

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

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

For the Quarterly Period Ended June 30, 2001
Commission File Number 0-21104

CRYOLIFE, INC.
(Exact name of registrant as specified in its charter)

Florida (State or other jurisdiction of incorporation or organization)	-----	59-2417093 (I.R.S. Employer Identification No.)
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1655 Roberts Boulevard, NW
Kennesaw, Georgia 30144
(Address of principal executive offices)
(zip code)

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

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

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

YES X NO _____

The number of shares of common stock, par value \$0.01 per share, outstanding on August 9, 2001 was 18,814,320.

Part I - FINANCIAL INFORMATION
Item 1. Financial statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
	----- (Unaudited)		----- (Unaudited)	
Revenues:				
Preservation services and products	\$ 21,554	\$ 19,305	\$ 42,761	\$ 38,786
Research grants and licenses	143	149	368	291
	-----	-----	-----	-----
	21,697	19,454	43,129	39,077
Costs and expenses:				
Cost of preservation services and products	9,120	8,313	18,225	17,462
General, administrative and marketing	8,120	7,422	16,279	14,500
Research and development	1,286	1,165	2,372	2,494
Interest expense	16	96	16	161
Interest income	(576)	(410)	(1,138)	(787)
Other income, net	(5)	(91)	(5)	(106)

	17,961	16,495	35,749	33,724
Income before income taxes	3,736	2,959	7,380	5,353
Income tax expense	1,196	980	2,362	1,770
Net income	\$ 2,540	\$ 1,979	\$ 5,018	\$ 3,583
Earnings per share:				
Basic	\$ 0.14	\$ 0.11	\$ 0.27	\$ 0.19
Diluted	\$ 0.13	\$ 0.10	\$ 0.26	\$ 0.19
Weighted average shares outstanding:				
Basic	18,780	18,516	18,761	18,438
Diluted	19,622	19,011	19,575	18,918

See accompanying notes to summary consolidated financial statements.

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Item 1. Financial Statements

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

	June 30, 2001	December 31, 2000
(Unaudited)		
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 16,789	\$ 17,480
Marketable securities, at market	20,552	21,234
Receivables, net	13,763	12,739
Note receivable, net	750	1,833
Deferred preservation costs, net	21,443	20,311
Inventories	4,915	3,994
Prepaid expenses and other assets	1,707	893
Deferred income taxes	565	674
Total current assets	80,484	79,158
Property and equipment, net	32,885	25,579
Goodwill, net	1,447	1,495
Patents, net	2,651	2,540
Other, net	2,220	1,780
Note receivable, net	121	643
Deferred income taxes	333	814
TOTAL ASSETS	\$ 120,141	\$ 112,009
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 1,564	\$ 2,914
Accrued expenses	1,926	1,054
Accrued procurement fees	5,284	3,537
Accrued compensation	1,956	2,097
Income taxes payable	352	---
Current maturities of capital lease obligations	180	173
Current maturities of long-term debt	1,850	934
Convertible debenture	4,393	---
Total current liabilities	17,505	10,709
Capital lease obligations, less current maturities	1,269	1,361
Bank loans	6,267	6,151
Convertible debenture	---	4,393
Total liabilities	25,041	22,614
Shareholders' equity:		
Preferred stock	---	---
Common stock (issued 20,143 shares in 2001 and 20,077 shares in 2000)	201	201
Additional paid-in capital	65,804	64,936
Retained earnings	36,398	31,381
Deferred compensation	(39)	(45)
Accumulated other comprehensive income	(1,061)	(1,088)
Less: Treasury stock at cost (1,348 shares in 2001 and 1,356 shares in 2000)	(6,203)	(5,990)

Total shareholders' equity	95,100	89,395
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 120,141	\$ 112,009

See accompanying notes to summary consolidated financial statements.

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Item 1. Financial Statements

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

	Six Months Ended June 30,	
	2001	2000
	(Unaudited)	
Net cash from operating activities:		
Net income	\$ 5,018	\$ 3,583
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,169	1,590
Provision for doubtful accounts	47	48
Deferred income taxes	(338)	558
Tax effect of nonqualified option exercises	114	---
Changes in operating assets and liabilities:		
Receivables	(1,645)	(325)
Deferred preservation costs and inventories	(2,053)	(2,104)
Prepaid expenses and other assets	(814)	(135)
Accounts payable and accrued expenses	1,815	2,145
Net cash flows provided by operating activities	4,313	5,360
Net cash flows from investing activities:		
Capital expenditures	(9,280)	(3,284)
Other assets	(49)	(83)
Purchases of marketable securities	(9,307)	(259)
Sales and maturities of marketable securities	10,664	102
Proceeds from note receivable	1,605	---
Net cash flows used in investing activities	(6,367)	(3,524)
Net cash flows from financing activities:		
Principal payments of debt	(133)	(37)
Proceeds from debt issuance	1,165	---
Payment of obligations under capital leases	(85)	(99)
Purchase of treasury stock	---	(612)
Proceeds from exercise of stock options and issuance of common stock	540	846
Net cash provided by financing activities	1,487	98
(Decrease) Increase in cash	(567)	1,934
Effect of exchange rate changes on cash	(124)	(14)
Cash and cash equivalents, beginning of period	17,480	6,128
Cash and cash equivalents, end of period	\$ 16,789	\$ 8,048

See accompanying notes to summary consolidated financial statements.

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NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with (i) accounting principles generally accepted in the United States for interim financial information and (ii) the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial presentations. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Certain prior year balances have been reclassified to conform to the 2001 presentation. Operating results for the three and six months ended June 30, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001. For further information, refer to the consolidated financial statements and notes thereto included in the CryoLife, Inc. ("CryoLife" or the "Company") Form 10-K for the year ended December 31, 2000.

NOTE 2 - INVESTMENTS

The Company maintains cash equivalents and investments in several large well-capitalized financial institutions, and the Company's policy disallows investment in any securities rated less than "investment-grade" by national rating services.

Management determines the appropriate classification of debt securities at the time of purchase and reevaluates such designations as of each balance sheet date. Debt securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at amortized cost. Debt securities not classified as held-to-maturity or trading, and marketable equity securities not classified as trading, are classified as available-for-sale. Available-for-sale securities are stated at their fair values, with the unrealized gains and losses, net of tax, reported in a separate component of shareholders' equity. The amortized cost of debt securities classified as available-for-sale is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization is included in investment income. Realized gains and losses and declines in value judged to be other than temporary on available-for-sale securities are included in investment income. The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available-for-sale are included in interest income. At June 30, 2001 all marketable equity securities and debt securities held by the Company were designated as available-for-sale.

Total gross realized gains on sales of available-for-sale securities were zero for the three month and six month periods ended June 30, 2001 and 2000. As of June 30, 2001 differences between cost and market of a \$1.1 million loss (less deferred taxes of \$366,000) were included in accumulated other comprehensive income.

At June 30, 2001 and December 31, 2000, approximately \$9.3 million and \$4.9 million, respectively, of debt securities with original maturities of 90 days or less at their acquisition dates were included in cash and cash equivalents. At June 30, 2001 and December 31, 2000, approximately \$11.7 million and \$8.3 million of investments, respectively, matured within 90 days, \$3.0 million and zero investments, respectively, had a maturity date between 90 days and 1 year and approximately \$16.0 million and \$21.2 million of investments, respectively, matured in more than one year.

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NOTE 3 - INVENTORIES

Inventories are comprised of the following (in thousands):

June 30, 2001	December 31, 2000
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(Unaudited)

Raw materials	\$ 1,953	\$ 1,796
Work-in-process	761	405
Finished goods	2,201	1,793
	-----	-----
	\$ 4,915	\$ 3,994
	=====	=====

NOTE 4 - EARNINGS PER SHARE

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
	(Unaudited)		(Unaudited)	
Numerator for basic and diluted earnings per share - income available to common shareholders	\$ 2,540	\$ 1,979	\$ 5,018	\$ 3,583
Denominator for basic earnings per share - weighted-average basis	18,780	18,516	18,761	18,438
Effect of dilutive stock options	842	495	814	480
Denominator for diluted earnings per share - adjusted weighted-average shares	19,622	19,011	19,575	18,918
Earnings per share:				
Basic	\$ 0.14	\$ 0.11	\$ 0.27	\$ 0.19
Diluted	\$ 0.13	\$ 0.10	\$ 0.26	\$ 0.19

NOTE 5 - DEBT

On April 25, 2000 the Company entered into a loan agreement, permitting the Company to borrow up to \$8 million under a line of credit during the expansion of the Company's corporate headquarters and manufacturing facilities. A commitment fee of \$20,000 was paid when the Company entered into the loan agreement. Borrowings under the line of credit accrued interest equal to Adjusted LIBOR plus 2% adjusted monthly.

On June 1, 2001, the line of credit was converted to a term loan (the "Term Loan") to be paid in 60 equal monthly installments of principal plus interest computed at Adjusted LIBOR plus 1.5%. The Term Loan contains certain restrictive covenants including, but not limited to, maintenance of certain financial ratios and a minimum tangible net worth requirement, and is secured by substantially all of the Company's assets.

NOTE 6 - DERIVATIVES

On January 1, 2001 the Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") as amended. SFAS 133 requires the Company to recognize all derivative instruments on the balance sheet at fair value, and changes in the derivative's fair value must be recognized currently in earnings or other comprehensive income, as applicable. The adoption of SFAS 133 impacts the accounting for the Company's forward-starting interest rate swap agreement.

Upon adoption of SFAS 133 in 2001, the Company recorded a pre-tax unrealized loss of approximately \$175,000 related to an interest rate swap, which was recorded as part of long-term liabilities and accumulated other comprehensive income. The interest rate swap is described below. The reclassification of any gains or losses associated with the interest rate swap into the consolidated income statement is anticipated to occur upon the various maturity dates of the

interest rate swap agreement, which expires in 2006.

The Company's Term Loan accrues interest at a variable rate based on Adjusted LIBOR. This exposes the Company to ongoing interest rate fluctuations. On March 16, 2000, the Company entered into a forward-starting interest rate swap agreement with a notional amount of \$4 million. This swap agreement took effect on June 1, 2001. The agreement was designated as a cash flow hedge to effectively convert a portion of the \$8 million Term Loan principle balance to a fixed rate basis, thus reducing the impact of interest rate changes on future income. This agreement involves the receipt of floating rate interest amounts in exchange for fixed rate interest payments over the life of the agreement without an exchange of the underlying principal amounts. The differential is paid or received monthly, and is recognized as an adjustment to interest expense.

NOTE 7 - COMPREHENSIVE INCOME

Comprehensive income includes unrealized gains and losses in the fair value of certain derivative instruments, which qualify for hedge accounting. The following is a reconciliation of net income to comprehensive income (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
	-----		-----	
	(Unaudited)		(Unaudited)	
Net income	\$ 2,540	\$ 1,979	\$ 5,018	\$ 3,583
Cumulative effect of adoption of SFAS 133, net of income taxes	---	---	(116)	---
Change in fair value of interest rate swaps, net of income taxes	5	---	(42)	---
Translation adjustment	(121)	(14)	(124)	(14)
Unrealized gains (losses) on marketable equity securities, net of income taxes	115	24	309	(64)
	-----		-----	
Comprehensive income	\$ 2,539	\$ 1,989	\$ 5,045	\$ 3,505
	=====		=====	

NOTE 8 - ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141"), which is effective July 1, 2001, and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), which is effective for the Company on January 1, 2002. SFAS 141 prohibits pooling-of-interests accounting for acquisitions. SFAS 142 specifies that goodwill and certain other intangible assets will no longer be amortized but instead will be subject to periodic impairment testing. The Company is in the process of evaluating the financial statement impact of adoption of SFAS- 142.

PART I - FINANCIAL INFORMATION

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

Results of Operations

Revenues increased 12% to \$21.7 million for the three months ended June 30, 2001 from \$19.5 million for the same period in 2000. Revenues increased 10% to \$43.1 million for the six months ended June 30, 2001 from \$39.1 million for the six months ended June 30, 2000. The increase in revenues for the three month and six month periods ended June 30, 2001 was primarily due to growth in the Company's human vascular and connective tissue cryopreservation businesses and increased sales of BioGlue surgical adhesive, partially offset by the elimination of IFM sales due to the sale of the remaining assets of IFM and a decrease in heart valve revenues.

Revenues from human heart valve and conduit cryopreservation services decreased 5% to \$7.2 million for the three months ended June 30, 2001 from \$7.6 million for the three months ended June 30, 2000, representing 33% and 39%, respectively, of total revenues during each such period. Revenues from human heart valve and conduit cryopreservation services decreased 7% to \$14.1 million for the six months ended June 30, 2001 from \$15.2 million for the six months ended June 30, 2000, representing 33% and 39%, respectively, of total revenues during each such period. The decrease in revenues for the three month and six month periods ended June 30, 2001 was due to a decrease in the number of allograft heart valve shipments of 5% and 9%, respectively, due to a decrease in procurement of hearts year to year, partially offset by higher fees received for SynerGraft treated human heart valves.

Revenues from human vascular tissue cryopreservation services increased 10% to \$6.0 million for the three months ended June 30, 2001 from \$5.5 million for the three months ended June 30, 2000, representing 28% of total revenues during each such period. Revenues from human vascular tissue cryopreservation services increased 12% to \$12.4 million for the six months ended June 30, 2001 from \$11.1 million for the six months ended June 30, 2000, representing 29% and 28%, respectively, of total revenues during each such period. The increase in revenues for the three month and six month periods ended June 30, 2001 was due to an increase in the number of vascular allograft shipments of 9% and 12%, respectively. The increase in shipments during these periods was primarily due to the Company's ability to procure greater amounts of tissue, and due to an increase in demand for saphenous vein composite grafts and femoral artery grafts.

Revenues from human connective tissue for the knee cryopreservation services increased 42% to \$5.6 million for the three months ended June 30, 2001 from \$3.9 million for the three months ended June 30, 2000, representing 26% and 20%, respectively, of total revenues during each such period. Revenues from human connective tissue for the knee cryopreservation services increased 38% to \$10.8 million for the six months ended June 30, 2001 from \$7.8 million for the six months ended June 30, 2000, representing 25% and 20%, respectively, of total revenues during each such period. This increase in revenues for the three month and six month periods ended June 30, 2001 was primarily due to an increase in the number of allograft shipments of 32% and 29%, respectively, price increases for cryopreservation services in domestic and Canadian markets, and a more favorable product mix. The increase in shipments of osteoarticular grafts and non-bone tendons during these periods was primarily due to the Company's continuing strong orthopaedic allograft tissue procurement, and due to increasing acceptance of these tissues in the orthopaedic surgeon community.

Revenues from the sale of BioGlue surgical adhesive increased 76% to \$2.6 million for the three months ended June 30, 2001 from \$1.5 million for the three months ended June 30, 2000, representing 12% and 8%, respectively, of total revenues during each such period. Revenues from the sale of BioGlue surgical adhesive increased 94% to \$5.1 million for the six months ended June 30, 2001 from \$2.6 million for the six months ended June 30, 2000, representing 12% and 7%, respectively, of total revenues during each such period. The increase in revenues for the three month and six month periods ended June 30, 2001 is due to an increase in the milliliters of BioGlue shipped of 70% and 79%, respectively. The increase in shipments was primarily due to increasing acceptance of BioGlue in international markets for use in vascular and pulmonary repairs, and

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increased acceptance domestically following the January 2000 introduction of BioGlue pursuant to a Humanitarian Use Device Exemption ("HDE") for use as an adjunct in the repair of acute thoracic aortic dissections.

Revenues from bioprosthetic cardiovascular devices decreased 19% to \$158,000 for the three months ended June 30, 2001 from \$196,000 for the three months ended June 30, 2000, representing 1% of total revenues during each such period. Revenues from bioprosthetic cardiovascular devices decreased 16% to \$356,000 for the six months ended June 30, 2001 from \$423,000 for the six months ended June 30, 2000, representing 1% of total revenues during each such period. This decrease in revenues is primarily due to the Company's focus on the start-up of the SynerGraft bioprosthetic heart valve manufacturing process, which adversely impacted its ability to manufacture other bioprosthetic cardiovascular devices.

Revenues from IFM decreased to zero in the three month and six month periods

ended June 30, 2001 from \$608,000 and \$1.7 million, respectively, for the three month and six month periods ended June 30, 2000. The decrease is due to the October 9, 2000 sale of substantially all of the remaining assets of IFM to HMP.

Grant revenues decreased to \$143,000 for the three months ended June 30, 2001 from \$149,000 for the three months ended June 30, 2000. Grant revenues increased to \$368,000 for the six months ended June 30, 2001 from \$291,000 for the six months ended June 30, 2000. Grant revenues are primarily attributable to the SynerGraft research and development programs.

Cost of cryopreservation services and products aggregated increased 10% to \$9.1 million for the three months ended June 30, 2001 from \$8.3 million for the three months ended June 30, 2000, representing 42% and 43%, respectively, of total cryopreservation and product revenues for each period. Cost of cryopreservation services and products aggregated increased 4% to \$18.2 million for the six months ended June 30, 2001 from \$17.5 million for the six months ended June 30, 2000, representing 43% and 45%, respectively, of total cryopreservation and product revenues for each period. The decrease in the 2001 cost of cryopreservation services and products as a percentage of revenues is due to an increase in revenues from BioGlue surgical adhesive, which carries higher gross margins than cryopreservation services, as well as the termination of the IFM OEM contract with HMP, which had significantly lower margins than the Company's core businesses.

General, administrative, and marketing expenses increased 9% to \$8.1 million for the three months ended June 30, 2001, compared to \$7.4 million for the three months ended June 30, 2000, representing 38% of total cryopreservation and product revenues during each such period. General, administrative, and marketing expenses increased 12% to \$16.3 million for the six months ended June 30, 2001, compared to \$14.5 million for the six months ended June 30, 2000, representing 38% and 37%, respectively, of total cryopreservation and product revenues during each such period. The increase in expenditures for the three months ended June 30, 2001 was primarily due to an increase in marketing and general expenses to support revenue growth. The increase in expenditures for the six month period ended June 30, 2001 was primarily due to the inclusion of six full months of operations of CryoLife Europa, Ltd., the Company's European headquarters established in early 2000, and due to an increase in marketing and general expenses to support revenue growth.

Research and development expenses increased 10% to \$1.3 million for the three months ended June 30, 2001, compared to \$1.2 million for the three months ended June 30, 2000, representing 6% of total cryopreservation and product revenues for each such period. Research and development expenses decreased 5% to \$2.4 million for the six months ended June 30, 2001, compared to \$2.5 million for the six months ended June 30, 2000, representing 6% of total cryopreservation and product revenues for each such period. Research and development spending relates principally to the Company's ongoing human clinical trials for its BioGlue surgical adhesive, and to its focus on its SynerGraft and BioGlue technologies.

Interest income, net of interest expense, was \$560,000 and \$314,000 for the three months ended June 30, 2001 and 2000, respectively. Interest income, net of interest expense, was \$1.1 million and \$626,000 for the six months ended June 30, 2001 and 2000, respectively. This increase in interest income was due primarily to the increase in cash generated from operations during the three month and six month periods ended June 30, 2001 and the year ended December 31, 2000.

The effective income tax rate was 32% and 33% for the three and six months ended June 30, 2001 and 2000, respectively.

SEASONALITY

The demand for the Company's human heart valve and conduit cryopreservation services is seasonal, with peak demand generally occurring in the second and third quarters. Management believes this trend for human heart valve and conduit cryopreservation services is primarily due to the high number of surgeries scheduled during the summer months. However, the demand for the Company's human connective tissue for the knee cryopreservation services, human vascular tissue cryopreservation services, bioprosthetic cardiovascular devices, and BioGlue surgical adhesive does not appear to experience seasonal trends.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2001, net working capital was \$67.4 million, with a current ratio of 6 to 1, compared to \$68.4 million at December 31, 2000. The Company's primary capital requirements arise out of general working capital needs, capital expenditures for facilities and equipment and funding of research and development projects. The Company historically has funded these requirements through bank credit facilities, cash generated by operations and equity offerings.

Net cash provided by operating activities was \$4.3 million for the six months ended June 30, 2001, as compared to \$5.4 million for the six months ended June 30, 2000. This decrease in cash provided was primarily due to an increase in working capital requirements due to sales growth, expansion of product lines, and construction on the Company's corporate headquarters and manufacturing facilities, largely offset by an increase in net income before depreciation and taxes.

Net cash used in investing activities was \$6.4 million for the six months ended June 30, 2001, as compared to \$3.5 million for the six months ended June 30, 2000. This increase in cash used was primarily due to an increase in capital expenditures related to the expansion and renovation of the Company's corporate headquarters and manufacturing facilities, partially offset by an increase in proceeds from sales and maturities of marketable securities, net of purchases, and by the proceeds from the Company's note receivable.

Net cash provided by financing activities was \$1.5 million for the six months ended June 30, 2001, as compared to \$0.1 million for the six months ended June 30, 2000. This increase was primarily attributable to proceeds from issuance of debt under the Term Loan of \$1.2 million in the current year and the lack of treasury stock repurchases during the six months ended June 30, 2001 as compared to the prior year period, partially offset by principle payments on the Term Loan and a decrease in proceeds from stock option exercises.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141"), which is effective July 1, 2001, and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), which is effective for the Company on January 1, 2002. SFAS 141 prohibits pooling-of-interests accounting for acquisitions. SFAS 142 specifies that goodwill and some intangible assets will no longer be amortized but instead will be subject to periodic impairment testing. The Company is in the process of evaluating the financial statement impact of adoption of SFAS- 142.

Since October 1998, management has been seeking to enter into a corporate collaboration or to complete a potential private placement of equity or equity-oriented securities to fund the commercial development of its Activation Control Technology ("ACT") technology. This technology is now held by CryoLife's wholly owned subsidiary AuraZyme Pharmaceuticals, Inc., which was formed on March 13, 2001. This strategy, if successful, will allow an affiliated entity to

fund the ACT technology and should expedite the commercial development of its oncology, blood clot dissolving and surgical sealant product applications without additional research and development expenditures by the Company (other than through the affiliated company). This strategy, if successful, will favorably impact the Company's liquidity going forward.

The Company anticipates that current cash and marketable securities, cash generated from operations and its \$10 million of bank facilities (of which approximately \$8 million was drawn as of August 9, 2001) will be sufficient to meet its operating and development needs for at least the next 12 months, including the expansion and renovation of the Company's corporate headquarters and manufacturing facilities. However, the Company's future liquidity and capital requirements beyond that period will depend upon numerous factors, including the timing of the Company's receipt of U.S. Food and Drug Administration ("FDA") approvals to begin clinical trials for its products currently in development, the resources required to further develop its marketing and sales capabilities if and when those products gain approval, the resources required for any additional expansion of its corporate headquarters and manufacturing facilities, and the extent to which the Company's products

generate market acceptance and demand. There can be no assurance the Company will not require additional financing or will not seek to raise additional funds through bank facilities, debt or equity offerings, or other sources of capital to meet future requirements. These additional funds may not be available when needed or on terms acceptable to the Company, which could have a material adverse effect on the Company's business, financial condition, and results of operations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The Company's interest income and expense are most 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 equivalents of \$10.2 million and short-term investments in municipal obligations of \$12.7 million as of June 30, 2001 as well as interest paid on its debt. At August 9, 2001, approximately \$4 million of the Company's debt charged interest at a variable rate. To mitigate the impact of fluctuations in U.S. interest rates, the Company generally maintains a portion (approximately \$8 million at August 9, 2001) of its debt as fixed rate in nature. As a result, the Company is also subject to a risk that interest rates will decrease and the Company may be unable to refinance its debt.

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Part II - OTHER INFORMATION

Item 1. Legal Proceedings.
None

Item 2. Changes in Securities.
None

Item 3. Defaults Upon Senior Securities.
Not Applicable

Item 4. Submission of Matters to a Vote of Security Holders.
(a) The Annual Meeting of Shareholders was held on May 17, 2001.

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

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

	Shares Voted For	Authority Withheld
Steven G. Anderson	17,628,756	62,215
John M. Cook	18,244,180	46,791
Ronald C. Elkins, M.D.	18,059,592	46,391
Virginia C. Lacy	18,124,380	166,591
Ronald D. McCall, Esq.	18,238,053	52,378
Alexander C. Schwartz, Jr.	18,236,106	54,865
Bruce J. Van Dyne, M.D.	18,240,030	50,941

Item 5. Other information.
None.

Item 6. Exhibits and Reports on Form 8-K
(a) The exhibit index can be found below.

Exhibit
Number Description

3.1 Restated Certificate of Incorporation of the Company, as amended.
(Incorporated by reference to Exhibit 3.1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2000.)

3.2 ByLaws of the Company, as amended. (Incorporated by reference to Exhibit 3.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1995.)

3.3 Articles of Amendment to the Articles of Incorporation of the Company.

4.1 Form of Certificate for the Company's Common Stock. (Incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-1 (No. 33-56388).)

(b) None.

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SIGNATURES

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

CRYOLIFE, INC.
(Registrant)

August 9, 2001

/s/ DAVID ASHLEY LEE

DATE

DAVID ASHLEY LEE
Vice President and Chief Financial
Officer
(Principal Financial and
Accounting Officer)

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