sale, participation or prospective participations, or pledge or prospective pledge of Lender's interest under this Agreement, provided that any such assignee, prospective assignee, purchaser, prospective purchaser,

participant, prospective participant, pledgee, or prospective pledgee shall have agreed in writing to receive such information hereunder subject to the terms of this Section, and (g) in connection with any litigation or other adversary proceeding involving parties hereto which such litigation or adversary proceeding involves claims related to the rights or duties of such parties under this Agreement or the other Loan Documents. The provisions of this Section 15.8 shall survive for 2 years after the payment in full of the Obligations.

15.9 **Integration.** This Agreement, together with the other Loan Documents, reflects the entire understanding of the parties with respect to the transactions contemplated hereby and shall not be contradicted or qualified by any other agreement, oral or written, before the date hereof.

15.10 **Parent as Agent for Borrowers.** Each Borrower hereby irrevocably appoints Parent as the borrowing agent and attorney-in-fact for all Borrowers (the "Administrative Borrower") which appointment shall remain in full force and effect unless and until Lender shall have received prior written notice signed by each Borrower that such appointment has been revoked and that another Borrower has been appointed Administrative Borrower. Each Borrower hereby irrevocably appoints and authorizes the Administrative Borrower (i) to provide Lender with all notices with respect to Advances and Letters of Credit obtained for the benefit of any Borrower and all other notices and instructions under this Agreement and (ii) to take such action as the Administrative Borrower deems appropriate on its behalf to obtain Advances and Letters of Credit and to exercise such other powers as are reasonably incidental thereto to carry out the purposes of this Agreement. It is understood that the handling of the Loan Account and Collateral of Borrowers in a combined fashion, as more fully set forth herein, is done solely as an accommodation to Borrowers in order to utilize the collective borrowing powers of Borrowers in the most efficient and economical manner and at their request, and that Lender shall not incur liability to any Borrower as a result hereof. Each Borrower expects to derive benefit, directly or indirectly, from the handling of the Loan Account and the Collateral in a combined fashion since the successful operation of each Borrower is dependent on the continued successful performance of the integrated group. To induce Lender to do so, and in consideration thereof, each Borrower hereby jointly and severally agrees to indemnify Lender harmless against any and all liability, expense, loss or claim of damage or injury, made against Lender by any Borrower or by any third party whosoever, arising from or incurred by reason of (a) the handling of the Loan Account and Collateral of Borrowers as herein provided, (b) Lender's relying on any instructions of the Administrative Borrower, or (c) any other action taken by Lender hereunder or under the other Loan Documents, except that Borrowers will have no liability to any Lender-Related Person under this Section 15.10 with respect to any liability that has been finally determined by a court of competent jurisdiction to have resulted solely from the gross negligence or willful misconduct of such Lender-Related Person.

[Signature pages to follow.]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and delivered as of the date first above written.

CRYOLIFE, INC.,
a Florida corporation, as Borrower

By: /s/
Title: /s/

CRYOLIFE TECHNOLOGY, INC.,
a Nevada corporation, as Borrower

By: /s/
Title: /s/

AURAZYME PHARMACEUTICALS, INC.,
a Florida corporation, as Borrower

By: /s/
Title: /s/

WELLS FARGO FOOTHILL, INC.,
a California corporation, as Lender

By: /s/
Title: /s/

Schedule 1.1

As used in the Agreement, the following terms shall have the following definitions:

"Account" means an account (as that term is defined in the Code).

"Account Debtor" means any Person who is obligated on an Account, chattel paper, or a general intangible.

"ACH Transactions" means any cash management or related services (including the Automated Clearing House processing of electronic fund transfers through the direct Federal Reserve Fedline system) provided by a Bank Product Provider for the account of Administrative Borrower or its Subsidiaries.

"Administrative Borrower" has the meaning specified therefor in Section 15.10.

"Advances" has the meaning specified therefor in Section 2.1(a).

"Affiliate" means, as applied to any Person, any other Person who controls, is controlled by, or is under common control with, such Person. For purposes of this definition, "control" means the possession, directly or indirectly through one or more intermediaries, of the power to direct the management and policies of a Person, whether through the ownership of Stock, by contract, or otherwise.

"Agreement" means the Credit Agreement to which this Schedule 1.1 is attached.

"Assignee" has the meaning specified therefor in Section 13.1(a).

"Assignment and Acceptance" means an Assignment and Acceptance Agreement substantially in the form of Exhibit A-1.

"Authorized Person" means any officer or employee of Administrative Borrower.

"Availability" means, as of any date of determination, the amount that Borrowers are entitled to borrow as Advances hereunder (after giving effect to all then outstanding Obligations (other than Bank Product Obligations) and all sublimits and reserves then applicable hereunder).

"Bank Product" means any financial accommodation extended to Administrative Borrower or its Subsidiaries by a Bank Product Provider (other than pursuant to the Agreement) including: (a) credit cards, (b) credit card processing services, (c) debit cards, (d) purchase cards, (e) ACH Transactions, (f) cash management, including controlled disbursement, accounts or services, or (g) transactions under Hedge Agreements.

"Bank Product Agreements" means those agreements entered into from time to time by Administrative Borrower or its Subsidiaries with a Bank Product Provider in connection with the obtaining of any of the Bank Products.

"Bank Product Obligations" means all obligations, liabilities, contingent reimbursement obligations, fees, and expenses owing by Administrative Borrower or its Subsidiaries to any Bank Product Provider pursuant to or evidenced by the Bank Product Agreements and irrespective of whether for the payment of money, whether direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising, and including all such amounts that Administrative Borrower or its Subsidiaries are obligated to reimburse to Lender as a result of Lender

purchasing participations from, or executing indemnities or reimbursement obligations to, a Bank Product Provider with respect to the Bank Products provided by such Bank Product Provider to Administrative Borrower or its Subsidiaries.

"Bank Product Provider" means Wells Fargo or any of its Affiliates.

"Bank Product Reserve" means, as of any date of determination, the amount of reserves that Lender has established (based upon the Bank Product Providers' reasonable determination of the credit exposure of Administrative Borrower and its Subsidiaries in respect of Bank Products) in respect of Bank Products then provided or outstanding.

"Bankruptcy Code" means title 11 of the United States Code, as in effect from time to time.

"Base Rate" means, the rate of interest announced, from time to time, within Wells Fargo at its principal office in San Francisco as its "prime rate", with the understanding that the "prime rate" is one of Wells Fargo's base rates (not necessarily the lowest of such rates) and serves as the basis upon which effective rates of interest are calculated for those loans making reference thereto and is evidenced by the recording thereof after its announcement in such internal publications as Wells Fargo may designate.

"Base Rate Margin" means 1 percentage point.

"Benefit Plan" means a "defined benefit plan" (as defined in Section 3(35) of ERISA) for which any Borrower or any Subsidiary or ERISA Affiliate of any Borrower has been an "employer" (as defined in Section 3(5) of ERISA) within the past six years.

"BioGlue Gross Margin" means, with respect to any period, the ratio (expressed as a percentage) of Borrowers' and its Subsidiaries' consolidated (a) gross revenues (net of allowances, discounts, returns and rebates) less cost of goods sold in respect of its BioGlue Product Line, to (b) the gross revenues (net of allowances, discounts, returns and rebates) in respect of its BioGlue Product Line.

"BioGlue Product Line" means Borrowers' two-component surgical adhesive product line that is dispersed via a controlled delivery system and crosslinks to the repair site creating a flexible mechanical seal independently of the body's clotting mechanism.

"Board of Directors" means the board of directors (or comparable managers) of Parent or any committee thereof duly authorized to act on behalf of the board of directors (or comparable managers).

"Borrower" and "Borrowers" have the respective meanings specified therefor in the preamble to the Agreement.

"Borrowing" means a borrowing hereunder consisting of Advances made on the same day by Lender.

"Borrowing Base" means, as of any date of determination, the result of:

(a) 20% of the amount of the Enterprise Valuation, *minus*

(b) the sum of (i) the Bank Product Reserve and (ii) the aggregate amount of reserves, if any, established by Lender under Section 2.1(b).

"Business Day" means any day that is not a Saturday, Sunday, or other day on which banks are authorized or required to close in the state of Georgia.

"Capital Expenditures" means, with respect to any Person for any period, the aggregate of all expenditures by such Person and its Subsidiaries during such period that are capital expenditures as determined in accordance with GAAP, whether such expenditures are paid in cash or financed.

"Capitalized Lease Obligation" means that portion of the obligations under a Capital Lease that is required to be capitalized in accordance with GAAP.

"Capital Lease" means a lease that is required to be capitalized for financial reporting purposes in accordance with GAAP.

"Cash Equivalents" means (a) marketable direct obligations issued by, or unconditionally guaranteed by, the United States or issued by any agency thereof and backed by the full faith and credit of the United States, in each case maturing within 1 year from the date of acquisition thereof, (b) marketable direct obligations issued by any state of the United States or any political subdivision of any such state or any public instrumentality thereof maturing within 1 year from the date of acquisition thereof and, at the time of acquisition, having one of the two highest ratings obtainable from either Standard & Poor's Rating Group ("S&P") or Moody's Investors Service, Inc. ("Moody's"), (c) commercial paper maturing no more than 270 days from the date of creation thereof and, at the time of acquisition, having a rating of at least A-1 from S&P or at least P-1 from Moody's, (d) certificates of deposit or bankers' acceptances maturing within 1 year from the date of acquisition thereof issued by any bank organized under the laws of the United States or any state thereof having at the date of acquisition thereof combined capital and surplus of not less than $250,000,000, (e) Deposit Accounts maintained with (i) any bank that satisfies the criteria described in clause (d) above, or (ii) any other bank organized under the laws of the United States or any state thereof so long as the amount maintained with any such other bank is less than or equal to $100,000 and is insured by the Federal Deposit Insurance Corporation, and (f) Investments in money market funds substantially all of whose assets are invested in the types of assets described in clauses (a) through (e) above.

"Cash Management Account" means a Deposit Account or Securities Account of a Borrower or a Subsidiary of a Borrower (a " Cash Management Account") at a Cash Management Bank.

"Cash Management Bank" has the meaning specified therefor in Section 2.7(a).

"Change of Control" means that (a) any "person" or "group" (within the meaning of Sections 13(d) and 14(d) of the Exchange Act), becomes the beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of 25%, or more, of the Stock of Parent having the right to vote for the election of members of the Board of Directors, or (b) a majority of the members of the Board of Directors do not constitute Continuing Directors.

"Closing Date" means the date of the making of the initial Advance (or other extension of credit) hereunder.

"Code" means the Georgia Uniform Commercial Code, as in effect from time to time.

"Collateral" means all assets and interests in assets and proceeds thereof now owned or hereafter acquired by Administrative Borrower or its Subsidiaries in or upon which a Lien is granted under any of the Loan Documents.

"Collateral Access Agreement" means a landlord waiver, bailee letter, or acknowledgement agreement of any lessor, warehouseman, processor, consignee, or other Person in possession of, having a Lien upon, or having rights or interests in Administrative Borrower's or its Subsidiaries' books and records, Equipment or Inventory, in each case, in form and substance satisfactory to Lender.

"Collections" means *all* cash, checks, notes, instruments, and other items of payment (including insurance proceeds, proceeds of cash sales, rental proceeds, and tax refunds).

"Compliance Certificate" means a certificate substantially in the form of Exhibit C-1 delivered by the chief financial officer of Parent to Lender.

"Continuing Director" means (a) any member of the Board of Directors who was a director (or comparable manager) of Parent on the Closing Date, and (b) any individual who becomes a member of the Board of Directors after the Closing Date if such individual was appointed or nominated for election to the Board of Directors by a majority of the Continuing Directors, but excluding any such individual originally proposed for election in opposition to the Board of Directors in office at the Closing Date in an actual or threatened election contest relating to the election of the directors (or comparable managers) of Parent and whose initial assumption of office resulted from such contest or the settlement thereof.

"Control Agreement" means a control agreement, in form and substance satisfactory to Lender, executed and delivered by Administrative Borrower or one of its Subsidiaries, Lender, and the applicable securities intermediary (with respect to a Securities Account) or bank (with respect to a Deposit Account).

"Daily Balance" means, as of any date of determination and with respect to any Obligation, the amount of such Obligation owed at the end of such day.

"Default" means an event, condition, or default that, with the giving of notice, the passage of time, or both, would be an Event of Default.

"Deposit Account" means any deposit account (as that term is defined in the Code).

"Designated Account" means the Deposit Account of Administrative Borrower identified on Schedule D-1.

"Designated Account Bank" has the meaning specified therefor in Schedule D-1.

"Dollars" or "$" means United States dollars.

"EBITDA" means, with respect to any fiscal period, Parent's and its Subsidiaries' consolidated net earnings (or loss), minus extraordinary gains and interest income, plus interest expense, income taxes, and depreciation and amortization for such period, in each case, as determined in accordance with GAAP.

"Eligible Transferee" means (a) a commercial bank organized under the laws of the United States, or any state thereof, and having total assets in excess of $250,000,000, (b) a commercial bank organized under the laws of any other country which is a member of the Organization for

Economic Cooperation and Development or a political subdivision of any such country and which has total assets in excess of $250,000,000, provided that such bank is acting through a branch or agency located in the United States, (c) a finance company, insurance company, or other financial institution or fund that is engaged in making, purchasing, or otherwise investing in commercial loans in the ordinary course of its business and having (together with its Affiliates) total assets in excess of $250,000,000, (d) any Affiliate (other than individuals) of Lender, (e) so long as no Event of Default has occurred and is continuing, any other Person approved by Administrative Borrower (which approval of Administrative Borrower shall not be unreasonably withheld, delayed, or conditioned), and (f) during the continuation of an Event of Default, any other Person approved by Lender.

"Enterprise Valuation" means the most recent appraised valuation of Borrower's business and its assets acceptable to Lender and determined at the direction or request of Lender by a third party appraiser acceptable to Lender.

"Environmental Actions" means any complaint, summons, citation, notice, directive, order, claim, litigation, investigation, judicial or administrative proceeding, judgment, letter, or other communication from any Governmental Authority, or any third party involving violations of Environmental Laws or releases of Hazardous Materials from (a) any assets, properties, or businesses of any Borrower, any Subsidiary of a Borrower, or any of their predecessors in interest, (b) from adjoining properties or businesses, or (c) from or onto any facilities which received Hazardous Materials generated by any Borrower, any Subsidiary of a Borrower, or any of their predecessors in interest.

"Environmental Law" means any applicable federal, state, provincial, foreign or local statute, law, rule, regulation, ordinance, code, binding and enforceable guideline, binding and enforceable written policy or rule of common law now or hereafter in effect and in each case as amended, or any judicial or administrative interpretation thereof, including any judicial or administrative order, consent decree or judgment, in each case, to the extent binding on any Borrower or any Subsidiary of a Borrower, relating to the environment, the effect of the environment on employee health, or Hazardous Materials, in each case as amended from time to time.

"Environmental Liabilities" means all liabilities, monetary obligations, losses, damages, punitive damages, consequential damages, treble damages, costs and expenses (including all reasonable fees, disbursements and expenses of counsel, experts, or consultants, and costs of investigation and feasibility studies), fines, penalties, sanctions, and interest incurred as a result of any claim or demand, or Remedial Action required, by any Governmental Authority or any third party, and which relate to any Environmental Action.

"Environmental Lien" means any Lien in favor of any Governmental Authority for Environmental Liabilities.

"Equipment" means equipment (as that term is defined in the Code).

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, and any successor statute thereto.

"ERISA Affiliate" means (a) any Person subject to ERISA whose employees are treated as employed by the same employer as the employees of a Borrower or a Subsidiary of a Borrower under IRC Section 414(b), (b) any trade or business subject to ERISA whose employees are treated as employed by the same employer as the employees of a Borrower or a Subsidiary of a Borrower under IRC Section 414(c), (c) solely for purposes of Section 302 of ERISA and Section 412 of the IRC, any organization subject to ERISA that is a member of an affiliated service group of which a Borrower or a Subsidiary of a Borrower is a member under IRC Section 414(m), or (d) solely for

purposes of Section 302 of ERISA and Section 412 of the IRC, any Person subject to ERISA that is a party to an arrangement with a Borrower or a Subsidiary of a Borrower and whose employees are aggregated with the employees of a Borrower or a Subsidiary of a Borrower under IRC Section 414(o).

"Event of Default" has the meaning specified therefor in Section 7.

"Excess Availability" means, as of any date of determination, the amount equal to Availability *minus* the aggregate amount, if any, of all trade payables of Borrowers and their Subsidiaries aged in excess of their historical levels with respect thereto and all book overdrafts of Borrowers and their Subsidiaries in excess of their historical practices with respect thereto, in each case as determined by Lender in its Permitted Discretion.

"Exchange Act" means the Securities Exchange Act of 1934, as in effect from time to time.

"Excluded Accounts" and "Excluded Account" have the respective meanings specified therefor in Section 2.7.

"Fee Letter" means that certain fee letter between Borrowers and Lender, in form and substance satisfactory to Lender.

"Funding Date" means the date on which a Borrowing occurs.

"GAAP" means generally accepted accounting principles as in effect from time to time in the United States, consistently applied.

"Governing Documents" means, with respect to any Person, the certificate or articles of incorporation, by-laws, or other organizational documents of such Person.

"Governmental Authority" means any federal, state, local, or other governmental or administrative body, instrumentality, board, department, or agency or any court, tribunal, administrative hearing body, arbitration panel, commission, or other similar dispute-resolving panel or body.

"Guarantors" means each Subsidiary of each Borrower that is not itself a Borrower (other than CryoLife Europa Ltd., a company organized under the laws of England and Wales), and "Guarantor" means any one of them.

"Guaranty" means that certain general continuing guaranty executed and delivered by each Guarantor in favor of Lender and the Bank Product Providers, in form and substance satisfactory to Lender.

"Hazardous Materials" means (a) substances that are defined or listed in, or otherwise classified pursuant to, any applicable laws or regulations as "hazardous substances," "hazardous materials," "hazardous wastes," "toxic substances," or any other formulation intended to define, list, or classify substances by reason of deleterious properties such as ignitability, corrosivity, reactivity, carcinogenicity, reproductive toxicity, or "EP toxicity", (b) oil, petroleum, or petroleum derived substances, natural gas, natural gas liquids, synthetic gas, drilling fluids, produced waters, and other wastes associated with the exploration, development, or production of crude oil, natural gas, or geothermal resources, (c) any flammable substances or explosives or any radioactive materials, and (d) asbestos in any form or electrical equipment that contains any oil or dielectric fluid containing levels of polychlorinated biphenyls in excess of 50 parts per million.

"Hedge Agreement" means any and all agreements, or documents now existing or hereafter entered into by Administrative Borrower or any of its Subsidiaries that provide for an interest rate, credit, commodity or equity swap, cap, floor, collar, forward foreign exchange transaction, currency swap, cross currency rate swap, currency option, or any combination of, or option with respect to, these or similar transactions, for the purpose of hedging Administrative Borrower's or any of its Subsidiaries' exposure to fluctuations in interest or exchange rates, loan, credit exchange, security or currency valuations or commodity prices.

"Indebtedness" means (a) all obligations for borrowed money, (b) all obligations evidenced by bonds, debentures, notes, or other similar instruments and all reimbursement or other obligations in respect of letters of credit, bankers acceptances, interest rate swaps, or other financial products, (c) all obligations as a lessee under Capital Leases, (d) all obligations or liabilities of others secured by a Lien on any asset of a Person or its Subsidiaries, irrespective of whether such obligation or liability is assumed, (e) all obligations to pay the deferred purchase price of assets (other than trade payables incurred in the ordinary course of business and repayable in accordance with customary trade practices), (f) all obligations owing under Hedge Agreements, and (g) any obligation guaranteeing or intended to guarantee (whether directly or indirectly guaranteed, endorsed, co-made, discounted, or sold with recourse) any obligation of any other Person that constitutes Indebtedness under any of clauses (a) through (f) above.

"Indemnified Liabilities" has the meaning specified therefor in Section 10.3.

"Indemnified Person" has the meaning specified therefor in Section 10.3.

"Insolvency Proceeding" means any proceeding commenced by or against any Person under any provision of the Bankruptcy Code or under any other state or federal bankruptcy or insolvency law, assignments for the benefit of creditors, formal or informal moratoria, compositions, extensions generally with creditors, or proceedings seeking reorganization, arrangement, or other similar relief.

"Intercompany Subordination Agreement" means a subordination agreement executed and delivered by Borrowers and each of their Subsidiaries and Lender, the form and substance of which is satisfactory to Lender.

"Interest Expense" means, for any period, the aggregate of the interest expense of Parent and its Subsidiaries for such period, determined on a consolidated basis in accordance with GAAP.

"Inventory" means inventory (as that term is defined in the Code).

"Investment" means, with respect to any Person, any investment by such Person in any other Person (including Affiliates) in the form of loans, guarantees, advances, or capital contributions (excluding (a) commission, travel, and similar advances to officers and employees of such Person made in the ordinary course of business, and (b) bona fide Accounts arising in the ordinary course of business consistent with past practice), purchases or other acquisitions of Indebtedness, Stock, or all or substantially all of the assets of such other Person (or of any division or business line of such other Person), and any other items that are or would be classified as investments on a balance sheet prepared in accordance with GAAP.

"IRC" means the Internal Revenue Code of 1986, as in effect from time to time.

"L/C" has the meaning specified therefor in Section 2.12(a).

"L/C Disbursement" means a payment made by Lender pursuant to a Letter of Credit.

"L/C Undertaking" has the meaning specified therefor in Section 2.12(a).

"Lender" has the meaning specified therefor in the preamble to the Agreement, and shall include any other Person made a party to the Agreement in accordance with the provisions of Section 13.1.

"Lender Deposit Account" has the meaning specified in Section 2.7.

"Lender Expenses" means all (a) costs or expenses (including taxes, and insurance premiums) required to be paid by a Borrower or its Subsidiaries under any of the Loan Documents that are paid, advanced, or incurred by Lender, (b) fees or charges paid or incurred by Lender in connection with Lender's transactions with Borrowers or their Subsidiaries, including, fees or charges for photocopying, notarization, couriers and messengers, telecommunication, public record searches (including tax lien, litigation, and Uniform Commercial Code searches and including searches with the patent and trademark office, the copyright office, or the department of motor vehicles), filing, recording, publication, appraisal (including periodic collateral appraisals or business valuations to the extent of the fees and charges (and up to the amount of any limitation) contained in the Agreement, real estate surveys, real estate title policies and endorsements, and environmental audits, (c) costs and expenses incurred by Lender in the disbursement of funds to or for the account of Borrowers (by wire transfer or otherwise), (d) charges paid or incurred by Lender resulting from the dishonor of checks, (e) reasonable costs and expenses paid or incurred by Lender to correct any default or enforce any provision of the Loan Documents, or in gaining possession of, maintaining, handling, preserving, storing, shipping, selling, preparing for sale, or advertising to sell the Collateral, or any portion thereof, irrespective of whether a sale is consummated, (f) audit fees and expenses of Lender related to any inspections or audits to the extent of the fees and charges (and up to the amount of any limitation) contained in the Agreement, (g) reasonable costs and expenses of third party claims or any other suit paid or incurred by Lender in enforcing or defending the Loan Documents or in connection with the transactions contemplated by the Loan Documents or Lender's relationship with any Borrower or any Subsidiary of a Borrower, (h) Lender's reasonable costs and expenses (including attorneys fees) incurred in advising, structuring, drafting, reviewing, administering, syndicating, or amending the Loan Documents, and (i) Lender's reasonable costs and expenses (including attorneys, accountants, consultants, and other advisors fees and expenses) incurred in terminating, enforcing (including attorneys, accountants, consultants, and other advisors fees and expenses incurred in connection with a "workout," a "restructuring," or an Insolvency Proceeding concerning any Borrower or any Subsidiary of a Borrower or in exercising rights or remedies under the Loan Documents), or defending the Loan Documents, irrespective of whether suit is brought, or in taking any Remedial Action concerning the Collateral.

"Lender-Related Person" means Lender, together with its Affiliates, officers, directors, employees, attorneys, and agents.

"Lender's Account" means the account identified in Schedule L-1.

"Lender's Liens" means the Liens granted by Borrowers or their Subsidiaries to Lender under the Agreement or the other Loan Documents.

"Letter of Credit" means an L/C or an L/C Undertaking, as the context requires.

"Letter of Credit Usage" means, as of any date of determination, the aggregate undrawn amount of all outstanding Letters of Credit.

"Lien" means any interest in an asset securing an obligation owed to, or a claim by, any Person other than the owner of the asset, irrespective of whether (a) such interest is based on the common law, statute, or contract, (b) such interest is recorded or perfected, and (c) such interest is contingent upon the occurrence of some future event or events or the existence of some future circumstance or circumstances. Without limiting the generality of the foregoing, the term "Lien" includes the lien or security interest arising from a mortgage, deed of trust, encumbrance, notice of Lien, levy or assessment, pledge, hypothecation, assignment, deposit arrangement, security agreement, conditional sale or trust receipt, or from a lease, consignment, or bailment for security purposes and also includes reservations, exceptions, encroachments, easements, rights-of-way, covenants, conditions, restrictions, leases, and other title exceptions and encumbrances affecting Real Property.

"Loan Account" has the meaning specified therefor in Section 2.10.

"Loan Documents" means the Agreement, the Bank Product Agreements, the Control Agreements, the Fee Letter, the Guaranty, the Intercompany Subordination Agreement, the Letters of Credit, any Mortgages, the Security Agreement, any note or notes executed by a Borrower in connection with the Agreement and payable Lender, and any other agreement entered into, now or in the future, by any Borrower and Lender in connection with the Agreement.

"Material Adverse Change" means (a) a material adverse change in the business, prospects, operations, results of operations, assets, liabilities or condition (financial or otherwise) of Borrowers and their Subsidiaries, taken as a whole, (b) a material impairment of a Borrower's or any of its Subsidiaries' ability to perform its obligations under the Loan Documents to which it is a party or of Lender's ability to enforce the Obligations or realize upon the Collateral, or (c) a material impairment of the enforceability or priority of the Lender's Liens with respect to the Collateral as a result of an action or failure to act on the part of a Borrower or a Subsidiary of a Borrower.

"Maturity Date" has the meaning specified therefor in Section 3.3.

"Maximum Revolver Amount" means $15,000,000.

"Moody's" means Moody's Investor Service, Inc.

"Mortgages" means, individually and collectively, one or more mortgages, deeds of trust, or deeds to secure debt, executed and delivered by a Borrower or a Subsidiary of a Borrower in favor of Lender, in form and substance satisfactory to Lender, that encumber the Real Property Collateral.

"Obligations" means (a) all loans, Advances, debts, principal, interest (including any interest that accrues after the commencement of an Insolvency Proceeding regardless of whether allowed or allowable in whole or in part as a claim in any such Insolvency Proceeding), contingent reimbursement obligations with respect to outstanding Letters of Credit, premiums, liabilities (including all amounts charged to Borrowers' Loan Account pursuant hereto), obligations (including indemnification obligations), fees (including the fees provided for in the Fee Letter), charges, costs, Lender Expenses (including any fees or expenses that accrue after the commencement of an Insolvency Proceeding, regardless of whether allowed or allowable in whole or in part as a claim in any such Insolvency Proceeding), lease payments, guaranties, covenants, and duties of any kind and description owing by Borrowers to Lender pursuant to or evidenced by the Loan Documents and irrespective of whether for the payment of money, whether direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising, and including all interest not paid when due and all Lender Expenses that Borrowers are required to pay or reimburse by the Loan Documents, by law, or otherwise, and (b) all Bank Product Obligations. Any reference in the Agreement or in the Loan Documents to the Obligations shall include all or any portion thereof and any extensions,

modifications, renewals, or alterations thereof, both prior and subsequent to any Insolvency Proceeding.

"Overadvance" has the meaning specified therefor in Section 2.5.

"Parent" has the meaning specified therefor in the preamble to the Agreement.

"Participant" has the meaning specified therefor in Section 13.1(e).

"Permitted Discretion" means a determination made in the exercise of reasonable (from the perspective of a secured lender) business judgment.

"Permitted Dispositions" means (a) sales or other dispositions of Equipment that is substantially worn, damaged, or obsolete in the ordinary course of business, (b) sales of Inventory or services to buyers in the ordinary course of business, (c) the use or transfer of money or Cash Equivalents in a manner that is not prohibited by the terms of the Agreement or the other Loan Documents, (d) the licensing of patents, trademarks, copyrights and other intellectual property rights in the ordinary course of business, on a non-exclusive basis, and (e) the licensing of patents, trademarks, copyrights and other intellectual property rights on an exclusive basis where exclusivity is restricted to a limited field of use that does not prohibit Borrowers and their Subsidiaries, or any of them, from commercializing the intellectual property rights so licensed in applications outside the limited field of use or in any application presently commercialized by the Borrowers and their Subsidiaries; provided, however, that Lender shall be granted a perfected first priority security interest in each license described in clause (d) or (e) above and Borrowers and their Subsidiaries shall not enter into any such license if an Event of Default has occurred and is continuing.

"Permitted Investments" means (a) Investments in cash and Cash Equivalents, (b) Investments in negotiable instruments for collection, (c) advances made in connection with purchases of goods or services in the ordinary course of business, (d) Investments received in settlement of amounts due to a Borrower or any Subsidiary of a Borrower effected in the ordinary course of business or owing to a Borrower or any Subsidiary of a Borrower as a result of Insolvency Proceedings involving an Account Debtor or upon the foreclosure or enforcement of any Lien in favor of a Borrower or any Subsidiary of a Borrower, (e) purchases of additional patents or non-patented intellectual property to enhance the BioGlue Product Line or equipment or other capital assets used in connection therewith so long as no Default or Event of Default exists or would be caused thereby and so long as the aggregate purchase price therefor does not exceed $3,000,000, and (f) other investments consistent with Borrowers' investment policy set forth on Schedule P-1.

"Permitted Liens" means (a) Liens held by Lender, (b) Liens for unpaid taxes, assessments, or other governmental charges or levies that either (i) are not yet delinquent, or (ii) do not have priority over the Lender's Liens and the underlying taxes, assessments, or charges or levies are the subject of Permitted Protests, (c) judgment Liens that do not constitute an Event of Default under Section 7.7 of the Agreement, (d) Liens set forth on Schedule P-2, (e) the interests of lessors under operating leases, (f) purchase money Liens or the interests of lessors under Capital Leases to the extent that such Liens or interests secure Permitted Purchase Money Indebtedness and so long as such Lien attaches only to the asset purchased or acquired and the proceeds thereof, (g) Liens arising by operation of law in favor of warehousemen, landlords, carriers, mechanics, materialmen, laborers, or suppliers, incurred in the ordinary course of Borrowers' business and not in connection with the borrowing of money, and which Liens either (i) are for sums not yet delinquent, or (ii) are the subject of Permitted Protests, (h) Liens on amounts deposited in connection with obtaining worker's compensation or other unemployment insurance, (i) Liens on amounts deposited in connection with the making or entering into of bids, tenders, or leases in the ordinary course of business and not in connection with the borrowing of money, (j) Liens on amounts deposited as security for surety or

appeal bonds in connection with obtaining such bonds in the ordinary course of business, and (k) with respect to any Real Property, easements, rights of way, and zoning restrictions that do not materially interfere with or impair the use or operation thereof.

"Permitted Protest" means the right of Administrative Borrower or any of its Subsidiaries to protest any Lien (other than any Lien that secures the Obligations), taxes (other than payroll taxes or taxes that are the subject of a United States federal tax lien), or rental payment, provided that (a) a reserve with respect to such obligation is established on a Borrower's or any of its Subsidiaries' books and records in such amount as is required under GAAP, (b) any such protest is instituted promptly and prosecuted diligently by Administrative Borrower or any of its Subsidiaries, as applicable, in good faith, and (c) Lender is satisfied that, while any such protest is pending, there will be no impairment of the enforceability, validity, or priority of any of the Lender's Liens.

"Permitted Purchase Money Indebtedness" means, as of any date of determination, Purchase Money Indebtedness incurred after the Closing Date in an aggregate principal amount outstanding at any one time not in excess of $3,000,000.

"Person" means natural persons, corporations, limited liability companies, limited partnerships, general partnerships, limited liability partnerships, joint ventures, trusts, land trusts, business trusts, or other organizations, irrespective of whether they are legal entities, and governments and agencies and political subdivisions thereof.

"Projections" means Parent's (on a consolidated [and consolidating] basis with its Subsidiaries) forecasted (a) balance sheets, (b) profit and loss statements, and (c) cash flow statements, all prepared on a basis consistent with Parent's historical financial statements, together with appropriate supporting details and a statement of underlying assumptions.

"Purchase Money Indebtedness" means Indebtedness (other than the Obligations, but including Capitalized Lease Obligations) incurred at the time of, or within 20 days after, the acquisition of any fixed assets for the purpose of financing all or any part of the acquisition cost thereof.

"Qualified Cash" means, as of any date of determination, the amount of unrestricted cash and Cash Equivalents of Borrowers and their Subsidiaries that is in Deposit Accounts or in Securities Accounts, or any combination thereof, and which such Deposit Account or Securities Account is the subject of a Control Agreement and is maintained by a branch office of the bank or securities intermediary located within the United States.

"Real Property" means any estates or interests in real property now owned or hereafter acquired by any Borrower or a Subsidiary of any Borrower and the improvements thereto.

"Real Property Collateral" means any fee owned Real Property hereafter acquired by a Borrower or any Subsidiary of a Borrower.

"Record" means information that is inscribed on a tangible medium or which is stored in an electronic or other medium and is retrievable in perceivable form.

"Remedial Action" means all actions taken to (a) clean up, remove, remediate, contain, treat, monitor, assess, evaluate, or in any way address Hazardous Materials in the indoor or outdoor environment, (b) prevent or minimize a release or threatened release of Hazardous Materials so they do not migrate or endanger or threaten to endanger public health or welfare or the indoor or outdoor environment, (c) restore or reclaim natural resources or the environment, (d) perform any pre-

remedial studies, investigations, or post-remedial operation and maintenance activities, or (e) conduct any other actions with respect to Hazardous Materials authorized by Environmental Laws.

"Required Availability" means that the sum of (a) Excess Availability, *plus* (b) Qualified Cash exceeds $12,000,000.

"Revolver Usage" means, as of any date of determination, the sum of (a) the amount of outstanding Advances, *plus* (b) the amount of the Letter of Credit Usage.

"S&P" means Standard & Poor's Ratings Group, a division of McGraw Hill, Inc.

"SEC" means the United States Securities and Exchange Commission and any successor thereto.

"Securities Account" means a "securities account" (as that term is defined in the Code).

"Security Agreement" means a pledge and security agreement, in form and substance satisfactory to Lender, executed and delivered by Borrower to Lender.

"Solvent" means, with respect to any Person on a particular date, that, at fair valuations, the sum of such Person's assets is greater than all of such Person's debts.

"Stock" means all shares, options, warrants, interests, participations, or other equivalents (regardless of how designated) of or in a Person, whether voting or nonvoting, including common stock, preferred stock, or any other "equity security" (as such term is defined in Rule 3a11-1 of the General Rules and Regulations promulgated by the SEC under the Exchange Act).

"Subsidiary" of a Person means a corporation, partnership, limited liability company, or other entity in which that Person directly or indirectly owns or controls the shares of Stock having ordinary voting power to elect a majority of the board of directors (or appoint other comparable managers) of such corporation, partnership, limited liability company, or other entity.

"Taxes" has the meaning specified therefor in Section 15.5.

"Underlying Issuer" means a third Person which is the beneficiary of an L/C Undertaking and which has issued a letter of credit at the request of Lender for the benefit of Borrowers.

"Underlying Letter of Credit" means a letter of credit that has been issued by an Underlying Issuer.

"United States" means the United States of America.

"Voidable Transfer" has the meaning specified therefor in Section 15.7.

"Wells Fargo" means Wells Fargo Bank, National Association, a national banking association.

Schedule 3.1

The obligation of Lender to make its initial extension of credit provided for in the Agreement is subject to the fulfillment, to the satisfaction of Lender (the making of such initial extension of credit by Lender being conclusively deemed to be its satisfaction or waiver of the following), of each of the following conditions precedent:

(a) the Closing Date shall occur on or before February 9, 2005;

(b) Lender shall have received a letter duly executed by each Borrower and each Guarantor authorizing Lender to file appropriate financing statements in such office or offices as may be necessary or, in the opinion of Lender, desirable to perfect the security interests to be created by the Loan Documents;

(c) Lender shall have received evidence that appropriate financing statements have been duly filed in such office or offices as may be necessary or, in the opinion of Lender, desirable to perfect the Lender ‘s Liens in and to the Collateral, and Lender shall have received searches reflecting the filing of all such financing statements;

(d) Lender shall have received each of the following documents, in form and substance satisfactory to Lender, duly executed, and each such document shall be in full force and effect:

(i) the Control Agreements,

(ii) a disbursement letter executed and delivered by Borrowers to Lender regarding the extensions of credit to be made on the Closing Date, the form and substance of which is satisfactory to Lender,

(iii) the Fee Letter,

(iv) the Guaranty,

(v) the Intercompany Subordination Agreement,

(vi) the Patent Security Agreement,

(vii) the Security Agreement, together with all certificates representing the shares of Stock pledged thereunder, as well as Stock powers with respect thereto endorsed in blank,

(viii) the Trademark Security Agreement;

(e) Lender shall have received a certificate from the Secretary of each Borrower (i) attesting to the resolutions of such Borrower’s Board of Directors authorizing its execution, delivery, and performance of this Agreement and the other Loan Documents to which such Borrower is a party, (ii) authorizing specific officers of such Borrower to execute the same, and (iii) attesting to the incumbency and signatures of such specific officers of such Borrower;

(f) Lender shall have received copies of each Borrower’s Governing Documents, as amended, modified, or supplemented to the Closing Date, certified by the Secretary of such Borrower;

(g) Lender shall have received a certificate of status with respect to each Borrower, dated within 10 days of the Closing Date, such certificate to be issued by the appropriate officer of the jurisdiction of organization of such Borrower, which certificate shall indicate that such Borrower is in good standing in such jurisdiction;

(h) Lender shall have received certificates of status with respect to each Borrower, each dated within 30 days of the Closing Date, such certificates to be issued by the appropriate officer of the jurisdictions (other than the jurisdiction of organization of such Borrower) in which its failure to be duly qualified or licensed would constitute a Material Adverse Change, which certificates shall indicate that such Borrower is in good standing in such jurisdictions;

(i) Lender shall have received a certificate from the Secretary of each Guarantor (i) attesting to the resolutions of such Guarantor's Board of Directors authorizing its execution, delivery, and performance of the Loan Documents to which such Guarantor is a party, (ii) authorizing specific officers of such Guarantor to execute the same and (iii) attesting to the incumbency and signatures of such specific officers of Guarantor;

(j) Lender shall have received copies of each Guarantor's Governing Documents, as amended, modified, or supplemented to the Closing Date, certified by the Secretary of such Guarantor;

(k) Lender shall have received a certificate of status with respect to each Guarantor, dated within 10 days of the Closing Date, such certificate to be issued by the appropriate officer of the jurisdiction of organization of such Guarantor, which certificate shall indicate that such Guarantor is in good standing in such jurisdiction;

(l) Lender shall have received certificates of status with respect to each Guarantor, each dated within 30 days of the Closing Date, such certificates to be issued by the appropriate officer of the jurisdictions (other than the jurisdiction of organization of such Guarantor) in which its failure to be duly qualified or licensed would constitute a Material Adverse Change, which certificates shall indicate that such Guarantor is in good standing in such jurisdictions;

(m) Lender shall have received a certificate of insurance, together with the endorsements thereto, as are required by Section 5.8, the form and substance of which shall be satisfactory to Lender;

(n) Lender shall have received Collateral Access Agreements with respect to the following location: 1655 Roberts Blvd., NW, Kennesaw, Georgia;

(o) Lender shall have received an opinion of Borrowers' counsel in form and substance satisfactory to Lender;

(p) Borrowers shall have the Required Availability after giving effect to the initial extensions of credit hereunder and the payment of all fees and expenses required to be paid by Borrowers on the Closing Date under this Agreement or the other Loan Documents;

(q) Lender shall have completed its business, legal, and collateral due diligence, including (i) a collateral audit and review of Borrowers' and their Subsidiaries' books and records and verification of Borrowers' representations and warranties to Lender, the results of which shall be satisfactory to Lender, (ii) an inspection of each of the locations where Borrowers' and their Subsidiaries' Inventory is located, the results of which shall be satisfactory to Lender, (iii) completion of Uniform Commercial Code and intellectual property Lien searches, the results of which shall be satisfactory to Lender, and (iv) review of

all litigation, including, without limitation, SEC investigations, the results of which shall be satisfactory to Lender;

(r) Lender shall have received completed reference checks with respect to Borrowers' senior management, the results of which are satisfactory to Lender in its sole discretion;

(s) Lender shall have received the Enterprise Valuation, the results of which shall be satisfactory to Lender;

(t) Lender shall have received a set of Projections of the Parent and its Subsidiaries for the 3 year period following the Closing Date (on a year by year basis, and for the 1 year period following the Closing Date, on a month by month basis), in form and substance (including as to scope and underlying assumptions) satisfactory to Lender;

(u) Borrowers shall have paid all Lender Expenses incurred in connection with the transactions evidenced by this Agreement;

(v) Lender shall have received copies of each of Parent's material contracts, together with a certificate of the Secretary of the Parent certifying each such document as being a true, correct, and complete copy thereof;

(w) Borrowers and each of their Subsidiaries shall have received all licenses, approvals or evidence of other actions required by any Governmental Authority in connection with the execution and delivery by Borrowers or their Subsidiaries of the Loan Documents or with the consummation of the transactions contemplated thereby; and

(x) all other documents and legal matters in connection with the transactions contemplated by this Agreement shall have been delivered, executed, or recorded and shall be in form and substance satisfactory to Lender.

Schedule 5.2

Provide Lender with each of the documents set forth below at the following times in form satisfactory to Lender:

Quarterly (no later than the 30th day after each quarter)	(a) a detailed aging, by total, of Borrowers' Accounts, together with a reconciliation and supporting documentation for any reconciling items noted, (b) a summary, by vendor, of Borrowers' and their Subsidiaries' accounts payable and any book overdrafts and of any held checks, (c) a detailed report regarding Borrowers' and their Subsidiaries' cash and Cash Equivalents, including an indication of which amounts constitute Qualified Cash, and (d) a report regarding Borrowers' and their Subsidiaries' accrued, but unpaid, ad valorem taxes.
Upon request by Lender	(e) such other reports as to the Collateral or the financial condition of Borrowers and their Subsidiaries, as Lender may reasonably request.

Schedule 5.3

Deliver to Lender each of the financial statements, reports, or other items set forth set forth below at the following times in form satisfactory to Lender:

as soon as available, but in any event within 30 days (45 days in the case of a month that is the end of one of Parent's fiscal quarters) after the end of each month during each of Parent's fiscal years	(f) an unaudited consolidated balance sheet, income statement, and statement of cash flow (and consolidating balance sheet and income statement) covering Parent's and its Subsidiaries' operations during such period, and (g) a Compliance Certificate.
as soon as available, but in any event within 90 days after the end of each of Parent's fiscal years	(h) consolidated financial statements of Parent and its Subsidiaries for each such fiscal year, audited by independent certified public accountants reasonably acceptable to Lender and certified, without any qualifications (including any (A) "going concern" or like qualification or exception, (B) qualification or exception as to the scope of such audit, or (C) qualification which relates to the treatment or classification of any item and which, as a condition to the removal of such qualification, would require an adjustment to such item, the effect of which would be to cause any noncompliance with the provisions of Section 6.16), by such accountants to have been prepared in accordance with GAAP (such audited financial statements to include a balance sheet, income statement, and statement of cash flow and, if prepared, such accountants' letter to management), (i) unaudited consolidating balance sheet and income statement of Parent and its Subsidiaries for such fiscal year, and (j) a Compliance Certificate.
as soon as available, but in any event within 30 days prior to the start of each of Parent's fiscal years,	(k) copies of Parent's Projections, in form and substance (including as to scope and underlying assumptions) satisfactory to Lender, in its Permitted Discretion, for the forthcoming year, quarter by quarter, certified by the chief financial officer of Parent as being such officer's good faith estimate of the financial performance of Parent during the period covered thereby.
if and when filed by any Borrower,	(l) Form 10-Q quarterly reports, Form 10-K annual reports, and Form 8-K current reports, (m) any other filings made by any Borrower with the SEC, and (n) any other information that is provided by Parent to its shareholders generally.

promptly, but in any event within 5 days after a Borrower has knowledge of any event or condition that constitutes a Default or an Event of Default,	(o) notice of such event or condition and a statement of the curative action that Borrowers proposes to take with respect thereto.
promptly after the commencement thereof (or, in the case of a threat described in clause (ii), promptly upon such threat), but in any event within 5 days after the service of process with respect thereto (or, in the case of any threat described in clause (ii), within 5 days of such threat) on any Borrower or any Subsidiary of a Borrower,	(p) (i) notice of all actions, suits, or proceedings brought by or against any Borrower or any Subsidiary of a Borrower before any Governmental Authority (other than the United States Food and Drug Administration) which reasonably could be expected to result in a Material Adverse Change, and (ii) notice of all actions, suits, or proceedings brought by or against (or threatened by or against) any Borrower or any Subsidiary of a Borrower before the United States Food and Drug Administration.
promptly upon receipt thereof, but in any event within 5 days after receipt,	(q) copies of all Warning Letters, Notices of Observation or Orders (as such terms are defined under the Federal Food, Drug, and Cosmetic Act of 1938, as amended, or applicable regulations issued thereunder) received by any Borrower or any Subsidiary of a Borrower from the United States Food and Drug Administration.
promptly upon Borrowers' obtaining knowledge thereof, but in any event within 5 days after obtaining such knowledge,	(r) notice of any material default under any intellectual property license of the type described in clause (d) or (e) of the definition of Permitted Disposition.
upon the request of Lender,	(s) any other information reasonably requested relating to the financial condition of Borrowers or their Subsidiaries.

EXHIBIT 10.16

LEASE AGREEMENT

between

AMLI LAND DEVELOPMENT - I LIMITED PARTNERSHIP
Landlord

and

CRYOLIFE, INC.
Tenant

April 18, 1995

TABLE OF CONTENTS

LEASE

THIS LEASE ("Lease") is entered into as of the 18th day of April, 1995 by and between AMLI LAND DEVELOPMENT - I LIMITED PARTNERSHIP, an Illinois limited partnership, whose address is c/o Amli Realty Co., 2100 RiverEdge Parkway, Suite 420, Atlanta, Georgia 30328 (together with its successors and assigns, "**Landlord**") and CRYOLIFE, INC., a Florida corporation, whose address is 2211 New Market Parkway, Suite 142, Marietta, Georgia 30067 (together with its permitted successors and assigns " **Tenant**").

1. DEFINITIONS. The following terms shall have the definitions set forth after them below:

Additional Rent: All amounts due from Tenant to Landlord or otherwise payable by Tenant under this Lease, other than Base Rent, including, without limitation, Tax Rent and Assessments.

Anticipated Commencement Date: the meaning provided in Section 3 hereof.

Architect: Masterson, Fowler Assoc. Ltd.

Assessment Notice: the meaning provided in Section 6.2 hereof.

Assessments: dues, assessments and other charges which may be levied against the Premises or any portion thereof from time to time by the Association under the Declaration.

Association: the Barrett Master Association, Inc., a Georgia not-for-profit corporation.

Base Net Worth: the meaning provided in Section 40 hereof.

Base Rent: the Base Rent Rate for each Lease Year, multiplied by the number of square feet of Net Rentable Area of the Facility.

Base Rent Rate: the meaning provided in Section 5 hereof.

Casualty: the meaning provided in Section 23 hereof.

Casualty-Related Improvements: all capital improvements made as part of any Casualty Restoration.

Casualty Restoration: the meaning provided in Section 23 hereof.

Commencement Date: the meaning provided in Section 3 hereof.

Condemnation: the meaning provided in Section 24 hereof.

Condemnation-Related Improvements: all capital improvements made as part of any Condemnation Restoration.

Condemnation Restoration: the meaning provided in Section 24 hereof.

County: Cobb County, Georgia.

Declaration: that certain Declaration of Protective Covenants for Barrett dated as of May 18, 1987 and recorded in the Cobb County records on May 18, 1987 in Deed book 4474, Page 423, as the same has been and may be amended or supplemented from time to time.

Default: the meaning provided in Section 19 hereof.

Depository: the meaning provided in Section 23.3 hereof.

Development Review Committee: the committee established and appointed by the Association to review and approve development plans for sites within the Park.

Environmental Laws: the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (42 U.S.C. §9601, et seq.); the Superfund Amendments and Reauthorization Act of 1986 (42 U.S.C.§9671 et. seq.); the Hazardous Materials Transportation Act (49 U.S.C. §1801, et seq.); the Toxic Substances Control Act (15 U.S.C. §2601, et seq.); the Resource Conservation and Recovery Act (42 U.S.C. §6901 et seq.); the Clean Air Act (42 U.S.C. §7401 et seq.); the Clean Water Act (33 U.S.C. §1251, et seq.); the Rivers and Harbors Act (33 U.S.C. §401, et seq.); and any so-called "Superlien law"; and any regulations promulgated pursuant thereto, and any other applicable federal, state or local law, common law, code, rule, regulation, order, policy or ordinance, presently in effect or hereafter enacted, promulgated or implemented, or any other applicable governmental regulation imposing liability or standards of conduct concerning any Hazardous Materials, now or hereafter in effect.

Event(s) of Bankruptcy: the meaning provided in Section 19 hereof.

Facility: the meaning provided in Section 2 hereof.

Final Estimated Assessment Payment: the meaning provided in Section 6.2 hereof.

Force Majeure: any event or circumstance which is beyond the reasonable control of either Landlord or Landlord's Related Parties, or Tenant or Tenant's Related Parties, the happening or occurrence of which in fact delays or postpones either party's performance of a non-monetary covenant or obligation hereunder, including, without limitation, strikes, lockouts or picketing (legal or illegal); governmental action and condemnation; riot, civil commotion, insurrection, and war; fire or other casualty, accident, acts of God or the enemy; adverse weather conditions that caused work on the Project to slow or cease temporarily whether or not reasonably expected for the location of the Premises and the time of the year in question; unavailability of fuel, power, supplies or materials; and the passage or reasonably unexpected interpretation or application of any Legal Requirements or moratorium of any Governmental Authority. In order for either party to validly claim that an event constitutes Force Majeure hereunder, such claimant must give written notice setting forth in reasonable detail the nature of and the occurrence of such event to the other party hereto within ten (10) days after such occurrence, and such claimant must have in fact experienced lost work days in the applicable construction schedule due to adverse weather conditions (such lost work days being hereinafter referred to as "Adverse Weather Days"). With respect to precipitation, in order to

constitute Adverse Weather Days hereunder only those periods of precipitation that exceed the historical norm (as determined by the National Weather Service, or a similar agency or authority) for the area in which the Park is located generally, and for the time period and season in question, plus a reasonable period of time thereafter for the soils to dry sufficiently so as to permit soils compaction, movement of soils, and concrete and paving activities, as reasonably determined by an independent soils engineering firm with an office in the Atlanta metropolitan area, shall be included.

Governmental Authority: shall mean any federal, regional, state, county or municipal government (including , without limitation, any agency, authority, subdivision, department or bureau thereof).

Gross Building Area: the entire area within the exterior face walls on each floor of the Facility. Unless otherwise expressly stated to the contrary, all references in this Lease to "square feet" shall mean the square feet of Gross Building Area. Landlord and Tenant hereby agree that the Gross Building Area of the Facility as shown on the Plans is 98,268 square feet and such total shall be deemed the Gross Building Area for all purposes under this Lease.

Guarantees: the meaning provided in Section 13.1 of the Pre-Occupancy Agreement.

Guidelines: written guidelines that the Development Review committee has adopted or may adopt for the development of sites within the Park that set forth with greater detail than the Declaration the design standards and requirements for construction and maintenance, as well as samples of materials and other information, to be submitted to the Development Review Committee.

Hazardous Materials: any substances, materials or wastes that are regulated by any Governmental Authority because of toxic, flammable, explosive, corrosive, reactive, radioactive or other properties that may be hazardous to human health or the environment, including without limitation, above or underground storage tanks, flammables, explosives, radioactive materials, radon, petroleum and petroleum products, asbestos, urea formaldehyde foam insulation, methane, lead-based paint, polychlorinated biphenyl compounds, hydrocarbons or like substances and their additives or constituents, pesticides and toxic or hazardous substances or materials of any kind, including without limitation, substances now or hereafter defined as "hazardous substances," "hazardous materials," "toxic substances" or "hazardous wastes" in any Environmental Laws.

Land: an approximately 11 acre parcel of real estate located in the Park, and legally described on Exhibit A attached hereto and made a part hereof.

Landlord: the meaning provided in the Preamble.

Landlord Related Parties: collectively Landlord and Landlord's partners, and their respective officers, shareholders, directors, agents and employees, and the invitees, licensees or contractors of each.

Landlord's QLMCI Share: the meaning provided in Section 7.1 hereof.

Lease: the meaning provided in the Preamble.

Lease Year: each consecutive twelve (12) month period beginning with the Commencement Date, except that if the Commencement Date is other than the first (1st) day of a calendar month, then the first (1st) Lease Year shall be the period from the Commencement Date through the date which is twelve (12) full calendar months after the last day of the calendar month in which the Commencement Date occurs, and each subsequent Lease Year shall be the period of twelve (12) months following the last day of the prior Lease Year.

Legal Requirements: (a) any and all laws, codes, ordinances, requirements, standards, plats, plans, criteria, orders, directives, rules and regulations of any Governmental Authority affecting the improvement, alteration, use, maintenance, operation, occupancy, security, health, safety and environmental condition of the Premises, or any part thereof (or any occupants therein, as the context requires) and/or Park (or any other parts thereof or premises therein, or any occupants therein, as the context requires), including, without limitation, any Environmental Laws, and (b) any and all covenants, restrictions, conditions, easements and other agreements of record affecting the Premises and/or Park (or any other parts thereof or premises therein, or any occupants therein, as the context requires), including, without limitation, the Declaration, any documents, rules, regulations, standards or criteria set forth or referenced therein or promulgated by the Association or any other governing body or entity exercising jurisdiction over the Park, in any case, whether in force at the Commencement Date, or subject to the terms of Section 9 hereof, passed, enacted or imposed at some time in the future, and shall include all permits, licenses, certificates, authorizations and approvals required in connection with any of the foregoing.

Legally Mandated Capital Improvements: any capital improvements which may at any time during the Term be required under any Legal Requirement which was not passed or was not applicable or was not reasonably expected of being interpreted as applicable to the Premises as of the Commencement Date.

Net Rentable Area: the Gross Building Area less the area of the vertical penetrations for the elevators and any required stairwells within the perimeter of the Facility (e.g. there being two (2) required stairwells in the initial Facility). Landlord and Tenant hereby agree that the Net Rentable Area of the initial Facility as shown on the Plans is ninety-five thousand two hundred and ten (95,210) square feet and such total shall be deemed the Net Rentable Area of the Facility for all purposes under this Lease.

Non-Covered Costs: the costs (including "soft" costs, such as a developer's fee, architect's and engineer's fee, insurance, bonds, permits and other such items, and "hard" costs of such restoration): (i) of any Casualty-Related Improvements, to the extent such cost is not covered by insurance proceeds actually recovered from the insurer; and (ii) of any Condemnation-Related Improvements, to the extent such cost is not covered by any payment which is actually received by Landlord from the condemning authority for loss or damage to the remainder of the Premises not taken or condemned.

Option: the meaning provided in Section 37 hereof.

Park: Barrett.

Plans: the meaning provided in Section 5 of the Pre-Occupancy Agreement.

Premises: collectively, the Land, the Facility and the other improvements located on the Land.

Pre-Occupancy Agreement: the Pre-Occupancy and Construction Agreement of even date herewith between Landlord and Tenant.

QLMCI Adjustment Payment: the meaning provided in Section 7.1 hereof.

QLMCI Useful Life: the meaning provided in Section 7.1 hereof.

Qualified Legally Mandated Capital Improvement: the meaning provided in 7.1 hereof.

Reference Rate: the rate of interest announced by Wachovia Bank of Georgia as its lowest base rate or reference rate (which rate shall change automatically and simultaneously with each change in the announced base rate or reference rate). If for any reason there is no such rate in effect at the time of any determination of the Reference Rate under this Lease, the Reference Rate shall refer to a substantially equivalent publicly-announced rate by a money center bank having offices and branch bank locations in Georgia as is selected by Landlord.

Renewal Term: the meaning provided in Section 37 hereof.

Rent: collectively, Base Rent and Additional Rent.

Sublease Profits: the excess of revenues generated by or consideration received from the subleasing of the Premises or assignment of this Lease in whole or in part, over the Rent applicable thereto, after deducting the following costs of subletting or assignment: any period of rent concessions granted to the subtenant or assignee, reasonable attorneys' fees, reasonable commissions, tenant improvement allowances and the costs of improvements and alterations to the Premises made by or paid for by the sublessor or assignor in connection with the sublease or assignment.

Substantial Completion Date: the meaning provided in Section 2 of the Pre-Occupancy Agreement.

Taxes: the meaning provided in Section 6.1 hereof.

Tax Adjustment Statement: the meaning provided in Section 6.1(a) hereof.

Tax Rent: the meaning provided in Section 6.1 hereof.

Tenant: the meaning provided in the Preamble.

Tenant Additions: any improvements or additions to the Premises that are included in the Tenant Plans and are paid for in full or in part by Landlord.

Tenant's Casualty Notice: the meaning provided in Section 23 hereof.

Tenant Delays: any interruption or delay at any time in the progress of a Casualty Restoration, a Condemnation Restoration or any other work required to be performed by Landlord hereunder, if any,

which is the result of: (i) the performance of any work at the Premises by any of the Tenant Related Parties or any person, firm or corporation employed by any of the Tenant Related Parties; or (ii) any other act or omission by the Tenant Related Parties (for example, but not by way of limitation, failure to timely respond to requests for information or approval of construction related matters). In order to validly claim that a Tenant Delay has occurred hereunder, Landlord must give to Tenant written notice of such claim setting forth in reasonable detail the nature of and occurrence of such claimed Tenant Delay within ten (10) days after Landlord first has received written notice of, or has actual knowledge of, the event or occurrence in question.

Tenant Improvements: any alterations, improvements or additions to the Premises which are not included in the Plans, whether made by Landlord on behalf of Tenant or by Tenant or Tenant's agents or contractors, whether temporary or permanent and whether or not requiring Landlord's consent.

Tenant Plans: the meaning provided in Section 5 of the Pre-Occupancy Agreement.

Tenant Related Parties: collectively, Tenant and its officers, shareholders, directors, agents, employees, representatives, contractors, permitted sublessees and assigns, and the agents, employees, invitees, licensees, contractors, mechanics and suppliers of each.

Term; the meaning provided in Section 2 hereof.

Termination Date: the meaning provided in Section 2 hereof.

Unfinished Space: the meaning provided in Section 38 hereof.

2. AGREEMENT TO LEASE. Landlord hereby leases to Tenant, and Tenant hereby accepts, the Land, located in Cobb County, Georgia, together with all improvements now or hereafter located on the Land, including without limitation a building of ninety-eight thousand two hundred and sixty-eight (98,268) square feet of Gross Building Area to be constructed thereon in accordance with the Plans pursuant to the Pre-Occupancy Agreement (such building being referred to herein as the **"Facility"**), for a term (the **"Term)** commencing on the Commencement Date, and ending one hundred eighty (180) calendar months after the Commencement Date (the **"Termination Date"**); provided, however, that if the Commencement Date is not the first (1st) day of a calendar month, the Term shall end one hundred eighty (180) calendar months after the first (1st) day of the calendar month immediately succeeding the calendar month in which the Commencement Date occurs, unless sooner terminated as provided herein, subject to the agreements herein contained.

3. COMMENCEMENT DATE. Except as otherwise expressly provided for in this Lease or the Pre-Occupancy Agreement, the **"Commencement Date"** shall be one hundred twenty-two (122) days after the later to occur of (i) the Substantial Completion Date, and (ii) June 1, 1996 (the " **Anticipated Commencement Date**"). The parties shall confirm the date of the Commencement Date in writing as provided in Section 17 of the Pre- Occupancy Agreement.

4. RENT. Tenant shall pay Rent to Landlord at the office of Landlord or to such other person or at such other place as Landlord may designate on not less than ten (10) days prior written notice to Tenant, without offsets or deductions of any kind whatsoever, except as otherwise expressly provided in the Lease, at the times and in the manner hereinafter set forth.

5. BASE RENT. During the Term, Tenant shall pay Base Rent in accordance with the various Base Rent Rates described in this Section 5. The Base Rent Rates for each of the first (1st) fifteen (15) Lease Years shall be as set forth on the schedule attached hereto as Exhibit B, as such exhibit may be amended pursuant to Sections 7 and 17 of the Pre-Occupancy Agreement. The Base Rent payable for each Lease Year shall be paid in twelve (12) equal monthly installments, paid in advance not later than the first (1st) day of each and every calendar month. If the Commencement Date is other than the first (1st) day of a month, then the Base Rent for such initial month shall be prorated on a per diem basis for such fractional period. Payment of the Base Rent shall commence on the Commencement Date, subject to the rent abatement provisions of Section 41.

6. TAX RENT AND ASSESSMENTS. In addition to paying the Base Rent specified in Section 5 hereof, Tenant shall pay **"Tax Rent"** and **"Assessments"** for each calendar year (or portion thereof) falling within the Term. Tax Rent and Assessments determined as provided below shall be paid at the same place as Base Rent is to be paid. If the Term commences on any day other than the first (1st) day of a calendar year, or if the Term ends on any day other than the last day of a calendar year, the Tax Rent and Assessments with respect to each such partial calendar year shall be prorated based on the number of days in the Term falling within such calendar year.

6.1. Tax Rent.

(a) Tenant shall pay **"Tax Rent"** on a monthly estimated basis as hereinafter provided. Tenant shall be obligated to deposit monthly with Landlord, or such other entity as Landlord may designate, on the first day of each and every month in the Term, a sum equal to 1/12th of Landlord's reasonable estimate of the current amount of Taxes levied with respect to the Premises, which monthly deposits need not be kept separate and apart by Landlord and shall be held by Landlord in such account or accounts as may be authorized by the then current state or federal banking laws, rules or regulations and which monthly deposits shall be used as a fund to be applied, to the extent thereof, to the payment of Taxes as the same become due and payable. The existence of said fund shall not limit or alter Tenant's obligation to pay the Taxes for which the fund was created. Tenant's monthly deposits of Tax Rent shall, at Landlord's sole option, either (y) be placed into an interest-bearing account, or (z) be deemed to accrue interest at an agreed upon rate of the Reference Rate (such interest, whether earned pursuant to item (y) or deemed accrued pursuant to item (z), or both, is hereinafter referred to as the "Tax Rent Interest") first, to pay Tenant's Tax Rent as and when such payment of Taxes by Landlord occurs, in the event that Tenant's estimated payments of Tax Rent are less than the Taxes actually due and payable by Landlord for the period in question; and second, to pay for the premiums due and payable in connection with the rent insurance described in Section 22.2 below.

On or prior to the Commencement Date, Landlord shall advise Tenant as to Landlord's estimate of the monthly deposits that will be required for the period commencing on the Commencement Date and ending on the December 31 immediately thereafter. As soon as reasonably feasible after Landlord's receipt of tax bills with respect to each applicable calendar year during the Term, Landlord will furnish Tenant a statement (the **"Tax Adjustment Statement"**) showing the following: (i) actual Taxes for the calendar year last ended and the amount of Taxes payable by Tenant for such calendar year, (ii) the amount of additional Tax Rent due Landlord for the calendar year last ended, less credits for monthly deposits paid; (iii) the amount of interest accrued upon Tenant's monthly Tax Rent, together with a check from Landlord refunding such interest if not previously applied by Landlord to Tenant's Tax Rent in the manner provided for above; (iv) the monthly deposits due in the current calendar year; and (v) a copy of the tax bill or bills paid (or to be paid) by Landlord. Within thirty (30) days after Tenant's receipt of each Tax Adjustment Statement, Tenant shall pay to Landlord: (i) the amount of additional Tax Rent (if any) shown on the Tax Adjustment Statement to be due Landlord for the calendar year last ended; plus (ii) the amount which, when added to the monthly deposits theretofore paid by Tenant as Tax Rent for Tenant's estimated Taxes in the current calendar year, will result in Landlord having then received, for the current calendar year, the full monthly deposits due as Tax Rent for such estimated Taxes for such current calendar year as of the end of such 30-day period.

With respect to the last calendar year (or portion thereof) falling within the Term, Landlord's estimate of the current annual Taxes shall be increased by ten percent (10%) for purposes of determining the amount of Tenant's deposits required hereunder during such last calendar year (or portion thereof) to account for any additional Tax Rent which may not be finally determined until after the expiration of the Term. Tenant's obligation to pay such additional Tax Rent shall survive the expiration or earlier termination of the Term. Tenant's payment of the monthly deposit for each calendar year shall be credited against the Tax Rent due with respect to such calendar year. If the monthly deposits paid by Tenant for any calendar year exceed the Tax Rent due for such calendar year, then Landlord shall give a credit to Tenant in an amount equal to such excess against the Tax Rent due for the next succeeding calendar year, except that if any such excess relates to the last calendar year (or portion thereof) falling within the Term, then provided that no Default of Tenant exists hereunder, Landlord shall refund such excess to Tenant within thirty (30) days after Landlord's receipt of the final tax bill for such calendar year.

(b) Provided Tenant is not then in Default of this Lease, Tenant may request in writing no later than ten (10) business days after receipt of any tax bills from Landlord that Landlord contest or object to the legal validity or amount of any Tax. Landlord shall notify Tenant in writing within ten (10) days after receipt of Tenant's request whether Landlord has elected, in Landlord's sole discretion, to pursue such contest. Landlord's notice shall contain the name or names of tax consultants Landlord is willing to retain in connection with such contest, including the method of billing that would be utilized in connection therewith. If Landlord elects to pursue such contest, then Landlord shall diligently pursue such protest using tax consultants experienced in real estate tax matters and reasonably approved by Tenant (which approval shall not be unreasonably withheld or delayed), and all fees and costs (including without limitation reasonable actual attorney's fees) incurred by Landlord in pursuing such contest regardless of the ultimate success thereof, shall be payable by Tenant as Additional Rent within fifteen (15) days after being billed therefor. If Landlord declines to pursue such contest, then Tenant may pursue such contest provided: (a) Tenant is not then in Default of this Lease; (b) such protest is in good faith; and (c) Tenant timely pays to Landlord the

Tax Rent with respect to the tax being contested as and when due and payable hereunder. With respect to any contested Tax required by the taxing body to be paid under protest, Landlord shall apply the amount paid by Tenant to Landlord to the payment of such Tax, and shall at Tenant's request do so under protest, signing such reasonable documents in connection therewith as Tenant shall request and provide at Tenant's cost. If payment of the contested Tax may be deferred pending determination of the contest, then Landlord shall defer the payment of such Tax pending such determination. All costs, fees, penalties and interest associated or imposed in connection with such contest or protest shall be paid by Tenant, and Tenant hereby agrees to indemnify and hold the Landlord Related Parties harmless from and against any thereof. Provided Tenant is not in Default with respect to the provisions of this Section 6.1, Tenant shall receive the benefit of any reduction in any contested Tax unless any applicable refund relates to a period of time which is not part of the Term, which amount, if any, shall belong to Landlord after first being applied in accordance with the sentence next following. In any event, any net reduction or savings in Taxes shall be applied first, to Tenant's payment of Taxes for the tax year in question, if not theretofore paid in full by Tenant, and second, to the costs, expenses and fees (including without limitation reasonable actual attorneys' fees and tax consultant fees paid or incurred by Tenant), and third, any excess or remaining amount not so applied shall be applied or refunded in accordance with Section 6.1(a) above.

(c) "Taxes" shall mean all real estate taxes and assessments (other than the Assessments), special or otherwise, levied or assessed upon or with respect to the Premises and/or Landlord's leasehold interest in the Premises and/or Landlord's leasehold interest in the Premises with respect to each calendar year (or portion thereof) falling within the Term. Should any Governmental Authority having jurisdiction over the Premises (i) impose a tax, assessment, charge or fee against the Premises which Landlord shall be required to pay, either in substitution for, or in addition to such real estate taxes, or (ii) impose an income or franchise tax or a tax on rents which may be in addition to or in substitution for a tax levied against the Premises, then, in either of such events such substituted and/or additional taxes, assessments, fees or charges shall be deemed to constitute Taxes hereunder, but only to the extent that, they would be payable by Landlord even if the Premises was the sole property of Landlord subject thereto and the Base Rent hereunder was the sole rent subject thereto. All fees and costs (including, without limitation, reasonable attorney's fees and fees of tax consultants reasonably approved by Tenant, which approval shall not be unreasonably withheld or delayed) incurred by Landlord in seeking to obtain a reduction of, or a limit on the increase in, any Taxes, in those instances where, without the request from Tenant, Landlord decides to pursue such contest pursuant to Section 6.1(b) shall, regardless of whether any reduction or limitation is obtained, be payable in the first instance by Landlord; provided, however, that any net reduction or savings derived or resulting from such contest shall be applied first, to such costs and expenses of Landlord, and second, the balance shall be applied in accordance with Section 6.1(b) above. In determining the amount of Taxes for any calendar year (or portion thereof) falling within the Term, the amount of special assessments to be included shall be limited to the amount of any installment (plus any interest payable thereon) of such special assessment paid over the maximum period of time permitted by law. Except as provided in the immediately preceding sentence, all references to Taxes "for" a particular calendar year shall mean Taxes levied, assessed or otherwise imposed for such calendar year without regard to when such Taxes are payable.

6.2. Assessments. As a result of the Premises being located in the Park, Landlord is liable to the Association for the payment of the Assessments. Landlord represents that the amount of Assessments for the 1995 calendar year is estimated to equal approximately $300.00 per acre. As

Additional Rent hereunder, Tenant shall pay all Assessments related to the Premises for each calendar year (or portion thereof) falling within the Term. If any such Assessments relate to time periods which do not fall entirely within the Term, such Assessments shall be prorated based on the number of days in the Term falling within such time periods. After receipt of each bill or invoice for Assessments with respect to a calendar year (or portion thereof) falling within the Term, Landlord shall promptly deliver a copy thereof to Tenant, accompanied by a statement setting forth the portion of such Assessments attributable to the Premises and payable by Tenant (an **"Assessment Notice"**). Except as otherwise herein provided, Tenant shall no later than the earlier of thirty (30) days after receipt of any Assessment Notice or fifteen (15) days before such Assessments are due, pay to the Association the full amount of Assessments due under such Assessment Notice; provided, however, that in no event shall Tenant be obligated to pay such Assessments earlier than fifteen (15) days after receipt of any Assessment Notice. Within five (5) days following the date such Assessments are due, Tenant shall furnish Landlord with evidence of the payment of such Assessments in full. Notwithstanding the foregoing right of Tenant to pay Assessments directly to the Association, Tenant shall pay Assessments when due hereunder to Landlord: (i) following a Default by Tenant with respect to any of its monetary obligations under this Lease; and (ii) during the final Lease Year of the Term as hereinafter provided. On or before the first day of the last calendar month of the Term, Tenant shall pay to Landlord as an estimate of the Assessments for the remainder of the Term an amount (the **"Final Estimated Assessment Payment"**) obtained by multiplying the number of months (or portion thereof) remaining in the Term from the last applicable month through which Tenant has paid Assessment hereunder by the quotient derived by dividing one hundred ten percent (110%) of the most recent ascertainable annual Assessments with respect to the Premises by 12. When, following the end of the Term, Landlord receives the actual invoice or bill for the Assessments which had been previously estimated, Landlord shall promptly deliver a copy thereof to Tenant, accompanied by a final Assessment Notice stating any remaining amount due from Tenant for Assessments, or if the actual amount of Assessments is less than the Final Estimated Assessment Payment theretofore paid by Tenant, the amount to be refunded by Landlord to Tenant. Any amount due from one party to the other under the preceding sentence shall be paid within thirty (30) days after the delivery of the final Assessment Notice.

Without limiting any other obligations of Landlord or Tenant which shall survive the expiration or earlier termination of the Term, Tenant's and Landlord's obligations to pay any amounts due in connection with Tax Rent and Assessments shall survive the expiration or earlier termination of the Term.

7. RESPONSIBILITY FOR MAINTENANCE, REPAIR AND OPERATIONS.

7.1. Tenant's Responsibilities. Except as otherwise expressly provided herein, Tenant shall, at Tenant's sole cost and expense, manage, operate, repair, maintain, and improve and (as necessary) replace the Premises and the equipment, fixtures and personal property located on the Premises in good condition and repair and in compliance, in all material respects, with all applicable Legal Requirements, In addition, and except as otherwise expressly provided herein, Tenant shall, at Tenant's sole cost and expense, make all Legally Mandated Capital Improvements and subject to the termination rights set forth in Section 23 hereof, shall pay the Non-Covered Cost of any Casualty-Related Improvement. All repairs, replacements or maintenance performed by either Tenant or Landlord pursuant to this Section 7 shall be performed in a good and workmanlike manner in compliance with all applicable Guarantees, Legal Requirements and insurance requirements, using

materials with a quality equivalent or better than those used in the original construction of the Facility, and to the extent applicable shall be subject to Section 14 of this Lease. Tenant shall have no obligation to maintain, repair or replace the "structural components" (as defined in Section 7.2 below) of the Premises, except as expressly set forth in this Lease to the contrary.

Notwithstanding anything herein to the contrary, Landlord agrees that, subject to the terms of this Section 7.1, it shall be responsible for the payment to Tenant of its pro rata share of the reasonable cost of any Qualified Legally Mandated Capital Improvement (the **"Landlord's QLMCI Share"**). For purposes of this Lease, the term **"Qualified Legally Mandated Capital Improvement"** shall mean any Legally Mandated Capital Improvements that: (i) are made during the final three (3) Lease Years of the Term; (ii) cost in excess of $25,000.00 in any one instance or more than $100,000.00 in the aggregate; (iii) are reasonably susceptible of continued use or reuse by office tenants; and (iv) are not the result of (a) the specific nature of Tenant's non-office use of the Premises, or (b) Tenant's failure to properly perform its maintenance, repair and replacement obligations pursuant to and in accordance with this Section 7.1. Nothing in this grammatical paragraph shall limit, modify, release, waive or terminate Tenant's obligation to perform or cause to be performed all Legally Mandated Capital Improvements during the Term, including all Qualified Legally Mandated Capital Improvements. Landlord's QLMCI Share shall be determined by multiplying the reasonable cost of the applicable Qualified Legally Mandated Capital Improvement by a fraction, the numerator of which shall be the difference between the number of years (or portion thereof) in the useful life of the applicable Qualified Legally Mandated Capital Improvement as reasonably estimated by Landlord's engineer (the **"QLMCI Useful Life"**) and the number of years (or portion thereof) remaining in the Term from the date such Qualified Legally Mandated Capital Improvement is required by the applicable Governmental Authority, and the denominator of which is the applicable QLMCI Useful Life. Landlord's QLMCI Share shall be payable to Tenant within thirty (30) days after the Qualified Legally Mandated Capital Improvement is completed and Tenant furnishes Landlord with verifiable supporting documentation reflecting the actual costs thereof, together with evidence of the payment thereof in full.

Notwithstanding the foregoing, if any time after the calculation and payment of Landlord's QLMCI Share, Tenant desires to exercise the Option or to otherwise re-lease the Premises for an extended period on terms other than pursuant to the Option, then in either case, Landlord's QLMCI Share shall be adjusted by recalculating the numerator in the foregoing formula taking into account the number of years (or portion thereof) in such extended Term toward the end that Landlord shall be responsible for the precise amount of Landlord's QLMCI Share based on such extended Term. Tenant shall, as Additional Rent hereunder, reimburse Landlord for the applicable overpayment of Landlord's QLMCI Share (the **"QLMCI Adjustment Payment"**) at the following times: (i) in the case of the exercise of the Option, concurrently with Tenant's delivery of the final binding written exercise notice pursuant to Section 37(B) hereof; and (ii) in the case of any other extension of the Term, concurrently with Tenant's execution and delivery to Landlord of any applicable amendment to this Lease or a new lease agreement, as the case may be. Anything herein to the contrary notwithstanding, if Tenant has previously exercised the Option or agreed to re-lease the Premises for an extended period on terms other than pursuant to the Option, then any Legally Mandated Capital Improvement required prior to the expiration of the initial Term hereof that otherwise satisfies the second, third and fourth requirements in the definition of Qualified Legally Mandated Capital Improvement, shall not satisfy the first requirement and, accordingly, shall not be deemed a Qualified Legally Mandated Capital Improvement hereunder and shall be performed by Tenant at Tenant's sole

cost and expense (unless in the case of an extension other than pursuant to the Option, the time remaining in the initial Term, when added to the extension term is less than one (1) year.) [*By way of example without limitation*: ***Example 1*** *- assume that at the end of the fourteenth (14th) Lease Year a Qualified Legally Mandated Capital Improvement with an 8 year useful life is required for $100,000.00. In this Example 1, Landlord's QLMCI Share would be $87,500.00 (reflecting $100,000 multiplied by [8 minus 1] divided by 8*). ***Example 2*** *- assume the same facts as in Example 1 except that Tenant exercises the Option. In this Example 2, Landlord's QLMCI Share will be adjusted by recalculating the numerator of the formula based on the 5-year extension of the Term. In this case, Landlord's QLMCI should have been $25,000 (reflecting $100,000.00 multiplied by [8 minus 6] divided by 8), as opposed to the $87,500.00 theretofore paid by Landlord. Accordingly, a QLMCI Adjustment Payment in the amount of $62,500.00 would accompany Tenant's final binding written exercise notice pursuant to Section 37(b) hereof.]*

7.2. Landlord's Responsibilities. Except as may be otherwise expressly provided in the Pre-Occupancy Agreement or this Lease, Landlord shall have no obligation to provide any services to, or in connection with, the Premises, or any responsibility for the management, operation, repair, maintenance or replacement of capital improvements with respect to the Premises. Anything in this Lease to the contrary notwithstanding, Landlord shall make, or cause to be made, all maintenance, repairs and/or replacements to the "structural components" (as hereinafter defined) of the Facility; and any repairs or replacements otherwise required to be made by Tenant pursuant to Section 7.1 above, but which arise as a result of any act or omission of Landlord Related Parties (including, without limitation, Landlord's failure to perform ordinary, routine or scheduled maintenance obligations with respect to the roof required pursuant to this Section 7.2, or such other ordinary, routine or scheduled maintenance obligations as may be required by the terms and provisions of any applicable Guarantee pertaining to or covering an item for which Landlord is responsible hereunder, and any costs that would have been covered under any such Guarantee but for any Landlord Related Parties' act or omission that negated any such Guarantee). For purposes of this Lease, the phrase "structural components" shall mean the roof (up to the mechanical equipment curbs), foundation, concrete floors and structural supports of the Facility. The cost of any such maintenance, repairs and/or replacements to structural components shall be the sole responsibility of Landlord, except to the extent such costs arise as a result of any act or omission of Tenant Related Parties (including, without limitation, Tenant's failure to perform ordinary, routine and/or scheduled maintenance obligations required pursuant to Section 7.1 hereof, or as may be required by the terms and provisions of any applicable Guarantee pertaining to or covering an item for which Tenant is responsible under Section 7.1 above, and any costs that would have been covered under any such applicable Guarantee but for any Tenant Related Parties' act or omission that negated any such Guarantee), in which event, the cost of such repair or replacement shall be paid by Tenant within thirty (30) days after Landlord bills Tenant therefor.

In addition to any other rights reserved to Landlord pursuant to the terms of this Lease, Landlord reserves the right at any reasonable time during the Term upon not less than three (3) business days prior written notice to Tenant (except in the event of an emergency) to have the roof inspected by an experienced roofing consultant or contractor as may be recommended by the roof manufacturer or roof Guarantee (or designated by Landlord in the absence of any such recommendation). Landlord reserves the right, upon not less than ten (10) days' prior written notice to Tenant, to enter into a maintenance contract with an experienced roofing contractor reasonably acceptable to Landlord who shall perform such maintenance and care on behalf of Landlord, and shall have the right to enter upon

the Premises at such time or times each Lease Year as are reasonably necessary or appropriate to do so, subject to the notification and other requirements set forth herein.

Tenant shall notify Landlord in writing of any required repairs or necessary replacements to the structural components of the Facility. Landlord shall not be required to commence any such repair or replacement until Landlord has received Tenant's written notice. Landlord shall commence and complete repairs or replacements required pursuant to this Section 7.2 as soon as is reasonably practicable following Landlord's receipt of Tenant's notice, not to exceed thirty (30) days; provided, however, that if such repair or replacement is not capable of being completed within said 30-day period (including due to any Tenant Delay or any delay due to Force Majeure) then Landlord will be deemed in full compliance with the terms of this Section 7.2 as long as Landlord commences such repair or replacement within said 30-day period and thereafter diligently prosecutes same to completion to the extent within its reasonable control. If Landlord fails to perform any repair or replacement required pursuant to this Section 7.2 within said 30-day period (or such extended period as provided above where the repair or replacement is not capable of being completed within said 30-day period), then Tenant may furnish Landlord with a written notice of non-compliance with the terms of this Section 7.2. If Landlord fails to complete the required repair or replacement within fifteen (15) days after Landlord's receipt of Tenant's notice of non-compliance, then Tenant may, at its option, exercised by giving Landlord written notice thereof, take reasonable measures to complete any such repair or replacement required pursuant to the terms of this Section 7.2. If Tenant so completes such repair or replacement, Landlord shall pay Tenant the reasonable cost thereof that otherwise would have been Landlord's cost hereunder within thirty (30) days following Landlord's receipt of a bill therefor, together with supporting invoices reflecting the reasonable cost thereof. If Landlord fails to pay such bill within said 30-day period, Tenant may set-off the amount of said bill (together with interest thereon at the rate specified in Section 35.2 hereof on the unpaid and unapplied amount due hereunder from time to time) from the next Rent payments due under this Lease. Notwithstanding the foregoing, the rights granted Tenant pursuant to this grammatical paragraph are granted without prejudice to Landlord's right to contest Tenant's ability to exercise same and/or the amount of costs incurred thereby.

8. SERVICES. Tenant shall be responsible for contacting the appropriate municipality and public utility companies to ensure continuity of all utility services upon the Commencement Date and to establish and maintain utility services in Tenant's name and for Tenant's account, and for paying to such entities any installation and service fees or charges which are not Landlord's responsibility pursuant to the Pre-Occupancy Agreement. For purposes of clarifying the immediately preceding sentence, Landlord shall make available, at Landlord's cost, to the Facility all necessary utility services which shall include electric, gas, water, sewer and telephone (including all permits required by any Governmental Authority for the installation of same, if any); provided, however, Tenant acknowledges and agrees that: (i) Tenant shall be responsible for the installation of its telephone and computer cables, equipment and facilities within the Facility; (ii) Tenant shall be responsible for the payment of all monetary deposits, if any, required by any applicable utility company or Governmental Authority to establish service in the Tenant's name at the Facility; and (iii) cable television service is not available in the Park and Landlord shall have no obligation to provide same. Landlord and Tenant shall operate to provide information to each other regarding the reading of meters, the changeovers in filings and other like matters relating to Tenant's taking responsibility for utilities under this Lease. From and after the Commencement Date Tenant shall pay utility providers directly for all utility services furnished to the Premises. Landlord does not warrant that any of the services will be free from interruptions. Any such interruption of service shall never be deemed an eviction (actual or constructive) or a disturbance of Tenant's use and possession of the Premises or any part thereof and shall never render Landlord liable to Tenant under this Lease for damages, by abatement of Rent or otherwise, or relieve Tenant from performance of Tenant's obligations under this Lease. Notwithstanding the foregoing, in the event any such interruption: (i) is caused solely by Landlord's performance or non-performance (or any Landlord Related Party's performance or non-performance) of its obligations under this Lease; and (ii) the Facility or a portion thereof is rendered untenantable and Tenant does not in fact occupy, or cease to occupy, such portion of the Facility, then in such event, Tenant shall promptly notify Landlord in writing of the occurrence of such untenantability and Rent shall abate on a per diem basis commencing on the first date of untenantability and ceasing at such time as the Facility, or applicable portion thereof, as the case may be, is fully tenantable, such abatement to be in an amount bearing the same ratio to the total amount of Rent due for such period as the untenantable portion of the Facility from time to time bears to the entire Facility, but in any event, such abatement shall become effective if and only to the extent Landlord receives the proceeds of any rent insurance carried by Tenant pursuant to Section 22.2 hereof. Notwithstanding the immediately preceding sentence, if Tenant is entitled to abate Rent pursuant to the immediately preceding sentence but for Landlord's receipt of rent loss proceeds, and if Tenant has satisfied the insurance requirements of this Lease with respect to such rent loss coverage, then if the applicable insurer cannot or refuses to pay proceeds that otherwise would have been payable under such rent loss insurance policy; through no fault of any Tenant Related Parties, then in such event, Tenant shall be entitled to abate Rent in accordance with the terms of the preceding sentence regardless of Landlord's receipt of rent loss insurance proceeds. In any event where Landlord or any Landlord Related Party is the cause of untenantability with respect to the Facility, Landlord shall, at its sole cost and expense, take such action as shall be necessary to render the Facility tenantable again as soon as is reasonably practicable, subject to any Tenant Delays or any delay due to Force Majeure.

9. USE. Tenant shall not use or occupy the Premises, or permit the Premises to be used or occupied, for any use other than for general office, research, storage, distribution and light manufacturing uses, including, without limitation, use as a biomedical company engaged in various design, development, light manufacturing, marketing, licensing and other business endeavors and including, without limitation, the manufacture of bioadhesives; provided, however, that at all times during the Term, the portion of the Facility devoted to general office and research uses shall in no event be modified in a manner that will cause the then existing parking areas, facilities and ratios on and with respect to the Premises to violate any applicable Legal

Requirements. Tenant shall not use or occupy the Premises, or permit the Premises to be used or occupied contrary to any Guarantees or Legal Requirements; or in any manner which would violate any certificate of occupancy affecting the same; or which would cause structural injury to the facility or any other improvements on the Premises or in the Park; or which would invalidate the amount of premiums for any policy of insurance affecting the Premises; or would create a nuisance. Anything in this Lease to the contrary notwithstanding, Landlord agrees that from and after the date of this Lease, Landlord shall not, and for so long as Landlord maintains legal control over the Association pursuant to the Declaration, Landlord will not cause the Association to voluntarily create any covenants, conditions or restrictions affecting the Premises that will materially and adversely interfere with the Tenant's use of the Premises for the general purposes set forth in this Section 9, or, in particular, Tenant's use of the Premises for or in connection with Tenant's business use as a biomedical company engaged in various design, development, light manufacturing, marketing, licensing and other business endeavors, including for example only, the low temperature preservation of cardiac valves, veins and other vascular tissues; and of meniscal, cruciate and other joint and ligament tissues; and/or of other bodily tissues or substances; the design, development, manufacturing and/or marketing of bioadhesives; and the design, development and/or marketing of other related and unrelated biomedical products and procedures.

10. DISCLAIMER OF WARRANTIES. Except as expressly provided in the Pre-Occupancy Agreement or this Lease, Landlord does not make, and Tenant acknowledges that Landlord has not made any representation, warranty or guarantee, express or implied, with respect to this Lease, Landlord's title to, or the present or future merchantability, condition, quality, durability, fitness or suitability of the Premises or any part thereof in any respect or in connection with or for the purposes and uses of Tenant, or any other representation, guarantee, warranty or covenant of any kind or character, express or implied, with respect thereto, and Landlord shall not be liable for any latent or patent defect therein, except as may be expressly provided under the Pre-Occupancy Agreement or this Lease. No promise of Landlord to construct. alter, remodel or improve the Premises, or to contribute funds toward the construction, alteration, remodeling or improvement of the Premises, has been made by Landlord to Tenant other than as may be expressly contained herein or in the Pre-Occupancy Agreement. Landlord represents and warrants to Tenant that it is the fee simple owner of the Land. Landlord also hereby represents and warrants to Tenant that this Lease, and Tenant's proposed use of the Facility as described herein and constructed pursuant to the Pre-Occupancy Agreement comply (or shall comply, as applicable) with the Declaration. Landlord further represents and warrants to Tenant that as of the Commencement Date of the Term, the Facility shall comply with all then applicable Legal Requirements (including any administrative and judicial interpretations thereof), and the Declaration, as the same are in existence as of the Commencement Date. Landlord agrees that any violations of such then applicable Legal Requirements which are subsequently discovered to have been in existence as of the Commencement Date shall be deemed to be a Covered Defect under the Amli Warranty; provided, however, that: (i) Landlord is notified in writing of such existing violation during the Amli Warranty Period; and (ii) the violation of such then applicable Legal Requirement did in fact exist as of the Commencement Date; and (iii) the violation does not constitute and/or was not caused by an Amli Warranty Exclusion. Anything in this Lease to the contrary notwithstanding, the representation, warranty and agreement of Landlord as provided in the preceding two sentences shall survive the Commencement Date for the duration of the Amli Warranty Period, it being expressly understood and agreed that said representation, warranty and agreement shall expire concurrently with the Amli Warranty, except with respect to any such existing violation which (a) Landlord had been notified of during the Amli Warranty Period, and (b) is a Covered Defect under the Amli Warranty as hereinabove provided. For purposes of this Section 10, the terms "Covered Defect," "Amli Warranty," "Amli Warranty Period" and "Amli Warranty Exclusion" shall have the meanings provided such terms in the Pre-Occupancy Agreement.

11. POSSESSION. Landlord makes no representation, warranty or guarantee that the Premises (or any part thereof) will be substantially ready for occupancy on any specific date. Except as set forth in the Pre-Occupancy Agreement, this Lease shall continue in full force and effect regardless of any delay in the Commencement Date, and no liability shall arise against Landlord out of any such delay other than as may be set forth in the Pre-Occupancy Agreement. If Tenant shall take possession of all or any part of the Premises prior to the Commencement Date, all of the covenants and conditions of this Lease shall be binding upon the parties hereto as if the Commencement Date had been fixed as of the date when Tenant took such possession, and Tenant's obligation to pay Rent prior to the Commencement Date shall be governed by the terms of Section 14.2 and 14.3(b) of the Pre-Occupancy Agreement.

12. ASSIGNMENT AND SUBLETTING. Tenant may not, without Landlord's prior written approval, which approval may not be unreasonably withheld or delayed: (a) assign, convey or mortgage this Lease or any interest hereunder; (b) permit any assignment of, or lien upon this Lease or Tenant's interest herein by operation of law; (c) sublet the Premises or any part thereof; or (d) permit the use of the Premises by any parties other than Tenant, its agents and employees. The acts and events described in clauses (a)-(d) of the preceding sentence are referred to herein collectively as **"Transfers"** and individually as a **"Transfer"**. It shall be "reasonable" grounds for the withholding or delaying by Landlord of its consent to a Transfer if Landlord's mortgagee of the Premises disapproves of such Transfer on a reasonable basis or delays its response thereto for a period of not more than fifteen (15) additional days. Tenant shall give Landlord written notice of any proposed sublease or assignment at least thirty (30) days prior to the proposed effective date of such proposed sublease or assignment, which notice shall contain the name of the proposed sublessee or assignee, the proposed use of the Premises, the proposed principal terms thereof, and such other information as Landlord may reasonably request to evaluate the character, reputation and creditworthiness of the proposed assignee or sublessee.

If Tenant is permitted to assign this Lease or sublease all or any portion of the Premises, regardless of whether Landlord's consent is required hereunder, Tenant agrees to pay to Landlord as Additional Rent 75% of any Sublease Profits derived by Tenant from such assignment or sublease. If the proposed use of the Premises may, in Landlord's judgment, exercised reasonably and in good faith, create greater environmental risks to Landlord or the Premises relative to Tenant's use of the Premises on the Commencement Date, Landlord may withhold its consent (and such withholding shall be deemed reasonable) until Landlord and such assignee or sublessee agree to amend this Lease to address such increased environmental risks to Landlord's reasonable satisfaction; provided, however, that if Landlord determines, in its sole discretion, that such increased environmental risks cannot be adequately addressed through an amendment to this Lease, Landlord may withhold its consent, and such withholding shall be deemed reasonable. Landlord may, in lieu of consenting to a reasonable assignment or sublease of the entire Premises, elect to cancel the Lease. If Landlord wishes to exercise the foregoing cancellation option, Landlord shall, within thirty (30) days after Landlord's receipt of Tenant's notice of proposed assignment or sublease, send to Tenant a notice so stating and in such notice Landlord shall specify the date as of which such cancellation shall be effective, which date shall be between the proposed effective date for the proposed assignment or sublease and the date which is sixty (60) days thereafter. In the event of any such election by Landlord, Tenant may, within fifteen (15) days of Tenant's receipt of Landlord's cancellation notice, elect to rescind its request for consent and thereby vitiate Landlord's cancellation election.

Landlord's consent to any assignment, subletting or transfer, or Landlord's election to accept any assignee, sublessee or transferee as Tenant hereunder, shall not release the original Tenant from any covenant or obligation under this Lease. However, Landlord's election to cancel this Lease shall, upon the effective date of such cancellation, release Tenant from any and all obligations arising or accruing from and after the date any such cancellation becomes effective. Landlord's consent to any assignment or subletting shall not constitute a waiver of Landlord's right to consent to any future assignment or subletting. If, with respect to any permitted assignment or sublease hereunder, Landlord does not, or is not entitled to, exercise the cancellation right as hereinabove provided, then any proposed assignment or sublease agreement shall be expressly subject to all the terms, conditions and covenants of this Lease and Landlord's prior written consent, which consent shall not be unreasonably withheld or denied. Any proposed assignment shall contain an express written assumption by assignee of all Tenant's liabilities and obligations under this Lease. Any proposed sublease shall: (i) provide that the sublessee shall procure and maintain policies of insurance as required of Tenant under Section 22.2 hereof; (ii) contain a provision for the benefit of Landlord, substantially in the form set forth in Section 22.1 hereof; (iii) provide for a copy to Landlord of notice of default by either party; and (iv) otherwise be reasonably acceptable in form to Landlord.

Subject to all of the other terms and conditions of this Section 12, Tenant may, without Landlord's prior consent, without being subject to Landlord's cancellation election and without the application of the division of Sublease Profits as set forth in the fifth sentence of the preceding paragraph: (i) assign this Lease or sublease all or any portion of the Premises to Tenant's parent corporation or any subsidiary or affiliated corporation (collectively, a "Related Entity") or any entity that is controlled by or under common control with a Related Entity; or (ii) assign this Lease to any corporation resulting from a merger or consolidation or to any person, corporation or other entity which acquires all or substantially all of the assets of Tenant including, without limitation, the trademark or trade name of Tenant; or (iii) assign this Lease to any person, corporation or other entity which acquires control of Tenant; provided, however, in each instance that the "Base Net Worth" (as defined in Section 40 below) requirements of this Lease continue to be satisfied, and Tenant is not in Default hereunder at such time. For purposes of the foregoing, the word "control" shall mean and refer to the

ownership of in excess of fifty percent (50%) of the voting stock in any corporation, or of the shares or other indicia of ownership in any limited liability company, or of the general partners' interests in any partnership.

Except with respect to any assignment or sublease that does not require Landlord's prior written consent hereunder, Tenant shall pay to Landlord as Additional Rent hereunder, reasonable costs and expenses (including, without limitation, reasonable attorneys' fees) paid or incurred by Landlord in connection with any proposed assignment or subletting hereunder.

13. LANDLORD'S ACCESS TO THE PREMISES. Tenant agrees to permit Landlord and any authorized representatives of Landlord, to enter the Premises at all reasonable times (i.e. on business days and during business hours, unless otherwise specified by Tenant), on reasonable advance notice, except in the case of emergency, for the purpose of inspecting same. Any such inspections shall be solely for Landlord's purposes and may not be relied upon by Tenant or any other person. If in Landlord's reasonable judgment, Tenant is in Default of any of its obligations under this Lease beyond the expiration of any applicable cure period, in addition to any other rights and remedies available to Landlord hereunder, at law or in equity, Landlord may, but shall not be obligated to, perform such obligation for the account and at the expense of Tenant, without notice (except as specified above) including, without limitation, the right to enter the Premises to make any repairs, replacements, alterations, improvements or additions, as Landlord shall reasonably deem necessary to cure such Default by Tenant. All costs incurred by Landlord in performing such obligation (including, without limitation, the cost of all repairs, replacements, alterations, improvements and additions made by Landlord to the Premises to cure such Default plus an additional twenty percent (20%) of such cost to cover Landlord's overhead and related expenses) together with all reasonable actual attorneys' fees and expenses incurred in enforcing any of Tenant's obligations under this Lease shall become Additional Rent due hereunder payable by Tenant on demand. At any time Landlord enters upon the Premises to perform such repairs, replacements, alterations, improvements or additions, during such operations, Landlord shall have the right to take onto the Premises or any portion thereof, all material and equipment required, and to close and temporarily suspend operation of entrances, doors, corridors, elevators and other facilities in and to the Facility, and to have access to and open all ceilings, without liability to Tenant by reason of interference, inconvenience, annoyance or loss of business; provided, however, that with respect to any work performed by or on behalf of Landlord pursuant to this Section 13, Landlord shall, to the extent within its reasonable control, cause such work to be done in a manner so as not to unreasonably interfere with Tenant's use of the Premises. Landlord may do any such work during ordinary business hours, and Tenant shall pay Landlord for overtime and for any other expenses incurred if such work is done during other hours at Tenant's request.

14. ALTERATIONS. Tenant shall not, without Landlord's prior written consent (which consent shall not be unreasonably withheld, conditioned or delayed by Landlord), make or cause to be made any "material" Tenant Improvements. For purposes of this Lease the term "material" Tenant Improvements shall mean all Tenant Improvements which (i) affect the structure, systems (i.e. electrical, mechanical, plumbing, sewerage, elevator and/or "HVAC") or exterior appearance of the Facility, (ii) reduce the present fair market value of the Premises by more than $10,000.00 in any one (1) instance or by more than $100,000.00 in the aggregate, (iii) require the demolition of existing improvements on the Premises which, taken together with the additions to be made by Tenant, result in a net reduction in the present fair market value by more than $10,000.00 in any one (1) instance or by more than $100,000.00 in the aggregate, or (iv) cost in excess of $10,000.00 (it being hereby agreed to that the various dollar amounts set forth above in this sentence shall each be increased by three percent (3%) for each Lease Year during the Term following the first Lease Year). The phrase material Tenant Improvements shall not include wallpaper or carpeting that needs to be replaced, or other cosmetic

changes to the interior of the Premises. Tenant shall give Landlord prior written notice of any intended Tenant Improvements, whether or not Landlord's consent is required for such work.

Tenant may, but shall not be required to, request that Landlord agree in writing prior to the installation of a specific Tenant Improvement that Tenant may remove such Tenant Improvement at the expiration or earlier termination of this Lease. All Tenant Improvements, whether made by Landlord or Tenant in or upon the Premises shall, unless Landlord has consented to or requests their removal by Tenant, become Landlord's property and shall remain upon the Premises at the termination of the Lease by lapse of time or otherwise, without compensation to Tenant. If, prior to the installation of any Tenant Improvements, Landlord agrees that such Tenant Improvements can remain or must be removed upon the expiration of the Term, Landlord's decision shall be irrevocable unless the parties otherwise mutually agree in writing. If Landlord requires the removal of such items as provided above, Tenant shall at its sole cost and expense, remove such items prior to the termination of the Lease or Tenant's right to possess the Premises, and repair any damage to the Premises caused by the installation of such items and/or by their removal, failing which Landlord may remove the same and repair the Premises and Tenant shall pay the cost thereof to Landlord upon demand. Notwithstanding anything contained herein to the contrary the following items of property may be removed from the Premises by Tenant if such removal may be done without material structural damage to the Facility: Tenant's movable furniture and other personal property, and, to the extent not included in the Plans or installed as a replacement of items included in the Plans: Tenant's trade fixtures and equipment. If Tenant does not remove such property by the earlier of (i) the date when Tenant vacates the Premises, and (ii) the expiration of the Term or sooner termination of this Lease or Tenant's right to possess the Premises, then Landlord may, at its option and at Tenant's sole cost and expense, remove (and repair or restore any damage to the Premises caused by such removal), store and warehouse such property at a location or locations determined by Landlord in its sole discretion. Regardless or whether Landlord elects to take any of the actions specified in the immediately preceding sentence, within fifteen (15) days after the later to occur of the date of eviction, expiration or termination, as the case may be, at Landlord's option, Tenant shall be conclusively presumed to have forever abandoned such property, in which event Landlord may, at its option, elect to: (A) at Tenant's sole cost and expense, without accepting title to such property, remove (and repair or restore any damage to the Premises caused by such removal), destroy, discard or otherwise dispose of all or any part thereof without incurring liability to Tenant or to any other person; or (B) deem such abandonment as a conclusive presumption that Tenant has conveyed such proper to Landlord under this Lease as a bill of sale without payment or credit by Landlord and, in either such event, without releasing Tenant from any obligations pursuant to this Section 14. Tenant shall pay Landlord upon demand all of the expenses incurred in taking any of the actions described in this grammatical paragraph, which obligation shall survive the expiration of the Term or sooner termination of this Lease.

All Tenant Improvements shall (i) be paid for by Tenant, (ii) comply with all applicable Guarantees, Legal Requirements and insurance requirements, (iii) be made in a good and workmanlike manner and incorporate only good grades of materials, (iv) be performed by reputable contractors reasonably acceptable to Landlord (as determined by Landlord on the basis of creditworthiness, skill, experience with regard to the scope of work required and reputation in the Atlanta community of contractors, all such factors in fair and reasonable relationship to the scope, size, and duration of the work required by Tenant) employed by Tenant under written contracts previously approved in writing by Landlord (which approval shall not be unreasonably withheld or delayed), and (v) be performed subject to any other conditions Landlord may reasonably impose including, without limitation, requiring Tenant to furnish Landlord with security for the payment of all costs to be incurred in connection with such Tenant Improvements and insurance against liabilities which may arise out of such work, as determined by Landlord. Notwithstanding the requirements in the preceding sentence,

the requirements specified in clauses (iv) and (v) above shall only apply to "material" Tenant Improvements hereunder.

Tenant shall permit Landlord to supervise the construction of any Tenant Improvements. Tenant shall reimburse Landlord, as Additional Rent hereunder, for any fees, costs, charges and expenses incurred by Landlord to any third parties in connection with Landlord's review of any plans, specifications or drawings related to "material" Tenant Improvements. In addition, Landlord shall charge a supervising fee with respect to "material" Tenant Improvements equal to the greater of $500.00 or three percent (3%) of the total cost of such work including without limitation, all labor and material costs, if Tenant's employees or contractors perform such work. Tenant shall pay to Landlord, within fifteen (15) days after being billed therefor from time to time, and/or to Tenant's contractor as the case may be, when due, the cost of all such work and all applicable reimbursements and supervision fees, and if payment is made directly to Tenant's contractor, upon completion of all such work, Tenant shall deliver to Landlord evidence of payment and full and final waivers of all liens for labor, services or materials. Tenant shall furnish to Landlord, prior to the commencement of any Tenant Improvement, copies of all plans and specifications prepared at Tenant's expense by architects and engineers acceptable to Landlord, and building permits and certificates of appropriate insurance and evidence of payment thereof, if such permits or insurance are required; provided, however, that plans and specifications shall not be required with respect to "non-material" Tenant Improvements unless otherwise required by any applicable Legal Requirements. Tenant shall furnish to Landlord, promptly after completion of any "material" Tenant Improvement, as-built plans and specifications for such Tenant Improvement. Tenant shall indemnify, defend and hold all Landlord Related Parties harmless from all costs, damages, liens and expenses related to any Tenant Improvements performed by or under the direction of Tenant, whether performed in compliance with this Section 14 or any other conditions imposed by Landlord; provided, however, such indemnity (and the covenant against liens provided in Section 16 hereof) shall not apply in the event: (i) Landlord or its contractors perform the Tenant Improvements pursuant to this Section 14; (ii) Tenant timely pays Landlord all costs, expenses, fees and reimbursements due hereunder in connection with such Tenant Improvements; and (iii) Tenant Related Parties do not cause Landlord Related Parties to incur additional costs, damages, expenses or liabilities in connection with any such Tenant Improvement (any such additional costs, damages, expenses or liabilities caused by Tenant Related Parties being covered by Tenant's indemnity and covenant against liens). For purposes of this Lease, the term "non-material" Tenant Improvements shall mean any Tenant Improvements that do not constitute "material" Tenant Improvements hereunder requiring Landlord's prior written consent as provided herein. Landlord agrees that Tenant may make or cause to be made any "non-material" Tenant Improvements without first obtaining Landlord's prior written consent, subject to the other terms and conditions of this Section 14.

15. <u>CERTAIN RIGHTS RESERVED BY LANDLORD</u>. Landlord shall have the following rights, exercisable without notice (except to the extent expressly provided herein) and without liability to Tenant for damage or injury to property, person or business and without effecting an eviction, constructive or actual, or disturbance of Tenant's use or possession of the Premises or giving rise to any claim for damages, set-off or abatement of Rent:

(a) if required by the County or any other Governmental Authority, to change the Facility's street address upon thirty (30) days prior written notice;

(b) to the extent any of the following items are not designated in the Plans, to approve (which approval shall not be unreasonably withheld or delayed) prior to installation, all types of

window shades, blinds, drapes, awnings, window ventilators and other similar equipment, and all internal lighting that may be visible from the exterior of the Facility;

(c) to show the Premises to prospective purchasers and lenders at reasonable hours upon reasonable prior oral notice during the entire Term, and to prospective tenants at reasonable hours upon reasonable prior oral notice during the last twelve (12) months of the Term, and if the Premises are vacated in a manner which constitutes a Default by Tenant under Section 19 hereof, to prepare the Premises for re-occupancy.

(d) to have and retain a paramount title to the Premises free and clear of any act of Tenant purporting to burden or encumber it;

(e) to impose reasonable conditions on the movement and location of equipment and articles in and about the Facility so as not to exceed the live load specified in the Plans; and

(f) to retain at all times, and, subject to the notification requirements set forth in this Lease, to use in furtherance of Landlord's rights under the Lease, keys and security access cards and/or codes to all doors within and into the Facility. No locks or security access cards and/or codes within or into the Facility shall be added or changed without Landlord's prior written consent, which consent shall not be unreasonably withheld or delayed. Landlord shall keep all keys and security access cards under Landlord's control. Failure by Landlord to use any key or access card or code shall never render Landlord liable to any Tenant Related Party in the event: (i) Landlord has not previously been provided all applicable keys, security cards and/or access codes in accordance with this Section 15(f); and/or (ii) access is required in the event of emergency and such keys, security cards and/or access codes are not immediately available.

16. COVENANT AGAINST LIENS. Except as otherwise expressly provided in Section 14 hereof, Tenant covenants and agrees not to suffer or permit any mechanic's or materialmen's lien to be placed against the Premises or any portion thereof, and in case of any such lien attaching, to either (i) promptly pay off and remove the same, or (ii) within sixty (60) days after the attachment thereof, contest such lien in compliance with all applicable laws, codes, ordinances, judgments, rules and regulations, and obtain, at Tenant's expense, title insurance from a title insurance company reasonably acceptable to Landlord, or provide Landlord with alternate security reasonably satisfactory to Landlord insuring over any lien which may arise from non-discharge of such lien, and to the extent different from any security provided at Landlord's request and in addition to (and not in limitation of) any security provided at Landlord's request, Tenant shall comply with all reasonable terms, conditions, and requirements imposed on Landlord by any lender which has, or in the future shall have a lien on the Premises or any portion thereof. Such terms, conditions and requirements may include, but not be limited to, posting of adequate security; provided, however, than in no event shall Tenant ever be required to provide security in any form which, in the aggregate, will exceed 200% of the lien claim being contested. If any such lien attaches, and Tenant fails to remove or contest the same in accordance with this Section 16, Landlord may but shall not be obligated to pay the amount necessary to remove the same without being responsible for making an investigation as to the validity or accuracy thereof, and the amount so paid, together with all reasonable costs and expenses (including, without limitation, reasonable actual attorneys' fees) incurred by Landlord in connection therewith, shall be paid by Tenant to Landlord as Additional Rent. Tenant has no authority or power to cause or permit any lien or encumbrance of any kind whatsoever, whether created by act of Tenant, operation of law or otherwise, to attach to or be placed upon

Landlord's title or interest in the Premises or any portion thereof, and any and all liens and encumbrances created by Tenant shall attach to Tenant's interest only.

17. WAIVER OF CLAIMS; INDEMNIFICATION.

17.1. Waiver of Claims. Except as otherwise expressly provided in the Pre-Occupancy Agreement or in this Lease (including, without limitation, Sections 7.2 and 17.3 hereof), Tenant waives for itself and for the Tenant Related Parties all claims any may have against the Landlord Related Parties for any damage either to person or property sustained by the Tenant Related Parties or by other persons due to the Premises or any part thereof or any appurtenances thereof or improvements thereon not being in good condition or becoming out of repair, or due to the happening of any accident in or about the Premises, or due to any act or neglect of any person including the Landlord Related Parties to the extent permitted by law. This provision shall apply particularly (but not exclusively) to damage caused by water, snow, frost, steam, sewage, gas, faucets and plumbing fixtures, and shall apply without distinction as to whether the damage was due to any of the causes specifically enumerated above or to some other cause of an entirely different kind. Tenant further agrees that all Tenant's property upon the Premises shall be there at the risk of Tenant only, and that Landlord shall not be liable for any damage thereto or theft thereof. Notwithstanding the foregoing, nothing in this Section 17.1 shall constitute a waiver by Tenant of the benefit of, or otherwise limit, alter or terminate Tenant's rights with respect to any Guarantees or the Amli Warranty as provided in the Pre-Occupancy Agreement.

17.2. Tenant's Indemnification. Subject to Section 22.1 hereof, Tenant shall indemnify, hold harmless and defend the Landlord Related Parties from any and all losses, liabilities, obligations, claims, damages, penalties, causes of action, liens, fines, interest, costs and expenses (including, without limitation, reasonable actual attorney's fees and expenses) imposed upon, incurred by or asserted against Landlord Related Parties (other than by reason of the negligence or more culpable conduct of Landlord Related Parties) with respect to: (a) any accident, injury to or death of persons or loss of or damage to property occurring on or about the Premises, or any part thereof, or the adjoining properties, sidewalks, curbs, street or ways resulting from: (i) any act, work or thing done or permitted or omitted to be done with respect to the Premises or any portion thereof by Tenant Related Parties, (ii) any use which may be made of the Premises by Tenant Related Parties and/or the conduct of Tenant's business, or (iii) any of Tenant's personal property, fixtures, apparatus, machinery and equipment now or hereafter located upon the Premises; or (b) any failure on the part of Tenant Related Parties to perform or comply with any of the terms of this Lease or any other agreement affecting the Premises.

17.3. Landlord's Indemnification. Subject to Section 22.1 hereof, Landlord shall indemnify, hold harmless and defend the Tenant Related Parties, from any and all losses, liabilities, obligations, claims, damages, penalties, causes of action, liens, fines, interest, costs, and expenses imposed upon, incurred by or asserted against Tenant (other than by reason of any act or omission of Tenant Related Parties), including without limitation reasonable actual attorney's fees and expenses, with respect to any claim of damage or injury to persons or property arising out of the negligent or more culpable conduct of Landlord Related Parties or the Landlord's breach under this Lease.

18. NON-WAIVER. The waiver by either party of any breach of any term, covenant or condition herein contained shall only be effective if it is in writing. No waiver of any condition expressed in this Lease shall be implied by any neglect of either party to enforce any remedy on account of the violation of such condition if such violation be continued or repeated subsequently, and no express waiver shall affect any condition other

than the one specified in such waiver and that only for the time and in the manner specifically stated. No receipt of moneys by Landlord from Tenant after the termination in any way of the Term or of Tenant's right of possession hereunder or after the giving of any notice shall reinstate, continue or extend the Term or affect any notice given to Tenant prior to the receipt of such moneys, it being agreed that after the service of notice of the commencement of a suit or after final judgment for possession of the Premises, Landlord may receive and collect any Rent due, and the payment and receipt of said Rent shall not waive or affect said notice, suit or judgment.

19. REMEDIES.

19.1. Tenant Default. It shall be a **"Default"** by Tenant under this Lease if: (a) Tenant shall fail (i) to pay Base Rent or Tax Rent or Assessments or any installment thereof on its due date and such failure shall continue for five (5) business days after written notice thereof from Landlord to Tenant; or (ii) to pay any other amount due under this Lease on the due date, and such failure continues uncured for ten (10) days after written notice; or (iii) to perform any other obligation under this Lease, and such failure continues for thirty (30) days after written notice, provided, however, that if such failure cannot, using reasonable efforts, be cured within such 30-day period, such period shall be extended for an additional reasonable period of time so long as Tenant begins to cure during such 30-day period, is diligently attempting to cure such failure and keeps Landlord apprised of its diligent efforts at least once every two weeks (unless such failure gives rise to a hazardous condition requiring immediate cure, in which case Tenant must commence its efforts to cure such failure immediately and prosecute such cure as quickly as is possible using its best reasonable and diligent efforts); or (b) the leasehold interest of Tenant shall be levied on under execution or other legal process which is not dismissed within sixty (60) days after such levy; or (c) an Event of Bankruptcy (hereinafter defined) occurs; and upon a Default, Landlord may treat the occurrence of any one or more of the foregoing events as a breach of this Lease, and thereupon at its option may, without notice or demand of any kind to Tenant or any other person, have any one or more of the following described remedies in addition to all other rights and remedies provided in this Lease, at law or in equity;

(a) Landlord may terminate this Lease and the Term created hereby, in which event Landlord may forthwith repossess the Premises in accordance with law, and be entitled to recover from Tenant: (i) all Rent accrued and unpaid for the period up to and including the date of termination; plus (ii) a sum of money equal to Landlord's reasonable estimate of the amount of Rent that would be payable from the date of such termination through the balance of the anticipated Term discounted over the remaining Term to its present value at a rate equal to the Reference Rate, less the fair rental value of the Premises for said period discounted over the remaining Term to its present value at a rate equal to the Reference Rate, taking into consideration (and reducing said fair rental value by) the reasonably estimated time, cost and expenses of reletting and retrofitting the Premises, it being agreed by Landlord and Tenant that such sum shall be final and liquidated damages for Landlord's loss of future Rent (and not a penalty) because of the difficulty, inconvenience, expense and uncertainty of ascertaining actual damages, and such sum represents Landlord's and Tenant's best estimate of Landlord's damages because of Landlord's loss of future Rent; plus (iii) any other sum of money and damages (other than for damages claimed under clauses (i) and (ii) of this Section 19(a)) owed by Tenant to Landlord.

(b) Landlord may terminate Tenant's right of possession without terminating this Lease, and may repossess the Premises by forcible entry or detainer suit or otherwise, in which event Landlord may, but shall be under no obligation to, relet the same for the account of Tenant, for such

rent and upon such terms as shall be satisfactory to Landlord. For the purpose of such reletting, Landlord is authorized to reasonably decorate and make any repairs, changes, alterations or addition in or to the Premises that may be reasonably necessary or appropriate, and Tenant shall, upon written demand, pay the cost thereof. If the Premises are relet and a sufficient sum shall not be realized from such reletting to pay all of the costs and expenses (i) of such decoration, repairs, changes, alterations and additions, (ii) of such termination and reletting (including, without limitation, all brokerage, advertising, and legal expenses), and (iii) of the collection of the rent accruing therefrom, and to satisfy the Rent provided for in this Lease, then Tenant shall satisfy and pay any such deficiency upon demand therefor from time to time, or at Landlord's discretion, in a lump sum equal to the present value of such sum discounted over the remaining Term at a rate equal to the Reference Rate, provided that the rent and terms obtained by Landlord are (or have been) obtained as a result of arms'-length negotiations with a bona fide third party. Tenant agrees that Landlord may file suit to recover any sums falling due under the terms of this paragraph from time to time and that no suit or recovery of any portion due Landlord hereunder shall be any defense to any subsequent action brought for any amount not theretofore reduced to judgment in favor of Landlord. Anything in this Section 19(b) to the contrary notwithstanding, Landlord agrees to use reasonable efforts in good faith to mitigate its damages resulting from Tenant's default.

(c) The following shall be **"Events of Bankruptcy"** under this Lease:

(i) If Tenant shall file in any court a petition in bankruptcy or insolvency for reorganization or arrangement within the meaning of the Federal Bankruptcy Code, (or for reorganization or arrangement under any similar bankruptcy or reform act now or hereafter in effect for the same or similar relief), or for the appointment of a receiver or trustee of all or a portion of Tenant's property; or

(ii) If any involuntary petition shall be filed against Tenant, and such petition shall not be vacated or withdrawn within ninety (90) days after the date of filing thereof; or

(iii) If Tenant shall make an assignment for the benefit of creditors; or

(iv) If Tenant shall be adjudicated a bankrupt; or

(v) If a receiver shall be appointed for Tenant's property by order of a court of competent jurisdiction (except where such receiver shall be appointed in an involuntary proceeding and be withdrawn within ninety (90) days from the date of his appointment).

In the event that Tenant abandons or vacates the Premises for ninety (90) consecutive days during the Term of this Lease, then Landlord may terminate this Lease and the Term created hereby, in which event Landlord may forthwith repossess the Premises in accordance with law, and such repossession shall be the sole remedy of Landlord as long as no Default otherwise exists.

19.2. Landlord's Defaults. Except as otherwise specifically set forth in this Lease to the contrary, in the event of any default by Landlord under this Lease, Tenant's sole and exclusive remedies shall be an action for actual loss and damages; and/or if permitted by applicable law, an action for specific performance and/or injunctive relief; and/or, only in connection with a monetary default of Landlord, as provided for below, the right of deduction or set-off against Rental due Landlord, Tenant hereby waiving any claim for indirect, special or consequential damages except as specifically set forth in this Lease to the contrary. Prior to any such action or remedy, Tenant will give Landlord and any holder of Landlord's Mortgage (as hereinafter defined) written notice specifying such default with particularity (provided, however, Tenant shall only be obligated to send a notice to such holder if Tenant has previously been notified in writing of the identity and address of such holder by either Landlord or such holder). Landlord shall then have ten (10) days in which to cure any monetary default, and thirty (30) days to cure any non-monetary default. However, in the event any such non-monetary default cannot with reasonable diligence be cured within such thirty (30) day period, then Landlord shall have such additional reasonable period of time as is necessary to cure such default so long as Landlord commences such cure within such thirty (30) day period and shall diligently prosecute in good faith such cure to completion. In such event Landlord agrees to keep Tenant apprised of its diligent efforts at lease once every two weeks (unless such default involves a hazardous condition requiring immediate cure, in which cure Landlord must commence its efforts to cure such default immediately and prosecute such cure as quickly as is possible using its best diligent efforts). Unless and until Landlord fails to cure any default after such notice and during the applicable cure period, Tenant shall not have any remedy or cause of action by reason thereof, except as follows: in the event that a non-monetary default of Landlord in question poses an imminent risk or threat of damage or injury to persons or property, or results in circumstances reasonably considered to constitute an emergency, then, in any of such events, such default shall be deemed material and Tenant shall have the right, at its sole election, to immediately (or at any time thereafter) undertake such corrective and/or remedial work as is reasonably necessary to abate the circumstances of the emergency in question or eliminate the risk or threat of injury or harm to persons or property. In such event, Landlord agrees to reimburse Tenant for all reasonably necessary costs and expenses incurred by Tenant in connection with such remedial or corrective work, such reimbursement to be made within thirty (30) days after receipt of an invoice therefor from Tenant. In the event that such reimbursement, or any other sum due or owing by Landlord to Tenant under this Lease, is not paid within thirty (30) days after the due date for such payment, then such amount shall bear interest at a rate equal to the Reference Rate plus two percent (2%), and, in addition to any and all other remedies which Tenant may have or pursue under this Lease and/or Georgia law, Tenant shall have the right, at its sole election either to pay its Rentals thereafter due in an aggregate amount equal to the amount claimed to be due by Landlord to Tenant into an escrow with an independent third-party or into the registry of a court, or to off-set the amount claimed to be due from Landlord to Tenant against the Rentals owed by Tenant to Landlord hereunder until such amount has been credited in full. Tenant agrees to accept the cure by any holder of a Landlord's Mortgage of any and all of Landlord's defaults hereunder should any such holder elect, in its sole discretion, to undertake the cure of such defaults, but Tenant acknowledges that no such holder is under any obligation to do so.

20. SURRENDER OF POSSESSION. At the termination of this Lease by lapse of time or otherwise, or upon termination of Tenant's right to possession without terminating this Lease, Tenant shall surrender possession of the Premises to Landlord and deliver all keys to the Facility to Landlord, and shall return the Premises and all equipment and fixture descried in Section 14 hereof to Landlord in as good condition as when Tenant originally took possession, except for ordinary wear and tear, and where Landlord or Tenant has elected to terminate this Lease pursuant to Section 23 or Section 24 hereof, loss or damage resulting from Casualty or Condemnation, failing which Landlord may restore the Premises and such equipment and fixtures

to such condition, and Tenant shall pay the cost thereof to Landlord on demand. Tenant's obligations under this Section 20 shall survive the termination of this Lease by lapse of time or otherwise.

21. HOLDING OVER. If Tenant retains possession of the Premises or any part thereof after the termination of this Lease, whether by lapse of time or otherwise, or after a termination of Tenant's right to possess the Premises, then Landlord may, at Landlord's sole election at any time after the termination of this Lease or Tenant's right of possession, serve not less than thirty (30) days prior written notice on Tenant that such holding over constitutes either: (a) the creation of a month-to-month tenancy upon each of the terms herein provided as may be applicable to such month-to-month tenancy, except that Tenant shall pay to Landlord Base Rent for each month or portion thereof in the amount set forth below, plus all Tax Rent and Assessments coming due during such period, or (b) the creation of a tenancy at sufferance upon each of the terms herein provided as may be applicable to such tenancy at sufferance, except that Tenant shall pay to Landlord a per diem rent equal to the per diem Base Rent set forth below, plus the per diem amount of all Tax Rent and Assessments. If no written notice is served by Landlord within thirty (30) days after the expiration or termination of the Term hereof, then a month-to-month tenancy with rent stated as in (a) above shall have been created. The provisions of this Section 21 shall not operate as a waiver by Landlord of any right of re-entry herein provided. If Tenant remains in possession more than one hundred eighty (180) days after the expiration of the Term, at Landlord's option expressed in a written notice to Tenant delivered no later than ten (10) days after such 180-day period and not otherwise, such holding over shall constitute a renewal of this Lease for a period of one (1) year commencing on the first (1st) day after the expiration of the Term at the Base Rent and set forth below, plus all Tax Rent and Assessments coming due during such period. In addition to and not in limitation of all other remedies set out in this Section 21, Tenant shall be liable for all damages (consequential as well as direct) sustained by Landlord on account of Tenant's holding over. If Tenant reasonably anticipates that it will need to hold-over, then it shall promptly notify Landlord thereof if, as and when Tenant makes such determination. Tenant agrees to use its best reasonable, good faith efforts to make such determination at least ninety (90) days prior to the expiration of the Term, if it is reasonably practical for Tenant to do so; or as soon thereafter as is reasonably practical.

Subject to the foregoing, Base Rent payable during any holding over shall be as follows:

(a) During the first ninety (90) days following the termination date of this Lease or the termination of Tenant's right of possession: one hundred twenty-five percent (125%) of the Base Rent for the calendar month immediately preceding the termination date of the Lease or the termination of Tenant's right of possession; and

(b) From and after the ninety-first (91st) day following the termination of the Lease or the termination of Tenant's right of possession: one hundred fifty percent (150%) of the Base Rent for the calendar month immediately preceding the termination date of the Lease or the termination of Tenant's right of possession.

22. INSURANCE.

22.1. Waiver of Subrogation. Landlord and Tenant each hereby waive any and every claim for recovery from the other for any and all loss of or damage to the Premises or any part thereof or to the contents thereof, which loss or damage is covered by valid and collectible fire and extended coverage insurance policies, to the extent that such loss or damage is recoverable under said insurance policies (or, if a party fails to carry any insurance policy required under this Section 22, to the extent that such loss or damage incurred

by such party would have been recoverable if such insurance policy had been in effect). Inasmuch as this mutual waiver will preclude the assignment of any such claim by subrogation (or otherwise) to an insurance company (or any other person), Landlord and Tenant each agree to give each insurance company which has issued, or in the future may issue, to it policies of fire and extended coverage insurance, written notice of the terms of this mutual waiver, and to have said insurance policies properly endorsed, if necessary, to prevent the invalidation of said insurance coverage by reason of said waiver.

22.2. Liability and Hazard Insurance. From and after the Commencement Date Tenant shall at all times during the Term and at its sole cost and expense (except as specifically set forth to the contrary below) maintain policies of insurance as follows:

(a) Comprehensive general liability insurance against claims for bodily injury, death and property damage occurring in or about the Premises, including but not limited to, all elevators in the Facility and in and about any street, alleys, sidewalks or parking areas, malls, vaults, or passageways located on the Premises, in amounts not less than $2,000,000.00 with respect to the personal injury or death or any one person, $4,000,000.00 with respect to the personal injury or death occurring or resulting from any one occurrence, and $1,000,000.00 with respect to property damage.

(b) Physical damage insurance covering all tenant's equipment, trade fixtures and personal property, and all Tenant Improvements to be written on an "all risks" of physical loss or damage basis, for the full replacement cost value of the covered items, and in amounts that meet any coinsurance clause of the insurance policies.

(c) Workmen's compensation insurance in the usual and customary form providing coverage against loss or damage resulting from any accident or casualty within the purview of the Georgia Workmen's Compensation Law and in any amount as required from time to time by statute.

(d) Insurance against loss or damage to the Facility by fire, explosion, windstorm, malicious mischief, vandalism, and all other casualties that are covered by extended coverage, and from other hazards as may be covered by the form of "broad form" property damage insurance then in effect, in an amount at least equal to 100% of the replacement cost (exclusive of cost of excavations, foundations and footings) of the Facility, with a deductible not to exceed $10,000.00. For the purpose of determining the amount of insurance required hereunder, Landlord may request a written appraisal furnished by an insurance company insuring the Facility not more frequently than once every year, and the cost of such appraisal, if any, shall be borne by Tenant.

(e) Rent insurance, with extended coverage, in an amount not less than the sum of one (1) year's then current annual Base Rent and one year's anticipated Additional Rent. In any event, the amount of such coverage shall not be less than the amount required to prevent any coinsurance provisions from becoming effective. Notwithstanding the foregoing, it is hereby understood and agreed to by Landlord and Tenant that Landlord shall cause such rent insurance to be procured and maintained at all times during the Term, and that the premiums payable for such rent insurance shall be paid as follows: first, the Tax Rent Interest shall be used and applied to pay for such rent insurance premiums and/or deductibles; and second, Tenant shall pay the amount, if any, by which such premiums exceed such Tax Rent Interest.

(f) Boiler and machinery insurance inclusive of coverage for pressure vessels and air conditioning compressors with an endorsement for actual replacement cost without depreciation.

(g) Excess or umbrella liability insurance coverage providing coverage in an amount equal to at least an additional $2,000,000.00 coverage with respect to personal injuries to or death of any one person, and at least an additional $4,000,000.00 with respect to personal injury or death occurring or resulting from any one occurrence.

All insurance policies required under this Lease and the Pre-Occupancy Agreement shall satisfy and comply with the requirements of this Section 22.2. All such insurance shall be procured from a responsible insurance company or companies authorized to do business in the State of Georgia with a credit rating of "A" or better and listed as Class IX or higher in the most current issue of the Best Key Rating Insurance Guide. All insurance maintained by Tenant shall: (i) except for that described in clauses (b) and (c) above, name Landlord, Amli Realty Company, Tenant, and if requested by Landlord, any mortgagee of the Premises, as insured, as their respective interests may appear; (ii) provide that any losses shall be payable notwithstanding any act or negligence of Landlord or Tenant or either party's "Related Parties" and waive subrogation rights against either negligent party or that party's "Related Parties"; (iii) provide that no material modification or cancellation thereof shall be effective until at least thirty (30) days after receipt by Landlord and Tenant and all other parties named as insureds pursuant to clause (a) of written notice thereof; and (iv) be reasonably satisfactory to Landlord in all other respects, including the increases in coverages and limits which Landlord may from time to time reasonably request based on such coverages and limits as customarily procured and maintained in connection with similar properties and transactions in the suburban Atlanta metropolitan area.

On or prior to the Substantial Completion Date and thereafter not less than thirty (30) days prior to the expiration date of any policy delivered pursuant to this Section 22.2, Tenant shall deliver to Landlord a Certificate showing Landlord as the "Certificate Holder" with respect to any policy or renewal policy, as the case may be, required by this Lease, bearing notations evidencing the payment of all premiums for the next 12-month period, and shall deliver to Landlord certified true copies of such policies. For purposes of this Section 22.2, as soon as is reasonably practicable, Landlord shall provide Tenant with notice of its reasonable estimate of the Substantial Completion Date to enable Tenant to timely procure the insurance required hereunder.

If at any time during the Term, Tenant shall fail, neglect or refuse to procure any of the insurance coverages required pursuant to this Section 22.2, or shall fail, neglect or refuse to deliver to Landlord within the designated time the insurance policy or policies or certificates of insurance required to be delivered hereunder, then Landlord may, but shall not be obligated to do so, and without releasing Tenant from any obligations hereunder, procure or renew such insurance and obtain the policy or policies or certificates of insurance required hereunder, and any amounts paid therefor by Landlord, together with an administrative charge equal to ten percent (10%) of such sums shall constitute Additional Rent due within five (5) days after Landlord bills Tenant therefor. Landlord agrees that it shall furnish Tenant with written notice of its intent to exercise its rights to procure or renew the insurance required hereunder.

23. **CASUALTY**. If the Facility or any portion thereof or any other part of the Premises shall be damaged, destroyed or contaminated by fire, tornado, flood or any other casualty or peril (including without limitation, release of any Hazardous Material) (any such occurrence being referred to as a "Casualty"), Tenant shall immediately notify Landlord thereof. Within ten (10) business days after the Casualty, Tenant shall employ an architect licensed by the State of Georgia, and Tenant, with the advice and assistance of such architect, shall give written notice (**"Tenant's Casualty Notice"**) to Landlord as promptly as practicable following the Casualty, but in no event later than sixty (60) days thereafter, which shall state: (a) Tenant's architect's reasonable estimate of the time to substantially complete the Casualty Restoration; and (b) Tenant's architect's reasonable estimate of the costs required to complete the Casualty Restoration (including "soft" costs, such as a developer's fee (if applicable), architect's and engineer's fee, insurance bonds, permits and other such items, and "hard" costs of such restoration). **"Casualty Restoration"** shall mean the restoration of the Facility in all material respects to its condition prior to the Casualty (but in no event to exceed the scope of the Plans) so that upon completion of same, the value and rental value of the Premises shall be at least equal to the value and rental value of the Facility immediately prior to the Casualty. If Landlord fails to object in writing to the estimates contained in Tenant's Casualty Notice such estimates shall be deemed approved for purposes of this Section 23. If Tenant's Casualty Notice provides that the estimated length of time that will be required to substantially complete the Casualty Restoration exceeds twelve (12)months from the date of the Casualty, and Landlord disagrees with said estimate, Landlord shall notify Tenant in writing within ten (10) days following Landlord's receipt of Tenant's Casualty Notice, in which event, Landlord shall have an additional twenty (20) day period to employ an architect and to deliver its estimate of such time to Tenant. If the estimate of Landlord's architect provides that the time required to substantially complete the Casualty Restoration will exceed twelve (12) months from the date of Casualty, Tenant's estimate shall be deemed confirmed and approved by Landlord. If the estimate of Landlord's architect provides that the time required will not exceed said 12-month period, Landlord's architect and Tenant's architect shall promptly mutually select a third architect whose estimate of such time shall be: (i) made within ten (10) days following his or her appointment; and (ii) final and conclusive on both Landlord and Tenant. Landlord and Tenant shall bear the costs of their respective architects for purposes of the foregoing provision. The cost of the third architect shall be divided equally between Landlord and Tenant. With respect to a Casualty that occurs during the last twelve (12) months of the Term, in the event Tenant's architect estimates that the cost of the Casualty Restoration would exceed fifteen (15%) percent of the replacement cost of the Facility (exclusive of excavations, foundations and footings) and Landlord disagrees with such estimate, the foregoing procedure to arrive at an approved time estimate shall be employed with respect to such cost estimate.

23.1. Termination Election. Subject to the terms of this Section 23.1, if the final approved estimate of the time to substantially complete the Casualty Restoration exceeds twelve (12) months from the date of the Casualty, or if less than six (6) months shall remain in the Term upon completion of such Casualty Restoration, then, in either of such events Tenant may, at its option, elect to terminate this Lease by giving Landlord written notice thereof no later than fifteen (15) days after the time estimate is finally approved or deemed approved as hereinabove provided, which notice shall specify the effective date of such termination. Subject to the terms of this Section 23.1, if the Casualty occurs during the last twelve (12) months of the Term and the estimated cost of the Casualty Restoration as set forth in Tenant's Casualty Notice would exceed fifteen percent (15%) of the replacement cost of the Facility (exclusive of excavations, foundations and footings), then Tenant may elect to terminate this Lease, or if such estimated cost would exceed thirty percent (30%) of such replacement costs, then Landlord may elect to terminate this Lease, by giving written notice to the other party no later than fifteen (15) days after the cost estimate is finally approved or deemed approved as hereinabove provided, which notice shall specify the effective date of such termination. If either party elects to terminate this Lease pursuant to this Section 23.1, this Lease shall terminate as of the date specified in the notice of said election, which date shall not be less than thirty (30) nor more than one hundred twenty (120) days after delivery of any such notice from Tenant, and which date shall not be less than sixty (60) nor more than one hundred twenty (120) days after delivery of any such notice from Landlord, and Tenant shall deliver up possession of the Premises to Landlord on or before such termination date and Rent shall be apportioned and paid to the date of delivery of possession or the termination date, whichever is later. Anything in this Lease to the contrary notwithstanding, if the Casualty was caused in whole or in part by the gross negligent or more culpable act or omission of any Tenant Related Party, Tenant may not terminate this Lease pursuant to this Section 23. Any Casualty which may give rise to termination under this Section 23.1 is hereinafter referred to as a "Section 23.1 Casualty".

23.2. Tenant's Obligation to Restore. After the rights, if any, of both parties to terminate this Lease pursuant to Sections 23.1 and 23.3.3 hereof have been waived in writing or have expired without being exercised, then, provided amounts, if any, required to be deposited with the Depository pursuant to Section 23.3 hereof have been so deposited, Tenant shall proceed with all reasonable diligence, to complete the Casualty Restoration; provided, however, at Tenant's request, Landlord shall perform the Casualty Restoration subject to the terms of this Section 23. No Casualty Restoration shall be commenced until Tenant has first satisfied the following requirements: (a) such plans and specifications therefor as required to satisfy clause (e) of this Section 23.2 below, prepared by a licensed architect, shall be submitted to and approved by Landlord; (b) Tenant shall furnish to Landlord an estimate of the cost of the proposed work certified by the architect who prepared such plans and specifications; (c) all contracts for any proposed work to which Tenant is a party shall be submitted to and approved by Landlord; (d) Tenant shall furnish or cause to be furnished to Landlord evidence of insurance coverages in amounts satisfactory to Landlord and protecting Landlord against liability and property damage to any person or property, on or off the Premises, arising out of and during the performance of such Casualty Restoration; and (e) Tenant shall procure all necessary permits, licenses, approvals and authorizations required pursuant to all Legal Requirements with respect to the Casualty Restoration. All Casualty Restoration work performed by or on behalf of Tenant shall be performed in a good and workmanlike manner, using materials with a quality equivalent or better than those used in the original construction of the Facility, in compliance with all applicable Legal Requirements, insurance requirements and the terms of this Lease.

23.3. The Depository; Payment of Costs of Casualty Restoration .

23.3.1 All sums payable by reason of the Casualty, including net insurance proceeds, if any, amounts due from Tenant pursuant to Section 23.3.2 hereof, amounts due from Landlord pursuant to Section 23.3.3 hereof, and any amounts paid by any third parties, shall be deposited with the Depository, as escrowee, to be available for the Casualty Restoration; provided, however, that the Depository shall not be required hereunder if the cost of the Casualty Restoration is less than $100,000.00, unless otherwise required by Landlord's mortgagee. The Depository shall pay out construction funds from time to time on the written direction of Landlord, which shall not be unreasonably withheld, conditioned or delayed by Landlord, subject to the terms of Section 23.3.4 hereof and such other reasonable conditions as may be imposed by Landlord's mortgagee. At all times the undisbursed balance remaining in the hands of the Depository shall be at least sufficient to pay for the cost of completion of the Casualty Restoration free and clear of liens. "Depository" shall mean: (a) the person or entity selected by Landlord's mortgagee, if any; of (b) if there is then no mortgagee or Landlord's mortgagee fails to select or approve of a person or entity to act as Depository, such person or entity (including Landlord) as Landlord and Tenant may jointly select; provided, however, that if: (i) Tenant shall be required to deposit any funds into the Depository in excess of $50,000 or (ii) the total estimated cost of the Casualty Restoration is equal to or greater than $100,000, the person or entity acting as Depository shall be Chicago Title Insurance Company or such other reputable title insurance company as may be mutually acceptable to Landlord and Tenant. Subject to the approval of Landlord's mortgagee related to the type of investment permitted for such funds and such conditions as the Depository may impose, the Depository shall place the funds deposited with it in an interest-bearing account, and any interest earned thereon shall be applied to the cost of the Casualty Restoration or refunded to the appropriate party or parties after the actual cost of the Casualty Restoration is finally determined. If the actual cost of the Casualty Restoration is less than the aggregate amount deposited by the parties in the Depository, then the excess funds shall be promptly refunded to the appropriate party. If the amount of insurance proceeds finally deposited with the Depository is greater than the amount originally offered by the insurer, and as a result there are funds in the Depository in excess of the amount needed to complete the Casualty Restoration, such excess shall be promptly refunded to Tenant after the actual cost of the Casualty Restoration is finally determined provided that the insurer does not require the refund of such excess deposit.

23.3.2 As soon as practicable after the insurance settlement offer, if any, has been made by the insurer or the insurer has notified Landlord and Tenant that the Casualty is not covered by any policy of insurance required to be carried under Section 22.2 hereof, Landlord shall calculate the Non-Covered Cost, if any, of the Casualty Restoration, and shall make written request to Tenant for the payment of such Non-Covered Cost. Provided that the parties have not elected to terminate this Lease as provided in Section 23.1 hereof or Landlord has not elected to terminate this Lease pursuant to Section 23.3.3 hereof, Tenant shall promptly pay such Non-Covered Cost to the Depository, if any. All amounts due from Tenant under this Section 23.3.2 shall become Additional Rent. If Tenant fails to pay any amount due under this Section 23.3.2 Landlord may, but shall not be required to, pay such amount on Tenant's behalf, and such amount shall become Additional Rent.

23.3.3 If Landlord's mortgagee elects to apply all or any portion of the insurance proceeds payable as a result of a Casualty to the indebtedness secured by such mortgagee's deed to secure debt on the Premises Landlord hereby representing and warranting to Tenant that any holder of a Landlord's Mortgage shall be required to do so, except in connection with a Section 23.1 Casualty, in which event such holder may elect not to do so), then, no later than thirty (30) days after Landlord has been notified by Landlord's mortgagee that such mortgagee intends to apply insurance proceeds to the mortgage debt, Landlord shall elect, which election shall be made in writing to Tenant, to either: (a) pay into the Depository an amount equal to the insurance proceeds applied by Landlord's mortgagee to the mortgage debt, or (b) terminate this Lease, which

termination shall be effective on the date set forth in Landlord's notice, which date shall be no sooner than sixty (60) days and no later than one hundred twenty (120) days after delivery of Landlord's notice. If Landlord elects option (a) above, then Landlord shall deposit into the Depository the amount due from Landlord no later than thirty (30) days after Landlord has delivered written notice of its election to Tenant. Notwithstanding anything to the contrary in this Section 23.3.3, if the sole reason Landlord's mortgagee is applying insurance proceeds to the mortgage indebtedness is because Landlord is in default under such mortgage, and Landlord's default is solely the direct result of a Default by Tenant under this Lease, then Tenant shall be liable for the payment into the Depository of the amount of insurance proceeds applied to the mortgage indebtedness in the same manner as if such amount were a Non-Covered Cost. Notwithstanding the foregoing, the right of any holder of a Landlord's Mortgage to apply proceeds shall not apply with respect to any Casualty other than a Section 23.1 Casualty, except for any Casualty wherein the cost of the Casualty Restoration is greater than sixty-five percent (65%) of the replacement cost of the Facility (exclusive of excavations, foundations or footings).

23.3.4 All payouts by the Depository toward the costs of the Casualty Restoration shall be made after making provision for a holdback of ten (10%) percent of the cost of such work and upon the written request of Tenant accompanied by the certificate of the architect or engineer in charge of the repairs and rebuilding stating:

(i) that the sum requested is due to the contractors, materialmen, laborers, engineers, architects or other persons (whose names and addresses shall be stated) who have furnished services or materials for the Casualty Restoration, or is required to reimburse Tenant for expenditures made by Tenant in connection with the Casualty Restoration.

(ii) the progress of the Casualty Restoration and a certification that same has been made pursuant to and in accordance with Legal Requirements set forth in Section 23.2 hereof; and

(iii) that in the opinion of the architect or engineer, the remaining amount of the sum on deposit will be sufficient to pay for the balance of such Casualty Restoration work in full upon completion of the Casualty Restoration.

Tenant shall furnish the Depository, at the time of any such payment, statements and waivers of lien as may be required under the mechanic's lien law of the State of Georgia to fully waive lien rights with respect to any payment to be made, and an official title or other search, or other evidence satisfactory to the Depository, that there has not been filed with respect to the Premises any mechanics or other lien which has not been discharged of record, in respect of any work, labor, services or materials performed, furnished or supplied, in connection with the Casualty Restoration, and that all of said materials have been purchased free and clear of any security agreement or title retention agreement. The Depository shall not be required to pay out any sum when the Premises shall be encumbered with any such lien or agreement, or when Tenant is in Default under any covenant or obligation set forth herein.

23.3.5 In the event Tenant fails to commence the Casualty Restoration as required under this Section 23 within a reasonable time after any damage or destruction (but in no event in excess of ninety (90) days, subject to any delay due to Force Majeure with respect to matters outside of the reasonable control of Tenant (as opposed to Landlord), excluding Tenant's inability to pay any Non-Covered Costs), and to thereafter diligently pursue the completion of same in accordance with the terms hereof, then at Landlord's

option and subject to the notice and cure provisions of Section 19, clause (iii) above, Tenant shall be in Default under this Lease and in addition to any remedy of Landlord provided for herein, at law or in equity, Landlord shall be entitled to terminate this Lease and to receive, retain or utilize, as the case may be, the balance of all insurance proceeds paid in connection with the Casualty Restoration and the Non-Covered Costs in connection therewith whether in the hands of Landlord, Tenant or Depository, and (in addition to any other right or remedy available to Landlord and any other liability or obligation of Tenant resulting from such Default), Tenant shall, immediately upon Landlord's request, execute and deliver any documents or instruments necessary or required to extinguish any right to claim of Tenant in and to such funds.

23.4. Rent Abatement. If as a result of any Casualty the Premises become untenantable in whole or in part, then Base Rent shall abate on a per diem basis commencing on the first date of untenantability and ceasing at such time as the Casualty Restoration is substantially completed so as to render the Facility or the damaged or destroyed portion thereof fully tenantable, such abatement to be in an amount bearing the same ratio to the total amount of Base Rent due for such period as the untenantable portion of the Facility from time to time bears to the entire Facility. For purposes of calculating the amount of the Base Rent abatement pursuant to this Section 23.4, if more than eighty percent (80%) of the Facility is untenantable, the entire Facility shall be deemed untenantable unless Tenant is actually occupying (and the storage of Tenant's property shall be deemed to constitute occupation) a portion of the Facility, in which case the portion so occupied by Tenant shall be deemed tenantable.

23.5. Tenant Improvements. If any Tenant Improvements are damaged or destroyed by any Casualty, Tenant may restore the same at Tenant's cost as provided in Section 14 hereof.

23.6. Casualty Prior to Commencement Date. The provisions of this Section 23 apply only to Casualty occurring after the Commencement Date. Any Casualty occurring prior to the Commencement Date shall be governed by the Pre-Occupancy Agreement.

23.7. Landlord Performance of Restoration at Tenant's Request. If Landlord performs the Casualty Restoration at Tenant's request, Landlord's responsibility or liability (if any) to complete the Casualty Restoration by any date certain or for any specific cost shall be subject to such further understanding or agreement as the parties may agree to at such time, and shall not be mandated or governed by this Section 23. Landlord's obligation to restore shall be subject to all then applicable Legal Requirements. Landlord shall have no obligation to rebuild, repair, replace or restore any part of Tenant's furniture, equipment, fixtures, personal property or Tenant Improvements. Landlord reserves the right to enter upon the Premises for the purpose of making the Casualty Restoration during regular business hours or otherwise and to temporarily close doors, entryways, spaces, and corridors and to interrupt or temporarily suspend services and facilities of the Premises. No such entry by Landlord in performing any of the Casualty Restoration shall be deemed an eviction or disturbance of Tenant's use or possession, or render Landlord liable for damages (except as otherwise expressly provided in this Lease) or relieve Tenant from any obligation set forth herein except as may be expressly set forth in this Lease. Tenant shall promptly clean up or remove any of Tenant's property if such action is reasonably necessary in connection with the Casualty Restoration.

24. CONDEMNATION. Landlord shall promptly give Tenant written notice of a proposed Condemnation following Landlord's first receipt of notice thereof from the applicable Governmental Authority, or Landlord first having knowledge thereof, as applicable. If the Facility or any portion thereof or any other part of the Premises shall be taken or condemned by any competent public authority for any public use or purpose, or if any adjacent property or street shall be condemned by any competent public authority for

any public use or purpose, or if any adjacent property or street shall be condemned or widened in such a manner as to require or permit the use of any part of the Premises by any person or entity other than Landlord or Tenant or limit or prohibit the use of any part of the Premises theretofore enjoyed by Landlord or Tenant, or if all or any portion of the land is sold to a condemning authority under threat of condemnation (any such occurrence being referred to as a "Condemnation"), Landlord shall give written notice to Tenant as promptly as practicable after becoming aware of the Condemnation, but in no event later than sixty (60) days after becoming aware of such Condemnation, which shall state: (a) Landlord's reasonable estimate of the cost required for the Condemnation Restoration (including "soft" costs, such as a developer's fee (if any), architect's and engineer's fee, insurance, bonds, permits and other such items, and "hard" costs of such restoration), and (b) whether Landlord has elected to exercise its option to terminate this Lease as provided in Section 24.1 or 24.3.3 hereof, and if so the effective date of such termination. "Condemnation Restoration" shall mean the restoration of the Facility (so as to render same a complete architectural unit) and/or the parking area(s) (it being understood that to the extent required, additional parking area(s) and/or levels may be created to provide parking spaces eliminated by the Condemnation) as nearly as possible to the quality and character as existed prior to such Condemnation, subject to all then applicable Legal Requirements (but in no event to exceed the scope of the Plans). The costs of obtaining the estimates set forth in Landlord's Condemnation Notice shall be included as a cost of the Condemnation Restoration.

24.1. Election to Terminate. Either Landlord or Tenant may elect to terminate this Lease if, as a result of a Condemnation, any one or more of the following occur:

(a) the square footage of the Facility is reduced by thirty-three and one-third percent (33 1/3%) or more; or

(b) the area of the Land (net of the portion thereof which is occupied by the Facility and the parking area(s)) is reduced by more than eighty percent (80%).

If Landlord has not elected to terminate this Lease, Tenant may elect to terminate this Lease pursuant to this Section 24.1, by giving Landlord written notice thereof no later than thirty (30) days after receipt of Landlord's condemnation notice and of Landlord's termination election notice which notice shall specify the effective date of such termination. In addition to the condition for termination as set forth in items (a) and (b) above, Tenant shall also have the right to elect to terminate in the event that the number of parking spaces on the Premises is reduced such that, taking into account any increase in parking spaces which could be achieved in the course of Condemnation Restoration as set forth above, the ratio of remaining parking spaces to the remaining square footage in the Facility is less than the lesser of the ratio of parking spaces to the square footage in the Facility which existed immediately prior to such Condemnation, or the minimum ratio then required by the County. If either party elects to terminate this Lease, this Lease shall terminate as of the date specified in the notice of said election, which date shall not be sooner than one hundred eighty (180) days after delivery of such notice or the date when the possession of the part condemned or sold shall be required for the use of the condemning authority (whichever is earlier), and shall not be later than the date when the possession of the part condemned or sold shall be required for the use or purpose for which it is being condemned (unless otherwise agreed to with the condemning authority), and Tenant shall deliver up possession of the Premises to Landlord on or before such termination date and Rent shall be apportioned and paid to the date of such termination. Any condemnation which can result in termination pursuant to this Section 24.1 is hereinafter referred to as "Section 24.1 Condemnation".

24.2. Landlord's Obligation to Restore. After the rights, if any, of both parties to terminate this Lease pursuant to Sections 24.1, 24.3.2 and 24.3.3 hereof have been waived in writing or have expired without being exercised, then this Lease shall continue in full force and effect with respect to the portion of the Premises not so taken or condemned, and subject to the terms of Section 24.3.2 hereof, Landlord shall proceed with all reasonable diligence, subject to delays for Force Majeure and Tenant Delays, to complete the Condemnation Restoration. Landlord's obligation to restore shall be subject to all then applicable Legal Requirements. Any change in the design of the Premises from the Plans necessitated by the Condemnation Restoration shall be subject to Tenant's reasonable approval. Landlord shall have no obligation to rebuild, repair, replace or restore any part of Tenant's furniture, equipment, fixtures, personal property or Tenant Improvements. Landlord reserves the right to enter upon the Premises for the purpose of making the Condemnation Restoration during regular business hours or otherwise and to temporarily close doors, entryways, spaces, and corridors and to interrupt or temporarily suspend services and facilities of the Premises; provided, however, that Landlord shall use reasonable efforts to not interfere with Tenant's business while performing the Condemnation Restoration. No such entry by Landlord in performing any of the Condemnation Restoration shall be deemed an eviction or disturbance of Tenant's use or possession, or render Landlord liable for damages (except as otherwise expressly provided in this Lease) or relieve Tenant from any obligation herein set forth. Tenant shall promptly clean-up or remove any of Tenant's property if such action is reasonably necessary in connection with the Condemnation Restoration.

24.3. The Depositary; Payment of Costs of Condemnation Restoration

24.3.1 That portion of any payment made to Landlord by the condemning authority which is expressly made to compensate Landlord for loss or damage to the remainder of the Premises not condemned, net of Landlord's reasonable actual attorneys' fees and other reasonable costs and expenses allocable to obtaining any payment made to Landlord by the condemning authority for loss or damage to the remainder of the Premises not taken or condemned, together with any amounts due from Tenant pursuant to Section 24.3.2 hereof, any amounts due from Landlord pursuant to Sections 24.3.2 or 24.3.3 hereof and any amounts paid by any third parties, shall be deposited with the Depositary, as escrowee, to be available to Landlord for the Condemnation Restoration. The Depositary shall operate subject to the provisions of Section 23.3.1 hereof. If the actual cost of the Condemnation Restoration is less than the aggregate amount deposited by the parties in the Depositary or if the amount of the award from the condemning authority for damage to the remainder finally deposited with the Depositary is greater than the amount originally offered by the condemning authority, and as a result there are funds in the Depositary in excess of the amount needed to complete the Condemnation Restoration, such excess shall be promptly refunded to Landlord after the actual cost of the Condemnation Restoration is finally determined, unless such excess is caused in whole or in part to any over-deposit of Non-Covered Costs paid by Tenant, in which event such over-deposit shall be refunded to Tenant before the remaining excess funds are refunded to Landlord.

24.3.2 As soon as practicable after the initial offer of a condemnation award for damage to the remainder, if any, has been made by the condemning authority or the condemning authority has notified Landlord that there will be no award for damage to the remainder of the Premises, Landlord shall calculate the Non-Covered Cost, if any, of the Condemnation Restoration, and shall notify Tenant of the amount thereof. Anything to the contrary in this Lease notwithstanding, Landlord shall have no obligation to pay any Non-Covered Costs with respect to any Condemnation Restoration. Provided that neither party has elected to terminate the Lease as provided in Section 24.1 hereof or Landlord has not elected to terminate the Lease as provided in Section 24.3 hereof, if the amount of the net award received by Landlord is not sufficient to complete the Condemnation Restoration, then Landlord shall elect, which election shall be made in writing to

Tenant, to either: (a) pay into the Depositary an amount equal to the Non-Covered Cost of such Condemnation Restoration., or (b) not to pay the Non-Covered Cost of such Condemnation Restoration. If Landlord elects option (a) above, then Landlord shall deposit into the Depositary the amount due no later than thirty (30) days after Landlord has delivered written notice of its election to Tenant. If Landlord elects option (b) above, then Tenant shall elect, which election shall be made in writing to Landlord within (30) days after its receipt of Landlord's election notice, to either: (i) agree to pay the amount of the Non-Covered Cost into the Depositary for purposes of the completion of the Casualty Restoration (with no right to recoup, suspend, abate, or set-off such amount, or otherwise have such amount operate as a credit, against Rent in any manner whatsoever); or (ii) terminate this Lease, which termination shall be effective on the date possession of the applicable portion of the Premises is taken by the applicable condemning Governmental Authority. If Tenant elects option (i) above, then subject to Tenant's payment of such Non-Covered Costs into the Depositary within thirty (30) days after the date of its exercise notice pursuant to this Section 23.3.2, Landlord shall complete the Condemnation Restoration in accordance with the terms of Section 24.2 hereof.

24.3.3 Landlord hereby represents and warrants to Tenant that no holder of a Landlord's Mortgage may elect to apply the condemnation award in whole or in part to reduce the indebtedness secured by the Premises or to terminate this Lease under this Section 24, except in connection with a Section 24.1 Condemnation. If Landlord's mortgagee elects to apply all or any portion of the condemnation award for damage to the remainder to the indebtedness secured by such mortgagee's deed to secure debt on the Premises, then, no later than thirty (30) days after Landlord has been notified by Landlord's mortgagee that such mortgagee intends to apply such condemnation award to the mortgage debt, Landlord shall elect, which election shall be made in writing to Tenant, to either: (a) pay into the Depositary an amount equal to the condemnation award for damage to the remainder applied by Landlord's mortgagee to the mortgage debt, or (b) terminate this Lease, which termination shall be effective on the date set forth in Landlord's notice, but in no event sooner than sixty (60) days and no later than one hundred twenty (120) days after delivery of Landlord's notice when Tenant elects to proceed under option (a) above within thirty (30) days after receipt of Landlord's termination notice. If Landlord (or Tenant) elects option (a) above, then Landlord (or Tenant, as applicable) shall deposit into the Depositary the amount due from Landlord (or Tenant) no later than thirty (30) days after Landlord has delivered written notice of its election to Tenant (or Tenant has delivered its election notice to Landlord, as applicable). Notwithstanding anything to the contrary in this Section 24.3.3, if the sole reason Landlord's mortgagee is applying the condemnation award to the mortgage indebtedness is because Landlord is in default under such mortgage, and Landlord's default is solely the direct result of a Default by Tenant under this Lease, then Tenant shall be liable for the payment into the Depositary of the amount of the condemnation award applied to the mortgage indebtedness.

24.4. Rent Abatement. If as a result of any Condemnation the square footage of the Facility is reduced, then Base Rent shall abate each month for the remainder of the Term, commencing on the date the condemning authority takes possession of the condemned portion of the Facility, in an amount bearing the same ratio to the total amount of Base Rent due for such month as the condemned portion of the Facility bears to the entire Facility. In addition, if as a result of any Condemnation Restoration, the remaining portion of the Facility becomes untenantable in whole or in part, then Base Rent shall abate on a per diem basis commencing on the first date of untenantability and ceasing at such time as the Condemnation Restoration is substantially completed so as to render the Facility or the damaged or destroyed portion thereof fully tenantable, such abatement to be in an amount bearing the same ratio to the total amount of Base Rent due for such period as the untenantable portion of the Facility from time to time bears to the entire Facility.

24.5. Tenant Improvements. If any Tenant Improvements are taken or damaged or destroyed by any Condemnation, Tenant may restore the same at Tenant's cost as provided in Section 14 hereof.

24.6. Condemnation Prior to Commencement Date. The provisions of this Section 24 apply only to Condemnation occurring after the Commencement Date. Any Condemnation occurring prior to the Commencement Date shall be governed by the provisions of the Pre-Occupancy Agreement.

24.7. Tenant's Participation in Condemnation Proceedings and/or Settlement; Tenant's Right to Condemnation Award. Tenant shall have no right to any apportionment of or share in any Condemnation award or judgment for damages made for the Condemnation of any part of the Premises or the Facility; provided, however, that: (a) Tenant may seek its own award for moving costs, loss of or damage to Tenant's trade fixtures, equipment and business, and loss of this Lease; and (b) if Tenant shall have made any Tenant Improvements, then, at Tenant's written request Landlord shall petition the court having jurisdiction over the Condemnation to determine the portion of the award allocable to Tenant for such Tenant Improvements, and, if the court makes such determination, Landlord shall assign to Tenant out of any award payable to Landlord for the loss of the portion of the Premises being taken, a sum equal to the amount allocated by the court to such Tenant Improvements. The provisions of this Section 24.7 shall survive any termination of this Lease, provided that such Condemnation occurs prior to such termination. Except as expressly set forth herein, Tenant shall not make claim for any award which would have the effect of diminishing in any way the award payable to Landlord on account of such Condemnation.

25. EITHER PARTY'S PERFORMANCE OF THE OTHER PARTY'S OBLIGATIONS. If either party shall be in Default of its obligations under this Lease, and such Default continues after the expiration of any applicable cure or grace period expressly provided for in this Lease, then the other party may perform such obligation for the account and at the expense of the defaulting party, without notice. All reasonable costs incurred by a party in performing such obligation and all reasonable actual attorneys' fees and expenses of a party incurred in enforcing any of the other party's obligations under this Lease shall become Additional Rent hereunder (if owed by Tenant), and shall be due and payable by Landlord to Tenant within thirty (30) days after being invoices for the same, if owed by Landlord to Tenant. If not paid by Landlord to Tenant within such 30-day period, then Tenant may provide to Landlord a Notice of Default with respect thereto under Section 19.2 above, and pursue such rights and remedies with respect thereto as are provided for in or reserved by this Lease, including without limitation the right to offset the amount of any final, non-appealable judgment in favor of Tenant for any such sums against the Rents thereafter due and payable hereunder, together with interest thereon at the Reference Rate plus two percent (2%).

26. NOTICES. Unless otherwise provided for in this Lease all notices to be given by one party to the other under this Lease shall be in writing, mailed, sent by reputable overnight courier or hand delivered as follows:

(a) To Landlord: Amli Land Development-I Limited Partnership
c/o Amli Realty Co.
2100 RiverEdge Parkway
Suite 420
Atlanta, Georgia 30328
Attn: Philip N. Tague

or to such other person or at such other address designated by notice sent to Tenant, and after commencement of the Term with a copy to the address to which the Rent is payable.

(b) To Tenant: prior to the commencement of the Term at the address above stated (Attn: Facility Manager or Real Estate Dept.) and after the commencement of the Term at the Premises (Attn: Facility Manager or Real Estate Dept.), or at any time to such other address designated by notice to Landlord, with a copy to the following address:

Arnall, Golden & Gregory
2800 One Atlantic Center
1201 West Peachtree Street, N.W.
Atlanta, Georgia 30309-3450
. Attn: Clinton D. Richardson, Esq.

Mailed notices shall be sent by United States certified or registered mail, postage prepaid. Mailed notices shall be deemed to have been given three (3) business days after posting in the United States mails. Notices sent by overnight courier shall be deemed to have been given one (1) business day after delivery to the overnight courier, and notices which are hand delivered shall be deemed to have been given on the day tendered for delivery.

27. ADDITIONAL COVENANTS OF TENANT. Tenant hereby covenants and agrees, for itself, and the Tenant Related Parties, to be bound by the following provisions:

27.1. Signs. Any sign, lettering, picture, notice, or advertisement installed on the Premises, which is visible from outside the Facility, shall comply with all applicable Legal Requirements and shall be installed in such manner, character and style as may be set forth in the Plans or as Landlord may otherwise approve in writing; provided, however, that with respect to exterior signage, Landlord and Tenant agree to cooperate with each other to arrive at a mutually acceptable sign or signs that will be professionally prepared, in good taste commensurate with the standards and reputation of the Park and so as to otherwise satisfy all applicable Legal Requirements. Anything in this Lease to the contrary notwithstanding but subject to the terms of this Section 27.1, Tenant may, at its option exercised by giving Landlord written notice not later than sixty (60) days prior to the expiration of the Term, remove at its expense any exterior identification signage attached to the Facility, restoring the portion of the Facility affected by the sign to the condition which exists prior to the installation thereof and repairing or restoring, as the case may be, any damage caused to the Premises in connection therewith including, without limitation, any remaining part of the sign that is permitted to remain attached to the Facility pursuant to this Section 27.1. Notwithstanding the foregoing, if the exterior sign is comprised of individual letters or if the balance of any such exterior sign is not useable in Landlord's reasonable judgment, then Tenant must remove the entire sign in accordance with the immediately preceding sentence (including the restoration and repair obligations therein). If, however, the balance of the sign after Tenant removes its identifying letters and symbols is usable in Landlord's reasonable judgment, then Tenant's removal rights hereunder shall only apply to its identifying letters and symbols, the balance of such sign shall remain on the Facility and Tenant's repair and restoration obligations shall be limited to any damage to the Premises (including the balance of the sign) caused by Tenant's removal. If Tenant furnishes Landlord with notice of its intention to remove any exterior sign attached to the Facility, Landlord shall, within forty-five (45) days after receipt of Tenant's notice notify Tenant whether the balance of the sign (after removal of Tenant's identifying letters or symbols) is useable in Landlord's reasonable judgment for purposes of this Section 27.1. If the Term is terminated prior to the Termination Date, or if Tenant fails to furnish Landlord with the above

described notice of its intent to remove any such exterior sign, then provided Tenant is not otherwise required to remove such exterior sign pursuant to this Section 27.1, such sign shall remain with the Premises unless Landlord requests Tenant to remove same or any portion thereof, in which event Tenant shall, at its expense, remove the sign or applicable portion thereof, restore the affected portion of the Facility to its original condition and repair or restore any damage to the Premises caused by such removal, failing which Landlord may perform such removal, restoration and repairs for the account and at the expense of Tenant. Tenant's obligations under this Section 27.1 shall survive the expiration or earlier termination of the Term.

27.2. Advertising. Tenant shall not, without Landlord's prior written consent: (i) advertise the business, profession or activities of Tenant in any manner which violates the letter or spirit of any code of ethics adopted by any recognized association or organization pertaining thereto; (ii) use any picture or likeness of the Facility or the names "Barrett" or "Amli" or other name by which the Park may from time to time be known, in any letterheads, envelopes, circulars, notices, advertisements, containers or wrapping material without first obtaining the prior written consent of Landlord, which consent, with respect to the name of the Park, shall not be unreasonably withheld, conditioned or delayed. Landlord acknowledges that Tenant shall be permitted to use the name of the Park on its letterhead, business cards, envelopes and similar stationery materials.

27.3. Antennas, Etc. Tenant shall not (i) without Landlord's prior written consent, which shall not be unreasonably withheld, conditioned or delayed, place any radio or television antennae, satellite dishes, aerials or similar devices or projections on the Premises, other than inside the Facility, and regardless of Landlord's consent, shall not place any such devices or projections on the Premises, if such device or projection would violate any provision of the Declaration or the Guidelines, (ii) operate or permit to be operated any musical or sound producing instrument or device inside or outside the Facility which may be heard outside the Facility (other than a normal office/industrial public address system, fire/emergency devices and/or burglary devices), or (iii) produce electrical, sound or other waves which may interfere with or impair radio or television broadcasting or reception from, to or within the Park or elsewhere. Landlord withholding of its consent to any item requested by Tenant under clause (i) of the Section 27.3 shall be deemed reasonable if the installation, operation, presence or removal of such item: (I) would violate any governmental law or regulation or any provision of the Declaration or the Guidelines; (II) would materially interfere with the reception of radio, television or telephone communications by or from any other occupant of space within the Park; (III) may invalidate or otherwise limit Landlord's rights under any warranty; or (IV) would in Landlord's reasonable judgment cause any damage, stress or increased wear and tear or reduced useful life or increase the costs to Landlord. Tenant shall indemnify the Landlord Related Parties from and against any and all liabilities, damages, claims, costs and expenses (including, without limitation, reasonable attorneys' fees) incurred by any of the Landlord Related Parties as a direct or indirect result of the installation, operation, repair, replacement, removal or presence of any item described in said clause (i), regardless of whether or not Landlord consents thereto.

27.4. Return of Keys, Etc. When this Lease expires or is terminated, Tenant shall deliver all keys to and within the Facility to Landlord and shall disclose to Landlord the codes to any security system(s) and the combinations of any safes, cabinets or vaults left on the Premises.

27.5. Tenant's Risk. Tenant assumes full responsibility for protecting the Premises from theft, robbery and pilferage, which includes locking doors and closing and securing other means of entry to the Facility, excluding any of the foregoing resulting from the unauthorized use of keys, security cards and/or access codes by Landlord.

27.6. Compliance With Legal Requirements. Each party shall comply with all applicable Legal Requirements and all reasonable rules and regulations issued by the Association with respect to the Premises, Facilities and/or Park for which it is responsible. Tenant shall not directly or indirectly make any use of the Premises which may be prohibited by any thereof.

27.7. Tenant shall not in any manner deface or injure the Facility or any part thereof or overload the floors of the Facility.

27.8. Tenant shall not use the Premises for lodging or sleeping purposes (except in case of emergency) or for any immoral or illegal purposes.

27.9. Tenant shall not at any time manufacture or sell and shall not at any time permit the manufacture or sale of any spirituous, fermented, intoxicating or alcoholic liquors on the Premises. Tenant shall not at any time sell or purchase, or permit the sale or purchase of, food in any form by or to any of Tenant's agents or employees or any other parties on the Premises, except with respect to vending machines in the Facility servicing, catering and the serving of food prepared off-site for Tenant Related Parties.

28. ESTOPPEL CERTIFICATE. Landlord and Tenant agree that from time to time upon not less than ten (10) business days prior request by the other, each party shall, by a duly authorized representative having knowledge of the appropriate facts, complete to the extent possible without rendering any statement inaccurate or untruthful, execute and deliver to the requesting party an estoppel certificate substantially in the applicable form set forth on Exhibit C attached hereto and made a part hereof or in such other form as the requesting party may reasonably request.

29. SUBORDINATION, ATTORNMENT AND NON-DISTURBANCE. Tenant understands that Landlord may become the lessee under a ground or underlying lease of the Premises (or any portion thereof) in connection with the sale or financing of the Premises (or any portion thereof) to the lessor of such underlying lease, and Tenant agrees that this Lease and all rights of Tenant hereunder and under the Pre-Occupancy Agreement shall be subject and subordinate to such underlying lease and any extensions or modifications thereof and to the lien of any mortgage or mortgages now or at any time hereinafter in force against the Premises (or any portion thereof) and/or the underlying leasehold estate, and to all advances made or hereafter to be made upon the security thereof (all of the foregoing being referred to collectively as a "Landlord's Mortgage").

Tenant agrees to execute such further customary instrument subordinating this Lease and Pre-Occupancy Agreement to any such Landlord's Mortgage or mortgages as Landlord from time to time may request; provided, however, that such instrument shall not materially and adversely modify Tenant's rights or obligations under this Lease. Tenant covenants and agrees that, if by reason of any default on the part of Landlord as tenant under any such Landlord's Mortgage to which this Lease is subject and subordinate, said underlying Landlord's Mortgage is terminated or is foreclosed by summary proceedings, voluntary agreement or otherwise, Tenant, at the election of the Mortgagee under said Landlord's Mortgage or the purchaser of the Premises upon a foreclosure of such Landlord's Mortgage, as the case may be, shall attorn to and recognize such lessor or mortgage owner or purchaser as Tenant's Landlord under this Lease. Tenant further agrees to execute and deliver at any time upon request of Landlord or any party which shall succeed to the interest of Landlord, any instrument, in form and substance reasonably acceptable to Tenant, to evidence such attornment; provided, however, that such instrument shall not materially and adversely modify Tenant's rights

or obligations under this Lease. Tenant waives the provision of any law now or hereinafter in effect which may give to Tenant any right to elect to terminate this Lease or the Pre-Occupancy Agreement or to surrender possession of the Premises (or any portion thereof) in the event any proceeding is brought by any holder of any such Landlord's Mortgage (including for example only the lessor under any underlying lease or the owner of any such mortgage) to terminate said underlying lease or foreclose such mortgage.

Notwithstanding anything in this Section 29 to the contrary, Tenant shall not be required to attorn to any holder of any such Landlord's Mortgage (including for example only the lessor of any underlying lease or the owner of any mortgage) nor shall this Lease or the rights of Tenant hereunder be subject or subordinate to any such underlying lease or mortgages unless any holder of any such Landlord's Mortgage (including for example only the lessor of such underlying lease or the owner of such mortgage) agrees to enter into (and in fact enters into) a written agreement in recordable form reasonably acceptable to Tenant that does not materially and adversely modify Tenant's rights under this Lease and provides that in the event any such Landlord's Mortgage is terminated or foreclosed (including, for example only, in the event any underlying lease is terminated or any mortgage is foreclosed) by summary proceedings, voluntary agreement or otherwise, said lessor or mortgage owner, as the case may be, shall recognize Tenant and agree to not disturb Tenant's possessions of the Premises or any part thereof for any reason other than one which would entitle Landlord to terminate this Lease or Tenant's possession of the Premises under the terms of this Lease.

30. DEFINITION OF LANDLORD. For purposes of this Lease, Landlord shall mean Landlord hereinabove named, except that in the event of any sale or other transfer of the Premises, the seller or transferor shall be and hereby is and are entirely freed and relieved of all agreements, covenants and obligations of Landlord accruing hereunder from and after the date of such sale or transfer, upon the express assumption and agreement of the purchaser or transferee on any sale or transfer, to carry out any and all agreements, covenants and obligations of Landlord accruing hereunder from and after the date of such sale or transfer.

31. REAL ESTATE BROKER. Tenant represents that Tenant has dealt with no broker in connection with this Lease other than Amli of Georgia, Inc. and Richard Bowers & Co. and that, insofar as Tenant knows, no other broker or finder negotiated this Lease or is entitled to any fee or commission in connection herewith. Tenant agrees to indemnify, defend and hold the Landlord Related Parties free and harmless from and against all claims for broker's commissions or finder's fees by any person claiming to have been retained by Tenant in connection with this transaction other than Richard Bowers & Co. or AMLI of Georgia, Inc. Landlord represents that Landlord has dealt with no broker in connection with this Lease other than Amli of Georgia, Inc. and Richard Bowers & Co. and that, insofar as Landlord knows, no other broker or finder negotiated this Lease or is entitled to any fee or commission in connection herewith. Landlord agrees to indemnify, defend and hold the Tenant Related Parties free and harmless from and against all claims for broker's commissions or finder's fee by any person claiming to have been retained by Landlord in connection with this transaction. Landlord agrees to pay the commission due to Amli of Georgia, Inc. and Richard Bowers & Co. in connection with this Lease in accordance with the agreement of the parties.

32. TENANT'S FINANCIAL STATEMENTS. From the date of this Lease (including the period prior to the time Tenant takes occupancy of the Premises) until the termination of the Lease, Tenant shall, from time to time within twenty (20) days after production thereof, provide Landlord with its most recent audited annual financial statement, together with its most recent unaudited quarterly financial statements.

33. HAZARDOUS MATERIALS.

33.1. Tenant's Representations and Warranties. Tenant hereby represents, warrants and covenants to Landlord that no Hazardous Materials shall be introduced into the Park by the Tenant Related Parties or onto the Premises (in any manner or quantity which would constitute a violation of any Environmental Laws) by any person other than the Landlord Related Parties, other than (i) those normally utilized in an office building, including, but not limited to, Hazardous Materials which may be contained in cleaning solutions or products utilized in photostatic copying machines, but only so long as such materials are utilized, stored or present in accordance with applicable Legal Requirements, or (ii) those normally used in Tenant's business as described in Section 9 above, including for example only, those listed on Exhibit D attached hereto and made a part hereof, but only so long as such materials are used in Tenant's regular business practices and are utilized, stored or present and disposed of in accordance with applicable Legal Requirements. Tenant hereby agrees to indemnify, defend and hold harmless the Landlord Related Parties against any claims, actions, administrative proceedings, judgments, damages, penalties, and liabilities, including, but not limited to, reasonable attorneys' fees, consultant fees and any remediation, removal or other clean-up compliance costs and expenses resulting from the presence of Hazardous Materials in any manner or quantity which would constitute a violation of any Environmental Laws, which are brought into the Park or onto the Premises (or any part thereof) by the Tenant Related Parties under any circumstances other than those listed or described in (i) and (ii) above, which indemnity shall survive the termination of this Lease, by lapse of time or otherwise.

33.2. Landlord's Representations and Warranties. Landlord hereby represents and warrants to Tenant that neither Landlord nor, to the actual knowledge of Landlord without independent investigation, any other person has caused any Hazardous Materials to be placed or disposed of on or at the Premises, Facility, Land or any other part of the Park in any manner or quantity which would constitute a violation of any Environmental Laws or any other applicable Legal Requirements. Landlord hereby agrees to indemnify, defend and hold harmless the Tenant Related Parties against any claims, actions, administrative proceedings, judgments, damages (including, if otherwise recoverable, loss of business and/or restriction on use), penalties, and liabilities, including, but not limited to, reasonable attorneys' fees and consultant fees, resulting from the presence of Hazardous Materials in any manner or quantity which would constitute a violation of any Environmental Laws or any other applicable Legal Requirements, which are (or were) brought onto or generated, used or disposed of upon, the Premises, Facility, Land or Park either (i) by any party (other than Tenant Related Parties) prior to the Commencement Date (but only to the extent that Landlord has actual knowledge of such presence of Hazardous Materials) or (ii) by Landlord Related Parties either prior to the Commencement Date or during the Term; provided, however, if the Facility is constructed pursuant to the Plans, Landlord shall be responsible for any Hazardous Materials embodied in the materials incorporated in the Facility only to the extent such Hazardous Materials were in violation of any applicable Legal Requirements (including, any administrative and judicial interpretations thereof) in existence as of the Commencement Date as provided in and subject to the terms of Section 10 hereof. Notwithstanding anything to the contrary above, if the Landlord hereunder ceases to be the owner, in whole or in part, of the rest of the Park (either by reason of the transfer or sale by Landlord of Landlord's interest in this Lease and the Facility, Land and Premises, and/or of the Park, or both), then the representation, warranty and indemnity of Landlord as set forth herein shall be limited to claims arising out of or resulting from events or occurrences which transpired or occurred during the period of time that such Landlord is (or was) the owner of the portion of the Park in question, and/or was the owner of this Lease and/or the Premises, Facility and Land (as applicable).

34. QUIET ENJOYMENT. Upon payment by Tenant of the Rent due hereunder, and upon the observance and performance of all the covenants, terms and conditions on Tenant's part to be observed and performed, Tenant shall peaceably and quietly hold and enjoy the Premises for the Term, without hindrance or interruption by Landlord or any other person or persons whatsoever, always subject, however, to the terms and conditions of this Lease.

35. MISCELLANEOUS.

35.1. Except as may be expressly provided herein to the contrary, all rights and remedies of Landlord and Tenant under this Lease shall be cumulative and none shall exclude any other rights and remedies allowed by law.

35.2. Except as may be expressly provided herein to the contrary, all payments becoming due from either party to the other under this Lease shall commence to accrue interest at the rate of fifteen percent (15%) per annum from the due date thereof until paid; provided, however, that interest shall not be payable hereunder until any applicable cure period expires. A party's right to receive such interest shall not, in any way, limit any of such party's other remedies under this Lease or at law or in equity.

35.3. The word "Tenant" wherever used herein shall be construed to mean Tenants in all cases where there is more than one Tenant at any one time, and the word "Landlord" wherever used herein shall be construed to mean Landlords in all cases where there is more than one Landlord at any one time, and the

necessary grammatical changes required to make the provisions hereof apply either to corporations or individuals, men or women, shall in all cases be assumed as though in each case fully expressed.

35.4. Each of the provisions of this Lease shall extend to and shall, as the case may require, bind or inure to the benefit, not only of Landlord and of Tenant, but also of their respective heirs, legal representatives, successors and assigns, provided this clause shall not permit any assignment contrary to the provisions of Section 12 hereof.

35.5. All of the representations and obligations of Landlord and Tenant are contained herein and in the Pre-Occupancy Agreement, and no modification, waiver or amendment of this Lease or of the Pre-Occupancy Agreement or of any of the conditions or provisions of either thereof shall be binding upon Landlord or Tenant unless contained in a writing signed by the party to be bound thereby or by a duly authorized agent of such party empowered by a written authority signed by such party.

35.6. Submission of this instrument for examination shall not bind Landlord in any manner, and no lease or obligation on Landlord shall arise until this instrument is signed and delivery by Landlord and Tenant.

35.7. No rights to light or air over any property, whether belonging to Landlord or any other person, are granted to Tenant by this Lease; provided, however, that no improvements shall be made upon the Land except as contemplated in this Lease and/or in the Pre-Occupancy Agreement.

35.8. Landlord's title to the Premises is and always shall be paramount to the title of Tenant. Nothing herein contained shall empower Tenant to do any act which can, shall or may encumber the Landlord's title.

35.9. Except for a Memorandum of Lease substantially in the form of Exhibit E attached hereto and made a part hereof, neither this Lease, nor any memorandum, affidavit or other writing with respect hereto shall be recorded by Tenant or by anyone acting through, under or on behalf of Tenant, and the recording hereof in violation of this provision shall make this Lease null and void at Landlord's election.

35.10. Nothing contained in this Lease shall be deemed or construed by the parties hereto or by any third party, to create the relationship of principal and agent, partnership, joint venture or any association between Landlord and Tenant, it being expressly understood and agreed that neither the method of computing Rent nor any other provisions contained in this Lease nor any acts of the parties hereto shall be deemed to create any relationship between Landlord and Tenant other than the relationship of landlord and tenant.

35.11. From and after the Commencement Date, any liability or obligation of Landlord under this Lease shall be limited solely to the assets of Landlord in the Land, Premises, Facility and the Park and no partner or shareholder of Landlord or any of the other Landlord Related Parties shall be individually or personally liable for any claim arising out of this Lease. A deficit capital account of any such partner shall not be deemed an asset or property of Landlord.

35.12. In the event of the termination of this Lease by expiration of the stated Term or for any other cause or reason whatsoever prior to the final determination of Rent or other amounts due hereunder for periods of time prior to such termination, each party's agreement to pay any such sums shall survive termination of

this Lease, and each party shall pay any such amounts not sooner due to the other within thirty (30) days after being billed therefor.

35.13. Provided Landlord has given written notice to Tenant of the name and address of any mortgagee or ground lessor of the Premises, Tenant shall give such mortgagee or ground lessor, by registered mail to the address(es) contained in Landlord's original notice, a copy of any notice of default served upon Landlord. Tenant further agrees that such mortgagee or ground lessor shall have the right to cure such default within the following time periods: (a) in the case of a monetary default, twenty (20) days after receipt of such notice, and (b) in the case of a non-monetary default forty-five (45) days after receipt of such notice, provided, however, that if such non-monetary default cannot, using reasonable efforts, be cured within such 45-day period, such period shall be extended for an additional forty-five (45) days so long as such mortgagee or ground lessor is diligently attempting to cure such default. Except in the event of an emergency, Tenant shall not pursue any remedy it may have for any default by Landlord until the foregoing cure periods have expired.

35.14. In the event of any dispute arising out of the subject matter of this Lease, the prevailing party shall recover, in addition to any other damages assessed, its reasonable actual attorneys' fees and other costs and expenses incurred in litigating or otherwise settling or resolving such dispute.

35.15. The language in all parts of this Lease shall be construed, in all cases, according to its meaning. The parties acknowledge that each party and its counsel have reviewed this Lease, and that the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party, shall not be employed in the interpretation of this Lease or any document executed in connection herewith. The division of this Lease into articles, sections, subsections, riders and exhibits is for the convenience of reference only and shall not affect the interpretation or construction of this Lease.

35.16. If the time for performance of any act or occurrence of any event falls on a day which is not a business day, then the date for such performance or occurrence shall be postponed to the next business day. For purposes of this Lease, "business day" shall mean any day which is not a Saturday or a Sunday or a day on which the United States federal courts are not open for business.

35.17. Time is of the essence of this Lease and in all of the conditions, obligations, agreements, provisions, terms and covenants hereof.

36. SECURITY DEPOSIT. INTENTIONALLY DELETED.

37. EXTENSION OPTION. Subject to the terms and conditions hereinafter set forth, Landlord hereby grants to Tenant the option to extend the Term (the "**Option**") for one (1) additional period of five (5) years (the "**Renewal Term**"). Any reference in the Lease to the "Term" of the Lease shall be deemed to include the Renewal Term and apply thereto, unless it is expressly provided otherwise. Any termination of this Lease during the initial Term shall terminate the Option and all rights of Tenant under this Section 37. Tenant shall have no further extension options beyond the Option.

(a) If Tenant has validly exercised the Option then, within thirty (30) days after the date Landlord receives Tenant's final binding written exercise notice, Tenant agrees to execute an amendment to this Lease confirming that the demise of the Premises for the Renewal Term shall be upon the same terms, conditions and provisions as contained in this Lease, except that:

(i) The initial Base Rent payable during the first year of the Renewal Term shall be at a rate equal to one hundred two percent (102%) of the Base Rent applicable to the fifteenth (15th) Lease Year. The Base Rent rate for the first year of the Renewal Term shall be subject to an escalation equal to two percent (2%) for each subsequent year during the Renewal Term. Tenant's obligation to pay Tax Rent and Assessments shall continue during the Renewal Term; and

(ii) Tenant acknowledges and agrees that Landlord shall not be obligated to install, or contribute toward the cost of, any alterations, additions or improvements to the Premises of any kind or nature whatsoever, it being expressly understood that any such alterations, additions or improvements required by Tenant for its continued occupancy during the Renewal Term shall be performed by Tenant at its sole cost and expense in accordance with the terms of this Lease; provided, however, nothing herein shall constitute Landlord's consent to any Tenant Improvements requiring Landlord's consent pursuant to Section 14 hereof.

(b) Subject to the terms of Section 7.1 hereof, if applicable, Tenant must, in order to exercise the option, deliver to Landlord a final binding written notice of its intent to exercise the Option, if at all, no later than the commencement date of the fifteenth (15th) Lease Year, time being of the essence. If Tenant fails to deliver the final binding written exercise notice to Landlord within the time period set forth in the immediately preceding sentence, or if Tenant's final binding written exercise notice is not accompanied by any applicable QLMCI Adjustment Payment, then in either such event, the Option granted in this Section 37 shall expire and be null and void. Tenant' final binding written exercise notice once given shall be irrevocable.

(c) Tenant's right to exercise the Option pursuant to this Section 37 is subject to the following conditions, and Tenant may only exercise the Option and an exercise thereof shall only be effective, if, at the time of Tenant's exercise and on the commencement date of the Renewal Term: (i) this Lease is in full force and effect and; (ii) Tenant is not in Default hereunder. Without limitation of the foregoing, Tenant agrees that if, following Tenant's valid exercise of the Option, Tenant shall default in the performance of any of its obligations under this Lease or if any event or circumstance has occurred and is continuing which would, with the passage of time or giving of notice, constitute a Default hereunder, then at Landlord's option exercised by giving Tenant written notice prior to the commencement date of the Renewal Term, Tenant's exercise of the Option shall be deemed tolled and postponed until any applicable notice of default has been given by Landlord to Tenant and any applicable period of grace or cure (not to exceed thirty (30) days for this purpose) has expired without the successful completion of such cure. In such event, if such Default has not been cured or waived then Tenant's exercise of such Option shall be deemed ineffective, null and void, and the Option shall be deemed to have expired, and if not sooner terminated, this Lease shall expire on the Termination Date as if Tenant had not exercised the Option hereunder; provided, however, that nothing herein shall be construed so as to limit the rights and remedies available to Landlord hereunder, at law or in equity as a result of any Default by Tenant hereunder.

38. EXPANSION OPTION (FOR ADDITIONAL 40,000 SQUARE FEET IN THE FACILITY). Landlord agrees to fund the installation of additional Tenant Additions desired by Tenant with respect to the approximately 40,000 square feet of the Facility that will be unfinished (the "Unfinished Space") as of the Commencement Date subject to the following terms and conditions: (i) the amount that the Landlord is

committed to fund shall be limited to $25.00 per square foot of the Net Rentable Area within the Unfinished Space, (ii) Landlord shall have no obligation to fund any additional Tenant Additions beyond the third (3rd) anniversary of the Commencement Date of this Lease, (iii) the funding of such Tenant Additions shall conform with the requirements for plan approval, Landlord reviews, disbursement procedures and other requirements set forth for Tenant Additions in the Pre-Occupancy Agreement, (iv) there shall be no more than three (3) disbursements in total, (v) for each $10,000.00 or portion thereof disbursed the Base Rent for each square foot within the entire Net Rentable Area of the Facility (including any Unfinished Space remaining) shall be increased from the date of such disbursement through the end of the Term by four-tenths of one cent ($0.004) per annum, (vi) at the time of any disbursement, this Lease is in full force and effect and Tenant is not in Default hereunder at such time, and (vii) the scope and type of Tenant Additions shall conform with the obligation in the Pre-Occupancy Agreement that at least forty percent (40%) of the funds disbursed by Landlord be used for improvements that would have a high degree of likelihood of being reusable by a subsequent tenant in the Facility (provided, however, that such 40% test shall be applied to the Facility as a whole, including the Tenant Additions in question). If Tenant elects to install additional Tenant Additions in any portion of the Unfinished Space as part of Tenant's initial improvements prior to the Commencement Date, then Landlord shall fund such Tenant Additions in accordance with the provisions of this Section 38, provided, however, that (a) the disbursement for such Tenant Additions shall not reduce the number of disbursements available under clause (iv) above and (b) the increase in Base Rent under clause (v) above shall be effective as of the Commencement Date (provided said disbursement is made on or before the Commencement Date).

39. EXPANSION OPTION (SECOND BUILDING). At any time during the three (3) year period from the Commencement Date of this Lease, Tenant can request from Landlord a proposal to construct a second building similar to the Facility on the approximately 10 acre site adjacent to the Land and depicted on Exhibit F attached hereto and made a part hereof (the "Adjacent Land"). Tenant shall provide Landlord with reasonably sufficient information about its requirements and its then current financial condition for Landlord to make an informed proposal. At its option, Landlord shall make such proposal and deliver it to Tenant within forty-five (45) days after receiving from Tenant such reasonably sufficient information. Landlord and Tenant agree that a basic premise of the Tenant's requirements shall be a term for the leasehold on the proposed facility of fifteen (15) years and an extension of this Lease on the Facility for such additional time as is necessary to make the end of the terms of both leases identical. If Landlord makes such a proposal, both Landlord and Tenant shall bargain in good faith to attempt to come to an agreement. If, however, an agreement cannot be reached within sixty (60) days after Tenant's receipt of the proposal, Tenant may solicit proposals based on the same requirements from other developers. After agreeing in principle to another developer's proposal based on the same requirements presented to Landlord, Tenant shall be obligated to offer to Landlord the opportunity to construct the second building on the same terms and conditions set forth in the acceptable proposal. Landlord shall be entitled to request that Tenant to clarify any ambiguous, unclear, unaddressed or uncertain aspect of such proposal, provided that such request is made in writing and sets forth Landlord's request with specifications. All such clarifications shall be made within thirty (30) days from Landlord's receipt of the other developer's proposal from Tenant, and Landlord shall have an additional fifteen (15) days to accept such proposal by notice to Tenant. If Landlord has not accepted the proposal within such period of time, then Tenant shall have the right to accept the other developer's proposal and proceed accordingly as long as no material term or condition of the proposal is changed.

To accommodate the possibility that Tenant may accept another developer's proposal to construct the second building, Landlord agrees to sell the Adjacent Land to Tenant or the developer of the second building for $130,000 per acre net of any land contained within the 100 year floodplain. Such closing of the Adjacent

Land shall be conducted in accordance with customary real estate practices in metropolitan Atlanta and must occur within three (3) years after the Commencement Date of this Lease. The Adjacent Land shall at closing be made subject to the Declaration and a restrictive covenant limiting all building improvements on the Adjacent Land to no more than 125,000 square feet. If the Adjacent Land has not been closed by Tenant or the developer of Tenant's second building within three (3) years from the Commencement Date of this Lease, then Tenant's right to purchase or cause the developer of its proposed second building to purchase the Adjacent Land shall cease and be of no further force or effect. During such period prior to the third (3rd) anniversary of the Commencement Date hereof, Landlord shall have the right to burden the Adjacent Land with an additional easement or easements if and to the extent reasonably necessary to provide a utility service or services to other property that Landlord owns in the vicinity, provided that such easements do not materially adversely affect or impair the ability of Tenant to develop an up to 125,000 square foot building, and related improvements, as the same are generally depicted on that certain Site Plan dated 12/15/94 last revised 2/20/95 (the "Site Plan"), as prepared by Masterson Fowler Associates, Ltd.

40. FINANCIAL COVENANTS OF TENANT. Tenant represents and warrants to Landlord that from the Commencement Date until the end of the Term, Tenant shall use all reasonable efforts to maintain a net worth of no less than ninety percent (90%) of the net worth of Tenant as of the date of this Lease, which the parties agree equals Seventeen Million Nine Hundred Thirty-Three Thousand and No/100 Dollars ($17,933,000.00) (the "Base Net Worth"). The method of determining the net worth of Tenant shall be consistent with the method of determination of the Base Net Worth. Tenant shall deliver to Landlord, within five (5) business days after receipt thereof, (i) audited, annual financial statements prepared by an independent public accounting firm, and (ii) quarterly unaudited financial statements prepared either by such independent public accounting firm or by Tenant. The financial statements shall include, at a minimum, a balance sheet, income and cash flow statements and notes thereto. Tenant shall use its reasonable, good faith efforts to cause the audited, annual financial statements to be prepared and received within sixty (60) days after the end of Tenant's fiscal year and the unaudited, quarterly financial statements to be prepared and received within thirty (30) days after the end of each quarter or, in each case, as soon thereafter as is reasonably practical. It shall be deemed to be a Default hereunder if the net worth of Tenant, as of the end of any quarter, shall be less than the Base Net Worth for two (2) consecutive quarters. Notwithstanding the foregoing, it shall not be deemed to be a Default if the net worth of Tenant shall fall below the Base Net Worth as a result of either (x) an adverse change in generally accepted accounting principles or (y) an adverse change in federal or state income tax laws or regulations. Furthermore, any Default asserted by Landlord pursuant to this Section shall be so asserted by Landlord, if at all, within sixty (60) days after receipt by Landlord of Tenant's financial statement for the second (2nd) quarter in question, and Landlord shall commence the exercise of any of its remedies under the Lease for such Default within ninety (90) days after the end of any cure period therefor. Failure by Landlord to so act within such time periods shall be deemed to be a waiver of such Default for the year in question. If the net worth of Tenant which gives rise to any such Default under this Section 40 is at least ninety percent (90%) of the Base Net Worth, then Tenant shall have the right, at its sole option, to cure such Default by providing to Landlord a security deposit equal to two (2) months' Base Rent.

41. RENTAL ABATEMENT. Notwithstanding anything in this Lease to the contrary, during the first one (1) month of the Term there shall be no Base Rent due or payable for the Premises, such Base Rent being hereby abated by Landlord.

42. REQUIRED LICENSES AND PERMITS. Landlord hereby acknowledges that Tenant and/or a Tenant Related Party have negotiated with Cobb County to secure a reduction and/or abatement of certain County license and/or permit fees, costs and expenses, as an inducement to Tenant to locate the Facility in Cobb County and not relocate to another County in Georgia. If and to the extent that any applicable Cobb County or other licenses and/or permits are to be procured hereunder (or under the Pre-Occupancy Agreement, or both) by Landlord, and if and to the extent that the costs, expenses or fees associated with such licenses and/or permits are reduced or abated due to Tenant's and/or Tenant's Related Parties having secured such reduction and/or abatement, then Tenant shall be entitled to an abatement against its first payment or payments of Rent otherwise payable hereunder in the amount thereof. Such amount is currently estimated by the parties to be approximately Twenty-Five Thousand and No/100 Dollars ($25,000.00 +/-).

43. DESIGN AND MOVING ALLOWANCES. Landlord shall pay to Tenant (i) a moving allowance of $95,210.00 (the "Moving Allowance") and (ii) a space planning and design allowance of $95,210.00 (the "Design Allowance"). The Moving Allowance and the Design Allowance shall be due and payable on the date on which Tenant takes occupancy of the Premises. Tenant shall not be required to provide verification of Tenant's actual moving expenses or space planning and design expenses in order to be entitled to payment of the Moving Allowance and the Design Allowance.

IN WITNESS WHEREOF, Landlord and Tenant have caused this instrument to be duly executed on the day and year first set forth above.

Tenant:

CRYOLIFE INC.,
a Florida corporation

By: /s/ Steven G. Anderson
Name: Steven G. Anderson
Its: Chairman, President and C.E.O.

Date of Signature: 4/14, 1995

Landlord:

AMLI LAND DEVELOPMENT-I LIMITED PARTNERSHIP, an Illinois limited partnership

By: AMLI REALTY CO., a Delaware corporation, its sole general partner

By: /s/ Philip N. Tague
Name: Philip N. Tague
Its: Executive Vice President

Date of Signature: 4/18, 1995

TENANT ACKNOWLEDGMENT

STATE OF GEORGIA)
)
COUNTY OF FULTON)

I, _____in and for said County, in the State aforesaid, DO HEREBY CERTIFY that STEVEN G. ANDERSON personally known to me to be the Chairman, President and C.E.O. of **CRYOLIFE, INC.,** and personally known to me to be the same person whose name is subscribed to the foregoing instrument, appeared before me this day in person and acknowledged that as such Chairman, C.E.O. and President he signed and delivered the said instrument as President of said corporation, pursuant to authority given by the Board of Directors of said corporation as his free and voluntary act and as the free and voluntary act and deed of said corporation, for the uses and purposes therein set forth.

GIVEN under my hand this ____day of _____, 1995.

_____
Notary Public

[Affix Notarial Stamp or Seal]

LANDLORD ACKNOWLEDGMENT

STATE OF GEORGIA)
)
COUNTY OF FULTON)

I, _____in and for said County, in the State aforesaid, DO HEREBY CERTIFY that Philip N.Tague personally known to me to be the Executive Vice President of Amli Realty Co., the sole general partner of **AMLI LAND DEVELOPMENT-I LIMITED PARTNERSHIP**, an Illinois limited partnership, and personally known to me to be the same person whose name is subscribed to the foregoing instrument, appeared before me this day in person and acknowledged that as such Executive Vice President, he signed and delivered the said instrument as Executive Vice President of said corporation on behalf of such partnership, pursuant to authority given by the Board of Directors of said corporation as his free and voluntary act and as the free and voluntary act and deed of said corporation and said partnership, for the uses and purposes therein set forth.

GIVEN under my hand this ____ day of _____, 1995.

_____
Notary Public

[Affix Notarial Stamp or Seal]

EXHIBIT A

LEGAL DESCRIPTION OF THE PREMISES

Legal Description:	The Premises are located at the southeast corner of the intersection of U.S. Highway 41 and Roberts Boulevard in Cobb County, Georgia, and are depicted on the attached Sheet A-1 of the Cryolife at Barrett Site Plan by Masterson Fowler Associates, Inc. Landlord shall provide a metes and bounds legal description of the Premises to be substituted for this Exhibit A upon Tenant's reasonable approval
Street Address:	
Tax Index Number:	

EXHIBIT B

SCHEDULE OF BASE RENT PAYMENTS

Lease Year	Base Rental Rate (per Net Rentable Square Foot)	Annual*	Monthly*
ONE	$ 8.50	$ 809,285.00	$ 67,440.42
TWO	$ 8.67	$ 825,470.00	$ 68,789.23
THREE	$ 8.84	$ 841,656.40	$ 70,138.03
FOUR	$ 9.02	$ 858,794.20	$ 71,566.18
FIVE	$ 9.20	$ 875,932.00	$ 72,994.33
SIX	$ 9.38	$ 893,069.80	$ 74,422.48
SEVEN	$ 9.57	$ 911,159.70	$ 75,929.98
EIGHT	$ 9.76	$ 929,249.60	$ 77,437.47
NINE	$ 9.96	$ 948,291.60	$ 79,024.30
TEN	$ 10.16	$ 967,333.60	$ 80,611.13
ELEVEN	$ 10.36	$ 986,375.60	$ 82,197.97
TWELVE	$ 10.57	$ 1,006,369.70	$ 83,864.14
THIRTEEN	$ 10.78	$ 1,026,363.80	$ 85,530.32
FOURTEEN	$ 11.00	$ 1,047,310.00	$ 87,275.83
FIFTEEN	$ 11.22	$ 1,068,256.20	$ 89,021.35

* Subject to adjustment per Section 38 of the Lease.

EXHIBIT C
FORMS OF ESTOPPEL LETTER

LEASE DATE: ____, 1995.

LANDLORD: AMLI LAND DEVELOPMENT-I LIMITED PARTNERSHIP

TENANT: CRYOLIFE, INC.

PREMISES: Approximately11 acres together with a 98,268 square foot building commonly known as the Cryolife headquarters building in Barrett, Cobb County, Georgia

I. *[The following is to be used when the Landlord is the requesting party and the Tenant is the certifying party].*

The undersigned Tenant of the above Lease hereby certifies to Landlord and ["Lender"] ["Buyer"] as follows:

1. That the Lease calls for monthly base rent installments in accordance with Schedule I attached hereto and made a part hereof commencing on _____, 19__, and Tenant presently claims no offsets, deductions or credits against future payments of rent.

2. That no advance rental or other payment has been made in connection with the Lease.

3. That the Lease is a valid lease and in full force and effect. Attached hereto is a true and complete copy of the Lease and all amendments and other agreements relating to the Lease and the rent payable thereunder, which documents represent the entire agreement between the parties; that to Tenant's knowledge there is no existing Default on the part of the Tenant; that to Tenant's knowledge there is no existing Default on the part of the Landlord; that to Tenant's knowledge, no event has occurred which, with the passing of time or giving of notice or both, would constitute a Default; and that the Lease has not been amended, modified, supplemented, extended, renewed or assigned.

4. That the Lease provides for a primary term of _____ (____) years ending.

5. That there are no actions, voluntary or, to Tenant's knowledge, involuntary pending against the Tenant under the bankruptcy laws of the United States or any state thereof.

6. That Tenant is entitled to no amounts from Landlord (including, without limitation, non-monetary rent concessions) other than the following: .

7. If Tenant has taken occupancy of the Premises on or prior to the date hereof, that all obligations and conditions under said Lease to be performed by Landlord or Tenant have been satisfied, free of defenses and set-offs, including all construction work to be completed to the Premises, except for the

following: _____
_____.

8. That Tenant shall have all necessary licenses and permits to carry on its business at the Premises prior to opening for business.

9. That Tenant has received no notice of, and has no actual knowledge of, any violations of any federal, state, county or municipal statutes, laws, codes, ordinances, rules, regulations, orders, decrees or directives relating to the Tenant on the Premises that would adversely affect the use or condition of the Premises or Tenant's occupancy thereof. Tenant has received no notice from any governmental body or agency or from any person or entity with respect to any actual or threatened taking of the Premises or any portion thereof for any public or quasi-public purpose by the exercise of condemnation or eminent domain.

10. That this certification is made knowing that Seller and Lender [Buyer] are relying upon the representations herein made.

Tenant:

CRYOLIFE, INC.
a Florida corporation

By:
Name:
Its:

Dated: _____

II. *[The following form is to be used when the Tenant is the requesting party and the Landlord is the certifying party].*

The undersigned Landlord of the above Lease hereby certifies to Tenant and its permitted assignee as follows:

1. That the Lease calls for monthly base rent installments in accordance with Schedule I attached hereto and made a part hereof commencing on _____, 19__.

2. That no advance rental or other payment has been made in connection with the Lease.

3. That the Lease is a valid lease and in full force and effect. Attached hereto is a true and complete copy of the Lease and all amendments and other agreements relating to the Lease and the rent payable thereunder, which documents represent the entire agreement between the parties; that to Landlord's knowledge there is no existing Default on the part of the Landlord; that to Landlord's knowledge there is no existing Default on the part of the Tenant; that to Landlord's knowledge, no event has occurred which, with the passing of time or giving of notice or both, would constitute a Default; and that the Lease has not been amended, modified, supplemented, extended, renewed or assigned.

4. That the Lease provides for a primary term of _____(_____) years ending _____.

AMLI LAND DEVELOPMENT-I LIMITED PARTNERSHIP, an Illinois limited partnership

By: AMLI REALTY CO., a Delaware corporation, its sole general partner

By:
Name:
Its:

Dated: _____

SCHEDULE 1 TO ESTOPPEL LETTER

SCHEDULE OF BASE RENT PAYMENTS

Lease Year	Base Rental Rate (per Net Rentable Square Foot)	Annual*	Monthly*

* Subject to adjustment per Section 38 of the Lease.

EXHIBIT D

SCHEDULE OF HAZARDOUS MATERIALS

STATE OF _____

COUNTY OF _____

MEMORANDUM OF LEASE

THIS MEMORANDUM OF LEASE is made and entered into this ____day of _____, 1995, by and between AMLI LAND DEVELOPMENT - I LIMITED PARTNERSHIP, an Illinois limited partnership ("Landlord") and CRYOLIFE, INC., a Florida corporation ("Tenant").

W I T N E S S E T H:

WHEREAS, on April ____, 1995, Landlord and Tenant entered into a certain Lease Agreement (the "Lease"), pertaining to a 98,268 square foot office building to be built on the land described on Exhibit "A" attached hereto and by this reference made a part hereof (said building and land being collectively referred to as the "Premises"); and

WHEREAS, pursuant to Section 35.9 of the Lease, the parties desire to enter into this Memorandum of Lease in order to provide public record notice of the Lease, and certain terms and provisions thereof.

NOW, THEREFORE, for and in consideration of the premises hereto, for TEN DOLLARS ($10.00) and other good and valuable considerations the receipt, adequacy and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Term of Lease. The term of the Lease shall commence on the one hundred twenty-second (122nd) day (the "Commencement Date") after the later of the "Substantial Completion Date" (as defined in the Lease) or June 1, 1996, and shall terminate one hundred eighty (180) calendar months after such Commencement Date.

2. Certain Provisions. With respect to the subject matter discussed below, the Lease contains certain specific provisions which should be referred to in detail in the event of any question:

(a) Extension Option. Tenant shall have an option to extend the term of the Lease for one (1) additional period of five (5) years, as more particularly set forth in Section 37 of the Lease, a copy of which Section 37 is attached hereto as Exhibit "B" and is by this reference made a part hereof.

(b) Subordination and Non-Disturbance. The Lease shall be subordinate to any mortgage encumbering the Premises, provided that the holder of such mortgage enters into a non-disturbance agreement with Tenant, as more particularly set forth in Section 29 of the Lease, a copy of which Section 29 is attached hereto as Exhibit "C" and is by this reference made a part hereof.

3. General. This Memorandum of Lease: (i) shall be governed by and construed in accordance with the laws of the State of Georgia; (ii) may be executed in multiple counterparts, each of which shall

constitute an original; (iii) shall be binding upon and inure to the benefit of the parties hereto, their respective heirs, successors and assigns; and (iv) may not be modified, amended or altered, except by a writing signed by each of the parties hereto.

IN WITNESS WHEREOF, the parties hereto have caused this Memorandum of Lease to be made, executed and delivered the day and the year first above written.

LANDLORD:

AMLI LAND DEVELOPMENT - I
LIMITED PARTNERSHIP,
an Illinois limited partnership

By: Amli Realty Co.,
a Delaware corporation,
its sole general partner

Signed, sealed and delivered
in the presence of:

_____
Witness

By: _____
Philip N. Tague,
Executive Vice President

_____
Notary Public

My Commission Expires:

_____

[CORPORATE SEAL]

[NOTARIAL SEAL]

TENANT:

CRYOLIFE, INC.,
a Florida corporation

Signed, sealed and delivered
in the presence of:

By: _____

_____
Witness

Steven G. Anderson,
Chairman, President and
Chief Executive Officer

_____
Notary Public

My Commission Expires:

_____
[NOTARIAL SEAL]

[CORPORATE SEAL]

EXHIBIT F
DEPICTION OF ADJACENT LAND

EXHIBIT 10.22

TECHNOLOGY LICENSE

This Agreement entered into this 28th day of March, 1996, between Colorado State University Research Foundation of Fort Collins, Colorado, 80522, (hereinafter referred to as ("CSURF"), CryoLife, Inc. of 2211 New Market Parkway, Suite 142, Marietta, Georgia 30067, (hereinafter referred to as "Company").

W I T N E S E T H:

WHEREAS, Dr. Chris Orton has invented, is developing and may develop in the future certain Trade Secrets, Know-How and Patents dealing with methods, procedures and sciences relating to the science of enhancing fibroblast and other cellular ingrowth into homograft, xenograft and bioprosthetic grafts;

WHEREAS, CSURF by virtue of its contractual relationship with Colorado State University ("CSU") and by virtue of CSU's contractual relationship with Dr. Orton, is the owner of all right and title to the Technology;

WHEREAS, the parties entered into a Technology Option Agreement dated March 1, 1991 (the "1991 Agreement") pursuant to which the Company evaluated the Technology for use in certain products currently under development;

WHEREAS, the Company now desires to license the Technology in order to continue its product development and eventually commercialize products utilizing the Technology and to obtain as part of the license certain assistance from Dr. Orton; and

WHEREAS, the parties desire to enter into the following Agreement to license the Technology and provide for Dr. Orton's assistance upon the terms and conditions hereinafter set forth.

NOW THEREFORE, in consideration of the premises, the Company's continued investment in product development incorporating the Technology in reliance upon the promises hereinafter set forth, and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

SECTION I. DEFINITIONS. The following terms shall have the meanings as hereinafter set forth:

"Commercialization" shall mean the ability after the Company is satisfied with the safety and efficacy of any Product to market and distribute the Product without regulatory restraint within the United States following receipt of premarket approval from the FDA. Commercialization shall not include limited sales within the United States under an investigatory device exemption or similar conditional sale approval received from the FDA.

"FDA" shall mean the United States Food and Drug Administration or successor agency.

"Milestone Payments" shall mean the payments required to be made to CSURF pursuant to Section III(4).

"Minimum Royalties" shall mean the payments required to be made to CSURF pursuant to Section III(3).

"Patent(s)" shall mean U.S. patent number 5,192,312 together with any and all domestic and foreign patents and patent applications which may in the future be filed on the Science which are owned, developed or acquired by CSURF. The term Patents shall also include any and all U.S. or foreign divisions, continuations, continuations in part, substitutions, reissues and extensions of the said Patents.

"Percentage Royalties" shall mean the payments required to be made to CSURF pursuant to Section III(1).

"Principal Investigator" shall mean Dr. Orton or his successor, if any, and shall be responsible for all technical communications with the Company. Nothing in this Agreement shall be construed so as to require CSURF to pursue the Science in the event that Dr. Orton leaves CSU.

"Products" shall mean any chemical, device, process, substance or technique which utilizes the Technology and is intended or adapted for use to enhance fibroblast or other cellular ingrowth into homograft, xenograft and bioprosthetic grafts.

"Science" shall mean the field relating to enhancing fibroblast and other cellular ingrowth into homograft, xenograft and bioprosthetic grafts, including any methods, procedures and materials related thereto.

"Subsidiaries" shall mean (a) any person or entity directly or indirectly owning, controlling, or holding power to vote 25% or more of the outstanding voting securities of Company, (b) any person or entity 25% or more of whose outstanding voting securities are directly or indirectly owned, controlled or held with power to vote by Company, or (c) any executive officer, director, or general partner of an entity defined under (a) or (b) in the foregoing. As used in this definition, "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and polices of an entity or of Company.

"Technology" shall mean any trade secrets, know-how and patents heretofore or hereafter owned, developed or acquired by CSURF which are related to the Science, including, without limitation, the Patents.

SECTION II. LICENSE.

1. License Grant. CSURF hereby grants Company the sole and exclusive, worldwide license to the Technology to develop, manufacture, use and sell Products. Such license shall continue for the longer of 15 years or the life of any and all Patent(s).

2. Sublicenses. The Company shall have the right to grant sublicenses of any rights granted to it under this License, provided that Company shall have received the prior approval of CSURF, which shall not be unreasonably withheld. CSURF's consent shall not be required for sublicenses to Company Subsidiaries or for contract processing or manufacturing sublicenses entered into to facilitate the Company's development or production of Products.

3. Performance Goals. The Company agrees to use its reasonable best efforts to achieve performance goals agreed upon by CSURF and the Company. The Company's performance goals for the 1996 Calendar year are set forth on "Exhibit A" attached hereto. Performance goals will be determined by CSURF and the Company upon consultation with the Principal Investigator in the years following 1996. The performance goals shall be replaced by the Company's payment of minimum royalties under Section III(3) once payments are first made pursuant to Section III(3)(b).

4. Receipt and Delivery of Technology. The Company acknowledges both the receipt of the information which presently constitutes the Technology and fact that neither CSURF nor Principal Investigator represent or promise that they will develop or acquire any additional information or rights that would fall within the definition of Technology. To the extent CSURF or Principal Investigator develop or acquire any such information or rights, CSURF agrees to promptly disclose same to the Company.

SECTION III. PAYMENT OBLIGATIONS.

1. Percentage Royalties. Company shall pay CSURF a royalty on Net Sales (gross sales minus sales tax, returns, discounts and freight, if any) of Product(s) in each country where Product(s) are protected by a Patent(s) equal to:

(i) 6% of the first $1 million in Net Sales;

(ii) 4% of Net Sales in excess of $1 million and up to and including $5 million; plus

(iii) 3% of Net Sales in excess of $5 million.

Percentage Royalties on Net Sales of Product(s) where Product(s) are not protected by Patent(s) shall be payable at one-half of the foregoing rates.

2. Sublicenses. In the event that the Company sublicenses the License granted in Section II(1), the Company shall remain obligated to the terms of this agreement. Company shall either require the sublicensee to pay the Percentage Royalties required by this Section III(1)

or, at the election of the Company in sublicenses that are not to Subsidiaries, the Company shall pay CSURF one third of the Percentage Royalties received by Company from such sublicenses. Company shall also pay CSURF one third of any upfront, milestone, benchmark or any other miscellaneous income received from a sublicensee.

3. Minimum Royalties. In consideration of the exclusive nature of the license grant contained in Section II, Company agrees to pay CSURF Minimum Royalties as follows:

(a) $10,000 per year beginning with a first payment on March 31, 1996 and continuing each year thereafter until such time as the Company receives U.S. Government approval permitting Commercialization of Products.

(b) $20,000 per year beginning in two equal $10,000 installments payable on January 31, and July 31, in each of the first two years after the Company receives U.S. Government approval permitting Commercialization of the Products; and,

(c) $50,000 per year thereafter in quarterly installments of $12,500 each payable on January 31, April 30, July 31, and October 31.

The Company shall be entitled to credit Minimum Royalties paid in any year against Percentage Royalties earned in the same year but not against Percentage Royalties earned in prior years or subsequent years.

4. Milestone Payments. The Company shall make the following Milestone Payments to CSURF:

(a) $10,000 within 30 days after the filing of a product license application.

(b) $20,000 within 30 days after receipt of premarket approval from the FDA permitting Commercialization of the Products within the United States.

The Company shall be entitled to credit Milestone Payments made as well as out-of-pocket expenses incurred by the Company in the prosecution of the Patent(s) against future Percentage Royalties but the amount of the credit that may be taken in any year shall be limited, in that year, to the 50% of the amount by which Percentage Royalties exceed Minimum Royalties in that year. For example, if $30,000 in Milestone Payments and Patent prosecution costs were incurred before year 2 and Percentage Royalties in year 2 exceeded Minimum Royalties paid in year 2 by the sum of $40,000, the Company would be entitled to credit only $20,000 of such amount as a credit to Milestone Payments and Patent prosecution costs in that year. The remaining $10,000 of Milestone Payments and unreimbursed Patent prosecution costs would be reimbursed in the same, fashion in future years.

5. Nonexclusive License Payments. At any time after the third anniversary of Commercialization, the Company may elect to convert this License from an exclusive license to a nonexclusive license by notifying CSURF in writing. In the event the license is converted to a nonexclusive license as provided in the preceding sentence, the Company's obligation thereafter

to make minimum royalty and milestone payments shall terminate. If CSURF thereafter relicenses the Technology to any third party at a lower percentage royalty rate than that provided in this Agreement, CSURF shall notify the Company of the lower royalty rate and offer the Company the opportunity to thereafter pay such lower royalty rate in lieu of the rate it would otherwise be obligated to pay hereunder.

6. Accounting for Payments.

(a) Payments of Percentage Royalties shall be made on or before the last business day of January, April, July and October of each year for the sale of all Products sold during the preceding quarterly periods ending on the last days of December, March, June and September. Such payments shall be accompanied by a statement showing the sales of the Products by the Company to all parties, and such other particulars as are necessary or which may be reasonably requested by CSURF for an account of the royalties payable pursuant to this Agreement. Payment of the amount of royalties due shall accompany such statement.

(b) The Company shall keep complete and accurate records of the sales by the Company of Products. Within 60 days following the end of each quarter of a calendar year during which the royalties are due under this Agreement, the Company shall render to CSURF a written report setting forth the amount of royalties due and payable based on sales of Products during such quarter, and upon rendering such report, remit to CSURF the amount of royalties shown thereby to be due on sales of products.

(c) CSURF shall have the right for a period of five years after receiving any royalty report to appoint an independent certified public accountant who is acceptable to the Company who shall have access to the Company's records during reasonable business hours for the purpose of verifying the royalties payable under this Agreement, but this right may not be exercised more than once in any calendar year, and the accountant shall disclose to CSURF only information relating solely to the accuracy of the royalty report and the royalty payments made in accordance with this Agreement. The failure of CSURF to request verification of any royalty report during said five year period shall be considered acceptance of the accuracy of such report and the Company shall have no obligation to maintain any records pertaining to such report beyond said five year period.

SECTION IV. REGULATORY AND PATENT RESPONSIBILITIES.

1. Regulatory Approvals. The Company agrees, at its own expense, to take reasonable steps to obtain regulatory approval from the FDA to manufacture, use and sell Product(s) within the United States. If at any time the Company ceases to use reasonable efforts to seek regulatory approval from the FDA, the Company shall notify CSURF in writing identifying the reasons the Company no longer seeks FDA approval and the Agreement shall terminate. However, if CSURF is successful in licensing the Technology to a third party, CSURF will pay to the Company 50% or any income (royalties, upfront payments, milestone, benchmark or other miscellaneous payments) received from such license in any given fiscal year, for the term of such license in consideration of the Company's efforts and expenses incurred in

development and commercialization costs and in consideration of patent related expenses incurred by the Company in connection with the Technology.

2. Patent Prosecution.

(a) The Company shall upon written request from CSURF bear the reasonable costs and responsibility for the preparation, filing and prosecution of the United States Patent Applications under the Technology, but in no case beyond an appeal to and a decision by the United States Patent and Trademark Office Board of Appeals, unless the Company specifically agrees otherwise in writing. With respect to foreign patent applications, the procedure shall be as follows: foreign patent applications shall be filed by the Company on behalf of CSURF in such countries as selected by the Company. Such selection of countries is to be made in writing by the Company to CSURF within nine months after the filing date of any corresponding U.S. application, and the filing of such designated foreign patent application will be made, in CSURF's name within one year after the filing date of the corresponding U.S. application. The Company will pay the reasonable costs of the preparation, filing and prosecution of such foreign applications and the maintenance of the resulting patents for so long as the Company remains a licensee under the patents. CSURF may file and prosecute applications and maintain the resulting foreign patents at its own expense in countries not selected by the Company. The Company having elected to file a foreign patent application, may advise CSURF without loss of any right granted by this Agreement that it does not wish to pursue further prosecution or maintenance in a particular country and the Company will have no further obligations for payment of any costs for patent prosecution or maintenance in the country. CSURF may then, if it so desires, continue such prosecution or maintenance at its expense. Such election by the Company to discontinue prosecution or maintenance in a particular country shall not prejudice the Company's rights under this Agreement in other countries.

(b) Company will keep CSURF informed of all patent activity related to the Technology by sending CSURF copies of all Patent filings (U.S. and foreign) and Patent prosecution related information. Company will also notify and allow the Principal Investigator the opportunity to be involved in the decisions related to the Science of any Patent application or Patent prosecution related to the Technology.

(c) In the event that during the course of this Agreement, a patentable invention is made jointly by one or more members of the Company and one or more researchers at CSU, as determined by the laws of patent inventorship, title to any Patent or Patents maturing therefrom shall be held by CSURF.

(d) If CSURF files Patent applications or otherwise obtains rights which relate to the Technology, the Company shall have a right to an exclusive worldwide license under such Patent rights as are set forth in Section II(1) and the exclusive license granted to the Company under Section II(1) shall be extended to the expiration date of the last expired patent which issues in any particular country. If CSURF decides not to file a Patent application on any CSURF invention which relates to the Technology, CSURF will promptly notify the Company of the decision and disclose such invention to the Company. The Company will then, at its option, have the right to file Patent applications throughout the world and to have an exclusive license,

with a right to grant sublicenses, under such Patent rights as are set forth in Section II(1) and exclusive license granted to the Company under Section II(1) shall be extended through the expiration date of the last to expire patent which issues in any particular country.

(e) CSURF shall be the sole and exclusive owner of said Patent(s), subject to the terms of this Agreement.

3. Patent Enforcement.

(a) CSURF does not warrant that the Technology licensed hereunder shall not infringe any patents. However, CSURF is not presently aware of the existence of such patents owned by third parties.

(b) CSURF and Company agree to inform each other in the event that it becomes aware of any potential infringement of the Technology. CSURF shall then, at its expense, have the right to take appropriate action against any potential infringer. In the event that CSURF elects not to take action against the potential infringer, the Company may elect to do so at its expense, in either its own name or in CSURF's name. In either event, CSURF and the Company agree to cooperate fully with any such proceedings. The Company may not, as part of settlement negotiations, offer or grant non-exclusive licenses without the written consent of CSURF, such consent shall not be unreasonably withheld. If the Company pursues litigation, it shall be entitled to offset the cost of litigation against 50% of the royalty payments coming due during the litigation. If the Company succeeds in obtaining a damage judgment in the litigation, it shall be entitled to recoup its costs of litigation, to the extent not previously recouped out of royalties, plus 2/3 of the remaining amount of the judgment, if any. The remainder of the judgment, if any, shall be paid to CSURF as payment, in full, of royalties withheld by the Company during the litigation. If neither party pursues litigation and there is no acceptable settlement, the Company shall be entitled to withhold royalties until a settlement is reached, but only after obtaining an opinion from patent counsel reasonably acceptable to both parties that the Patents have been infringed.

SECTION V. ASSISTANCE FROM DR. ORTON AND REPORTING.

1. Assistance from Dr. Orton. CSURF warrants, that at the time of the signing of this Agreement, Dr. Orton has agreed to provide reasonable assistance (as long as he is a CSU employee) to the Company, as reasonably requested by the Company, in evaluating or testing Product(s) prototypes. The Company agrees to pay Dr. Orton a reasonable amount for out-of-pocket expenses and time in excess of ten hours per month associated with Dr. Orton's assistance.

2. Reporting Responsibilities. CSURF, through the Principal Investigator, will provide semi-annual written reports to the Company summarizing the progress of ongoing research conducted by Dr. Orton and CSU on the Technology and will otherwise keep the Company fully and promptly informed of all progress on the Technology. The Company will provide semi-annual written reports to CSURF which summarize the progress of the Company's efforts to meet its Performance Goals and to complete development of the Product.

SECTION VI. REPRESENTATION OF CSURF. CSURF hereby represents and warrants that it owns all right, title, and interest in and to the Technology and has the authority to enter into and perform its obligations under this Agreement. Except as provided in this Agreement, CSURF expressly disclaims all Warranties, express or implied, including without limitation warranties of merchantability or fitness of Technology for a particular purpose. CSURF further warrants that neither Dr. Chris Orton nor any other Colorado State University employee or others involved with Dr. Orton in the development of the Technology retains any rights in or to the Technology which are inconsistent with or encumber or limit the rights to the Technology which are granted to the Company by this Agreement.

SECTION VII. INDEMNIFICATION. Except as provided above, Company shall indemnify, defend, and hold CSURF harmless from and against any and all Damages incurred by CSURF arising out of any Claim of a third party based upon the production, distribution, or marketing by Company of the Products or upon an allegation that any of the Products infringes upon any patent of a third party.

SECTION VIII. CONFIDENTIALITY. Except as otherwise expressly .provided in this Agreement, the Company and CSURF shall use their best efforts to retain in confidence for a period of five years after the termination of the Agreement all information received from the other party in the course of pursuing the Science, provided, however, that such information may be disclosed insofar as such disclosure is necessary to defend itself against litigation, to file and prosecute patent applications or to comply with governmental regulations, and provided, further, that such obligation of confidentiality shall be waived as to information which (i) is in the public domain, (ii) which comes into the public domain through no fault of the party claiming waiver, or (iii) was known to the party claiming waiver prior to its disclosure by the other party.

SECTION IX. PUBLICATIONS. While it is understood that CSURF and the Principal Investigator are free to publish the results of their studies carried out under this Agreement, CSURF agrees to provide the Company the opportunity to review any proposed manuscripts at least thirty (30) days prior to their intended submission for publication and, at the Company's request, shall delay submission for a period sufficient to permit adequate steps to be taken to secure patent protection for any patentable subject matter.

SECTION X. TERMINATION. This license shall continue in full force and effect until the end of its term as determined by Section II(1). CSURF may earlier terminate this Agreement should Company commit any material breach of the terms and conditions of this Agreement and if such failure or breach shall continue for a period of 30 days after written notice thereof is delivered by CSURF to Company, said termination to be effective at the expiration of said 30 day period if such failure or breach is not cured, likewise Company may terminate this Agreement if CSURF commits any material breach of the terms and conditions of this Agreement and such failure or breach shall continue for a period of 30 days after written notice thereto is delivered by Company to CSURF, said termination to be effective at the expiration of said 30 day period if such failure or breach is not cured.

This Agreement will automatically terminate if Company makes any general assignment for the benefit of its creditors, a petition is filed by or against Company initiating a proceeding

under any provision of the Bankruptcy Act, or a receiver or similar officer is appointed by a court of competent jurisdiction to take charge of all or any part of Company's property.

SECTION XI. GENERAL PROVISIONS.

1. Entire Agreement. This Agreement constitutes the entire agreement and understanding of the parties with respect to the Technology and supersedes and terminates all other prior commitments, arrangements, or understandings, both oral and written, including the 1991 Agreement, between the parties with respect to the Technology.

2. Modification. This Agreement may not be modified or amended except by an instrument in writing executed by each of the parties.

3. Binding; Assignment. This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and assigns. This Agreement shall not be assignable by CSURF without the prior written consent of the Company. This Agreement shall not be assignable by the Company without the prior written consent of CSURF except that the Company may assign to a successor in ownership of all or substantially all of the business assets to which the Agreement pertains, which successor shall expressly assume in writing the performance of all the terms and conditions of this Agreement to be performed by the Company.

4. Governing Law. This Agreement shall be governed and construed in accordance with the laws of the State of Colorado.

5. Notices. Any notices or other communications required or permitted hereunder shall be in writing and shall be sent by (a) personal delivery (including delivery by Federal Express or similar overnight courier), (b) mailed registered or certified mail, return receipt requested, postage prepaid, or (c) transmitted by facsimile, telex, or telecopy to the numbers set forth below and with originals of such transmissions sent by registered or certified mail. Notices shall be sent to the addresses as set forth below or to such other addresses as may be hereafter furnished by one party to the other party in compliance with the terms hereof.

If to CSURF: CSURF
Attn: President
P.O. Box 483
Fort Collins, CO 80522

If to Company: CryoLife, Inc.
Attn: President
Suite 142
2211 New Market Parkway
Marietta, Georgia 30067
Facsimile Number: 404-952-9743

With a copy to: Arnall Golden Gregory LLP
171 17th Street NW
Atlanta, Georgia 30363-1031
Attn: Clinton D. Richardson, Esq.
Facsimile Number: 404-873-8665

Notices shall be effective (a) upon receipt by the addressee, if sent by personal delivery or mail, or (b) upon transmission, if sent by telecopy, telex, or facsimile provided that the telecopy, telex or facsimile transmittal is verified by an officer of the receiving party that the document was actually received.

6. Waiver. None of the provisions of this Agreement shall be deemed to have been waived by any act or acquiescence on the part of either party, their agents or employees, but may be waived only by instruments in writing signed by an authorized officer of the respective party. No waiver of any provision of this Agreement shall constitute a waiver of any other provision or of the same provision on another occasion.

7. Counterparts. This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date set forth herein by their duly authorized representatives.

COLORADO STATE UNIVERSITY RESEARCH FOUNDATION

By: /s/ _____

Title: _____

Date: _____

CRYOLIFE, INC.

By: /s/ _____

Title: _____

Date: _____

EXHIBIT A

GOALS AND OBJECTIVES – 1996
SYNERGRAFT HEART VALVE DEVELOPMENT

CryoLife Responsibilities

Objective	Completion
Demonstrate applicability of SynerGraft technology to intact heart valve construct which includes unstented leaflets and unfixed conduit	October – December 1996 (in stages described below)
Large animal model Stage I Allograft aortic valve: test of depopulation effects on valve integrity; implants in sheep	February 1996
Large animal model Stage II Depopulated xenograft aortic valve: test of insertion of pig valve in aortic position in sheep; evaluation of size matching parameters	April 1996

Decision point: do non-repopulated valve appear to function well without cellular repopulation. If so, go into long-term 6-9 month study. If not, precede with stages III and IV.

Large animal model Stage III Repopulated allograft heart valve; assessment of autogenous dermal fibroblast survival in an allograft heart valve matrix	July 1996
Large animal model Stage IV Repopulated xenograft heart valve; assessment of autogenous dermal fibroblast survival and function in an xenograft heart valve matrix	October 1996

Colorado State Responsibilities

Parallel studies to animal implant models as noted above, but in pig to dog model of aortic valve grafting	October – December 1996

EXHIBIT 10.44

SUMMARY OF COMPENSATION ARRANGEMENTS
WITH NON-EMPLOYEE DIRECTORS
(As of February 21, 2008)

The following summarizes, as of February 21, 2008, the current cash compensation and benefits received by the Company's non-employee Directors of the Board of Directors of CryoLife. It is intended to be a summary of existing arrangements, and in no way is intended to provide any additional rights to any non-employee Director.

Annual Retainer and Committee Chair Fees

Each of the non-employee Directors receives an annual cash retainer of $40,000. The Audit Committee Chairman receives an additional $10,000 chairman's fee, the Compensation Committee Chairman receives an additional $7,500 chairman's fee, and the Chairmen of the Nominating and Corporate Governance Committee and Regulatory Affairs and Quality Assurance Policy each receive an additional $5,000 chairman's fee. CryoLife pays all of these fees in cash, on a monthly basis. The Presiding Director also receives an additional $25,000 retainer, with $10,000 paid in cash on a monthly basis and $15,000 paid in restricted stock that vests 12 months after the date of issuance.

Restricted Stock Grants

In May 2007, the Compensation Committee determined that the annual equity portion of non-employee Director compensation would be paid in the form of an annual grant of 6,250 shares of restricted stock. These shares are to be issued each year following the annual meeting of stockholders and vest on the first anniversary of issuance. The size and terms of the grant are subject to annual reevaluation by the Compensation Committee. If a Director ceases to serve as a Director for any reason, he will forfeit any unvested portion of the award.

Exhibit 21.1

SUBSIDIARIES OF CRYOLIFE, INC.

Subsidiary	Jurisdiction
CryoLife Acquisition Corp.	Florida
CryoLife Europa, LTD.	England and Wales
AuraZyme Pharmaceuticals, Inc.	Florida
CryoLife International, Inc.	Florida

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-121406 of CryoLife, Inc. on Form S-3 and Registration Statement Nos. 33-83996, 33-84048, 333-06141, 333-59849, 333-104637 and 333-119137 of CryoLife, Inc on Form S-8 of our reports dated February 21, 2008 relating to the consolidated financial statements and financial statement schedule of CryoLife, Inc. (which expresses an unqualified opinion and includes an explanatory paragraph relating to the Company's adoption on October 1, 2005 of Statement of Financial Accounting Standards No. 123R "Share Based Payment" and the Company's adoption on January 1, 2007 of Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainly in Income Taxes") and management's report of the effectiveness of internal control over financial reporting, appearing in this Annual Report on Form 10-K of CryoLife, Inc. for the year ended December 31, 2007.

DELOITTE & TOUCHE LLP
Atlanta, Georgia
February 21, 2008

Exhibit 31.1

I, Steven G. Anderson, certify that:

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

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

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

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

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

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

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

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

5. The registrant's other certifying officer(s) 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 the registrant's board of directors (or persons performing the equivalent functions):

    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 control over financial reporting.

Date: February 21, 2008

/s/ STEVEN G. ANDERSON

Chairman, President, and
Chief Executive Officer

Exhibit 31.2

I, D. Ashley Lee, certify that:

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

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

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

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

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

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

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

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

5. The registrant's other certifying officer(s) 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 the registrant's board of directors (or persons performing the equivalent functions):

    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 control over financial reporting.

Date: February 21, 2008

/s/ D. ASHLEY LEE

Executive Vice President,
Chief Operating Officer, and
Chief Financial Officer

Exhibit 32

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

In connection with the Annual Report of CryoLife, Inc. (the "Company") on Form 10-K for the year ending December 31, 2007, 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 D. Ashley Lee, the Executive Vice President, Chief Operating Officer, and Chief Financial Officer of the Company, hereby certifies, pursuant to and for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge:

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

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

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

February 21, 2008

/s/ D. ASHLEY LEE
D. ASHLEY LEE
Executive Vice President,
Chief Operating Officer, and
Chief Financial Officer
February 21, 2008