

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 March 31, 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
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The number of shares of common stock, par value \$0.01 per share, outstanding on May 8, 2001 was 18,783,331.

Part I - FINANCIAL INFORMATION
Item 1. Financial statements

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

	Three Months Ended March 31,	
	2001	2000
	(Unaudited)	
Revenues:		
Preservation services and products	\$ 21,207	\$ 19,481
Research grants and licenses	225	142
	21,432	19,623
Costs and expenses:		
Cost of preservation services and products	9,105	9,149
General, administrative and marketing	8,159	7,043
Research and development	1,086	1,329
Interest expense	---	100
Interest income	(562)	(377)

Other expense (income), net	---	(15)
	-----	-----
	17,788	17,229
	-----	-----
Income before income taxes	3,644	2,394
Income tax expense	1,166	790
	-----	-----
Net income	\$ 2,478	\$ 1,604
	=====	=====
Earnings per share:		
Basic	\$ 0.13	\$ 0.09
	=====	=====
Diluted	\$ 0.13	\$ 0.09
	=====	=====
Weighted average shares outstanding:		
Basic	18,749	18,357
	=====	=====
Diluted	19,508	18,788
	=====	=====

See accompanying notes to summary consolidated financial statements.

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Item 1. Financial Statements

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

	March 31, 2001	December 31, 2000
	-----	-----
ASSETS	(Unaudited)	
	-	
Current Assets:		
Cash and cash equivalents	\$ 15,668	\$ 17,480
Marketable securities, at market	20,209	21,234
Receivables, net	13,694	12,739
Note receivable, net	1,775	1,833
Deferred preservation costs, net	20,632	20,311
Inventories	4,344	3,994
Prepaid expenses and other assets	1,058	893
Deferred income taxes	564	674
	-----	-----
Total current assets	77,944	79,158
	-----	-----
Property and equipment, net	29,640	25,579
Goodwill, net	1,471	1,495
Patents, net	2,574	2,540
Other, net	2,253	1,780
Note receivable, net	464	643
Deferred income taxes	436	814
	-----	-----
TOTAL ASSETS	\$ 114,782	\$ 112,009
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 1,416	\$ 2,914
Accrued expenses	1,522	1,054
Accrued procurement fees	4,279	3,537
Accrued compensation	1,705	2,097
Income taxes payable	671	---
Current maturities of capital lease obligations	176	173
Current maturities of long-term debt	934	934
	-----	-----
Total current liabilities	10,703	10,709
	-----	-----
Capital lease obligations, less current maturities	1,315	1,361
Bank loans	6,151	6,151
Convertible debenture	4,393	4,393

Total liabilities	22,562	22,614
Shareholders' Equity:		
Preferred stock	---	---
Common stock (issued 20,091 shares in 2001 and 20,077 shares in 2000)	201	201
Additional paid-in capital	65,161	64,936
Retained earnings	33,858	31,381
Deferred compensation	(42)	(45)
Accumulated other comprehensive income	(1,060)	(1,088)
Less: Treasury stock (1,341 shares in 2001 and 1,356 shares in 2000)	(5,898)	(5,990)
Total shareholders' equity	92,220	89,395
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 114,782	\$ 112,009

See accompanying notes to summary consolidated financial statements.

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Item 1. Financial Statements

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

	Three Months Ended March 31,	
	2001	2000
	(Unaudited)	
Net cash from operating activities:		
Net income	\$ 2,478	\$ 1,604
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,009	782
Provision for doubtful accounts	24	24
Deferred income taxes	(171)	(19)
Tax effect of nonqualified option exercises	72	---
Changes in operating assets and liabilities:		
Receivables	(1,553)	(814)
Deferred preservation costs and inventories	(671)	(575)
Prepaid expenses and other assets	(165)	(297)
Accounts payable and accrued expenses	318	735
Net cash provided by operating activities	1,341	1,440
Net cash flows from investing activities:		
Capital expenditures	(5,013)	(1,287)
Other assets	106	(11)
Purchases of marketable securities	(2,613)	(2,714)
Sales and maturities of marketable securities	3,932	2,638
Proceeds from note receivable	237	---
Net cash used in investing activities	(3,351)	(1,374)
Net cash flows from financing activities:		
Principal payments on obligations under capital leases	(43)	(96)
Purchase of treasury stock	---	(612)
Proceeds from exercise of stock options and issuance of common stock	244	430
Net cash provided by (used in) financing activities	201	(278)
Decrease in cash	(1,809)	(212)
Effect of exchange rate changes on cash	(3)	(1)
Cash and cash equivalents, beginning of period	17,480	6,128

Cash and cash equivalents, end of period

\$ 15,668 \$ 5,915
=====

See accompanying notes to summary consolidated financial statements.

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

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 months ended March 31, 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 March 31, 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 months ended March 31, 2001 and 2000. As of March 31, 2001 differences between cost and market of a \$1.2 million loss (less deferred taxes of \$425,000) were included in accumulated other comprehensive income.

At March 31, 2001 and December 31, 2000, approximately \$9.1 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 March 31, 2001 and December 31, 2000, approximately \$10.0 million and \$8.3 million of investments, respectively, mature within 90 days, \$4.5 million and zero investments, respectively, had a maturity date between 90 days and 1 year and approximately \$15.7 million and \$21.2 million of investments, respectively, mature in more than one year.

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Note 3 - Inventories

Inventories are comprised of the following (in thousands):

	March 31, 2001	December 31, 2000

	(Unaudited)	
Raw materials	\$ 1,799	\$ 1,796
Work-in-process	806	405
Finished goods	1,739	1,793

	\$ 4,344	\$ 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 March 31,	
	2001	2000

	(Unaudited)	
Numerator for basic and diluted earnings per share - income available to common shareholders	\$ 2,478	\$ 1,604
	=====	
Denominator for basic earnings per share - weighted- average shares	18,749	18,357
Effect of dilutive stock options	759	431

Denominator for diluted earnings per share - adjusted weighted-average shares	19,508	18,788
	=====	
Basic earnings per share	\$ 0.13	\$ 0.09
	=====	
Diluted earnings per share	\$ 0.13	\$ 0.09
	=====	

Note 5 - Debt

On April 25, 2000 the Company entered into a loan agreement ("Line Agreement") which permits 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. Borrowings under the line of credit bear interest equal to the Adjusted LIBOR plus 2% to be adjusted monthly (7.1% at March 31, 2001). On June 1, 2001, the line of credit will be converted to a term loan to be paid in 60 equal monthly installments of principal plus interest computed at Adjusted LIBOR plus 1.5%. The Line Agreement contains certain restrictive covenants including, but not limited to, maintenance of certain financial ratios and a minimum tangible net worth requirement. The Line Agreement is secured by substantially all of the Company's assets. A commitment fee of \$20,000 was paid when the Company entered into the Line Agreement. At March 31, 2001 \$1.2 million in additional funds were available to be borrowed under the line of credit.

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 an unrealized loss of approximately \$175,000 related to the interest rate swap, which was recorded as part of long-term liabilities and accumulated other comprehensive income. 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 Line Agreement converts to floating rate debt on June 1, 2001. This floating rate debt exposes the Company to changes in interest rates going forward. On March 16, 2000, the Company entered into \$4 million in notional amounts of a forward-starting interest swap agreement that takes effect on June 1, 2001. This swap agreement has been designated as a cash flow hedge to effectively convert a portion of its anticipated term loan 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 amounts in exchange for fixed rate interest payments over the life of the agreement without an exchange of the underlying principal amounts. The differential to be paid or received is accrued as interest rates change and recognized as an adjustment to interest expense related to the debt.

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 March 31,	
	2001	2000
	(Unaudited)	
Net income	\$ 2,478	\$ 1,604
Cumulative effect of adoption of SFAS 133, net of income taxes	(116)	---
Change in fair value of interest rate swaps, net of income taxes	(47)	---
Translation adjustment	(3)	---
Unrealized gains (losses) on marketable equity securities, net of income taxes	194	(88)
Comprehensive income	\$ 2,506	\$ 1,516

Note 8 - Note Receivable

On March 30, 2001, Horizon Medical Products, Inc. ("HMP") sold the Ideas For Medicine ("IFM") assets to a wholly owned subsidiary of LeMaitre Vascular, Inc. ("LeMaitre"), formerly Vascutech, Inc., and the remaining portion of the Company's note receivable from HMP was assumed by the LeMaitre subsidiary. The assumed note is guaranteed by LeMaitre. On April 2, 2001 the Company received a scheduled \$1.0 million principal payment from LeMaitre, in accordance with the terms of the assumed note.

PART I - FINANCIAL INFORMATION

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

Results of Operations

Revenues increased 9% to \$21.4 million for the three months ended March 31, 2001

from \$19.6 million for the same period in 2000. The increase in revenues 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 9% to \$6.9 million for the three months ended March 31, 2001 from \$7.6 million for the three months ended March 31, 2000, representing 32% and 39%, respectively, of total revenues during each such period. This decrease in revenues resulted from a 13% decrease in the number of allograft heart valve shipments due to a decrease in procurement of hearts year to year and from record heart volume procurement in the first quarter of 2000, partially offset by higher fees received for SynerGraft treated human heart valves.

Revenues from human vascular tissue cryopreservation services increased 15% to \$6.4 million for the three months ended March 31, 2001 from \$5.6 million for the three months ended March 31, 2000, representing 30% and 28%, respectively, of total revenues during each such period. This increase in revenues was primarily due to a 16% increase in the number of vascular allograft shipments primarily due to the Company's ability to procure greater amounts of tissue, and an increase in demand for saphenous vein composite grafts and femoral artery grafts.

Revenues from human connective tissue of the knee cryopreservation services increased 34% to \$5.2 million for the three months ended March 31, 2001 from \$3.9 million for the three months ended March 31, 2000, representing 24% and 20%, respectively, of total revenues during each such period. This increase in revenues was primarily due to a 26% increase in the number of allograft shipments due to increased acceptance of osteoarticular grafts and non-bone tendons by the orthopaedic surgeon community, the Company's ability to procure greater amounts of tissue, price increases for cryopreservation services in domestic and Canadian markets, and a more favorable product mix.

Revenues from the sale of BioGlue surgical adhesive increased 116% to \$2.4 million for the three months ended March 31, 2001 from \$1.1 million for the three months ended March 31, 2000, representing 11% and 6%, respectively, of total revenues during each such period. The increase in revenues is due to a 91% increase in the number of milliliter shipments of BioGlue. The increase in shipments was primarily due to increasing acceptance of BioGlue in international markets for use in vascular and pulmonary repairs, and 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 12% to \$199,000 for the three months ended March 31, 2001 from \$226,000 for the three months ended March 31, 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 months ended March 31, 2001 from \$1.1 million for the same period in 2000, due to the October 9, 2000 sale of substantially all of the remaining assets of IFM to HMP.

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Grant revenues increased to \$225,000 for the three months ended March 31, 2001 from \$142,000 for the three months ended March 31, 2000. Grant revenues are primarily attributable to the SynerGraft research and development programs.

Cost of cryopreservation services and products aggregated \$9.1 million for each of the three month periods ended March 31, 2001 and 2000, representing 43% and 47%, respectively, of total cryopreservation and product revenues. 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 16% to \$8.2 million for the three months ended March 31, 2001, compared to \$7.0 million for the three months ended March 31, 2000, representing 38% and 36%, respectively, of

total cryopreservation and product revenues during each such period. The increase in expenditures for the three months ended March 31, 2001 was primarily due to the inclusion of three full months of operations of CryoLife Europa, Ltd., the Company's European headquarters established in early 2000, and due to an increase in general expenses to support revenue growth.

Research and development expenses decreased 18% to \$1.1 million for the three months ended March 31, 2001, compared to \$1.3 million for the three months ended March 31, 2000, representing 5% and 7%, respectively, of total cryopreservation and product revenues for each 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. The decrease in research and development expenses is due to timing of pre-clinical studies.

Interest income, net of interest expense was \$562,000 and \$277,000 for the three months ended March 31, 2001 and 2000, respectively. This increase in interest income was due primarily to the increase in cash generated from operations during the quarter ended March 31, 2001 and the year ended December 31, 2000.

The effective income tax rate was 32% and 33% for the periods ended March 31, 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 of 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 March 31, 2001, net working capital was \$67.2 million, with a current ratio of 7 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 \$1.3 million for the three months ended March 31, 2001, as compared to \$1.4 million for the three months ended March 31, 2000. This decrease in cash provided was primarily due to an increase

in working capital requirements, due to sales growth 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 \$3.4 million for the three months ended March 31, 2001, as compared to \$1.4 million for the three months ended March 31, 2000. This increase in cash used was primarily due to an increase in capital expenditures related to the expansion of the Company's corporate headquarters and manufacturing facilities, partially offset by an increase in proceeds from sales and maturities of marketable securities and by the proceeds from the Company's note receivable during the first quarter of 2001.

Net cash provided by financing activities was \$0.2 million for the three months ended March 31, 2001, as compared to net cash used in financing activities of \$0.3 million for the three months ended March 31, 2000. This increase was primarily attributable to the lack of treasury stock repurchases during the three months ended March 31, 2001 as compared to the prior year period, partially offset by a decrease in proceeds from stock option exercises.

Management is currently seeking to complete a potential private placement of equity or equity-oriented securities for the commercial development of its

Activation Control Technology ("ACT") technology through its wholly owned subsidiary AuraZyme Pharmaceutical, Inc. 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 has ceased further material development of light activation technology pending the identification of a corporate partner to fund future development.

The Company anticipates that current cash and marketable securities, cash generated from operations and its \$10 million of bank facilities (of which \$8 million was drawn as of May 8, 2001) will be sufficient to meet its operating and development needs for at least the next 12 months, including the expansion 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.

On March 30, 2001, HMP sold the IFM assets to a wholly owned subsidiary of LeMaitre, formerly Vascutech, Inc., and the remaining portion of the Company's note receivable from HMP was assumed by the LeMaitre subsidiary. The assumed note is guaranteed by LeMaitre. On April 2, 2001 the Company received a scheduled \$1.0 million principal payment from LeMaitre, in accordance with the terms of the assumed note.

Forward-Looking Statements

This Form 10-Q for the three months ended March 31, 2001 includes statements that look forward in time or that express management's beliefs, expectations or hopes regarding future occurrences. Such statements are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act

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of 1995. These future events may not occur when expected, if at all, and are subject to various risks and uncertainties. Such risks and uncertainties include the possibility that the Company will be unable to find an investor for its ACT technology through its wholly owned subsidiary AuraZyme Pharmaceutical, Inc.; that new technologies will not perform as indicated; that future clinical test results will prove less encouraging than current results; that regulatory submissions will not be ready when planned or anticipated regulatory approvals will not be obtained on a timely basis, if at all; that product offerings will not be accepted by surgeons; that changes will occur in government regulation of the Company's business, the Company's competitive position, the availability of tissue for implant, the status of the Company's products under development, the protection of the Company's proprietary technology and the reimbursement of health care costs by third-party payors; and there can be no assurance that the results and developments anticipated by the Company will be realized or that they will have the expected consequences to or effects on the Company or its business or operations. See the "Business-Risk Factors" section of the Company's Annual Report on Form 10-K for the year ended December 31, 2000 for a more detailed discussion of factors which might affect the Company's future performance.

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 \$10.0 million and short-term investments in municipal obligations of \$13.9 million as of March 31, 2001 as well as interest paid on its debt. At May 8, 2001, approximately \$8 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 \$4 million at May 8, 2001) of its debt as fixed rate in nature. Due to the timing of the conversion of the Line Agreement for construction of the Company's corporate headquarters and manufacturing facilities, an additional \$4 million of the \$8 million variable rate debt will convert to a fixed rate in the second quarter of 2001. 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.
None.
- 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. (Incorporated by reference to Exhibit 3.3 to the Registrant's Annual Report on Form Form 10-K for the fiscal year ended December 31, 2000).
4.1	Form of Certificate for the Company's Common Stock. (Incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-1 (No. 33-56388).)
10.1	Employment Agreement, by and between the Company and Sidney B. Ashmore, dated September 9, 1996.
10.2+	Assignment and Assumption Agreement, dated March 30, 2001, by and among Horizon, Vascutech, and IFM.
10.3	Assignment of Sublease, dated March 30, 2001, by and among Horizon, Vascutech, and IFM.
10.4	Security Agreement, dated March 30, 2001, by Vascutech in favor of IFM.

+ In accordance with Item 601(b)(2) of Regulation S-K, the exhibits have been omitted and a list of exhibits is at the end of the Exhibit. The Registrant will furnish supplementally a copy of any omitted exhibits to the Commission upon request.

(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)

May 11, 2000

/s/ DAVID ASHLEY LEE

DATE

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

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EMPLOYMENT AGREEMENT

In consideration of the promises hereinafter contained, CryoLife, Inc., a Florida corporation ("we", "our" and "us") and Sidney B. Ashmore ("you") hereby agrees as of this 9th day of September, 1996 to the following:

1. Employment. We hereby employ you and you hereby accept employment on the terms and conditions set forth below. Your duties and compensation are set forth on the Exhibit attached hereto.

2. Extent of Services. During your employment, you agree to devote your full and exclusive time and attention to your employment duties and not to engage in any other business activity which conflicts or competes with our business or which reduces your effectiveness in performing your duties under this Agreement unless you have first obtained our prior written consent.

3. Benefits and Absences. You are entitled to all benefits offered by us for which you meet the eligibility requirements. You are subject to the obligations concerning absences due to disability, sick leave, and other absences, described in the current benefit summary schedule, and as revised hereafter.

4. Term and Termination. Your employment shall commence on the date of this Agreement. Both you and we shall have the right upon giving 30 days written notice to the other to terminate with or without cause the employment under this Agreement. However, if one party to this Agreement terminates the employment, the other party may at his option effect the separation immediately. This Agreement shall automatically terminate in the event of your death. Such automatic termination shall discharge both parties hereto from any and all further liability or responsibility to the other under this Agreement.

5. Right to Change Duties. We reserve the right to change the nature and scope of your duties. In the event of any transfer to another corporate facility, we shall defray the reasonable cost of transporting you and your family with household furnishings to your new location.

6. Secrecy and Noncompetition. Your employment and continued employment with us is conditioned upon your signing our standard Secrecy and Noncompete Agreement whose terms and agreements you agree to be bound by. You agree that under no condition will any breach or infraction of this Agreement be assertable as a defense to any action or responsibility incurred by you under the Secrecy and Noncompete Agreement.

7. Your Warranties. You present and warrant that you will not utilize or disclose any trade secrets or proprietary information of others to us and that the only secrecy and/or noncompetition agreements you have with others are identified on the attached exhibit.

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8. Moving Expense. CryoLife, Inc. has paid for certain moving expenses to facilitate your relocation. We reserve the right to withhold the total amount of these expenses from any monies due to you if you terminate your employment from CryoLife, Inc. within 12 months from your first day of work at the Company. These expenses include all charges associated with moving and storage of your personal belongings.

9. Miscellaneous. This Agreement may not be changed or terminated orally and no change, termination or attempted waiver of the provisions hereof shall be binding unless in writing and signed by the parties against whom the same is sought to be enforced; provided, however, that the compensation paid to you hereunder may be increased at any time by us without in any way affecting any other term or condition of this Agreement which in all other respects shall remain in force and effect. This Agreement shall be governed by the laws of the State of Georgia.

IN WITNESS WHEREOF, this Agreement has been duly executed on the day and year first above written.

CRYOLIFE, INC.

By: _____

Its: _____

EMPLOYEE

Exhibit to Employment Agreement

Duties: Director, Marketing

Compensation: \$7,750.00/Monthly Plus Company

Fringe Benefits

Secrecy and Noncompetition Agreements With Others*:
\$7,750.00/Monthly Plus Company

Fringe Benefits

(*Copies of these must be promptly provided to CryLife)

ASSIGNMENT AND ASSUMPTION AGREEMENT

This Assignment and Assumption Agreement (this "Agreement") is made as of March 30, 2001 by and among Horizon Medical Products, Inc., a Georgia corporation ("Horizon"), Vascutech Acquisition LLC, a Delaware limited liability company ("Vascutech"), and Ideas for Medicine, Inc., a Florida corporation ("IFM").

BACKGROUND

WHEREAS, Horizon is party to that certain Subordinated Promissory Note made in favor of IFM and dated October 9, 2000, in the original principal amount of \$5,945,216, which was subsequently adjusted upward by an amount equal to \$104,838 (the "Subordinated Note");

WHEREAS, pursuant to the terms of that certain Asset Purchase Agreement between Horizon and Vascutech, of even date herewith, Vascutech is purchasing certain assets comprising the Ideas for Medicine business unit of Horizon ("Assets") and a portion of the consideration to be paid by Vascutech to Horizon for such Assets will be the assumption by Vascutech of the liabilities of Horizon to IFM under the Subordinated Note (the "Assumption"); and

WHEREAS, IFM desires to consent to the Assumption as set forth herein.

NOW, THEREFORE, for consideration, the receipt and adequacy of which is hereby acknowledged, the undersigned hereby agree as follows:

A. Assignment and Assumption

1. (a) Horizon, IFM and Vascutech hereby acknowledge and agree that the current outstanding principal amount of the Subordinated Note is \$5,348,870.27; and (b) Horizon hereby assigns, and Vascutech hereby assumes, each and every obligation of Horizon under the Subordinated Note, and Vascutech expressly agrees (i) to pay all amounts under the Subordinated Note as they become due and payable from and after the date hereof and (ii) to be unconditionally bound by the terms and conditions of said Subordinated Note, as such Subordinated Note may be amended, extended, renewed, modified, amended, restated, substituted or replaced from time to time, as though Vascutech had originally signed the Subordinated Note instead of Horizon.

2. IFM hereby consents to the foregoing assignment and assumption.

3. Each of Horizon and Vascutech agree, upon the request of IFM, to execute such other documents as IFM reasonably deems necessary and appropriate from time to time to reflect the assignment and assumption as set forth above.

B. Representations and Warranties of Vascutech: Vascutech hereby represents and warrants to IFM as follows:

1. Vascutech is validly organized and existing and in good standing as a limited liability company under the laws of the state of Delaware. Vascutech has the power to own its property and to carry on its business as currently conducted.

2. Vascutech has the limited liability company power, right and authority to execute and deliver this Agreement and the Transaction Documents (as defined below) and to take all actions and perform all obligations contemplated to be performed by it under this Agreement and the Transaction Documents.

3. The execution and delivery of this Agreement, that certain Security Agreement of even date herewith by Vascutech in favor of IFM (the "Security Agreement"), that certain Certificate of Consent and Estoppel (exclusively with respect to Section 6 thereof) of even date herewith among CryoLife, IFM and, with respect to Section 6 thereof only, Vascutech (the "Consent

and Estoppel"), that certain Consent to Assignment of Sublease of even date herewith by and among IFM, Horizon, Vascutech and Secret Promise, Ltd. (the "Sublease Consent") and that certain Assignment of Sublease of even date herewith by and among IFM, Horizon and Vascutech (the "Sublease Assignment" and, collectively, with this Agreement, the Security Agreement, the Consent and Estoppel and the Sublease Consent, the "Transaction Documents"), the taking of all action required in connection herewith and therewith, and the performance by Vascutech of all of the obligations by it to be performed hereunder and thereunder, have been duly authorized by all necessary limited liability company action, including, without limitation, authorization by Vascutech's sole manager and sole member. This Agreement and the rest of the Transaction Documents have been duly executed and delivered by Vascutech and constitute the valid and binding obligations of Vascutech enforceable against Vascutech in accordance with their terms, except as limited by bankruptcy, insolvency, reorganization, and similar laws affecting the enforcement of creditor's rights or contractual obligations generally.

- C. Representation and Warranty of Horizon: Horizon hereby represents and warrants to IFM that the Assets being sold by Horizon to Vascutech pursuant to the Asset Purchase Agreement of even date herewith between Horizon and Vascutech (the "Vascutech Purchase Agreement") constitute all of the Collateral existing as of the date hereof under and as defined in that certain Security Agreement dated as of October 9, 2000 by Horizon in favor of IFM, except for those items of Collateral included within the definition of Excluded Assets set forth on Exhibit A attached hereto.
- D. Parent Guaranty: In consideration of IFM extending credit to Vascutech pursuant to the terms of the Subordinated Note, the undersigned, Vascutech, Inc., a corporation organized and existing under the laws of Delaware and the 100% parent of Vascutech (the "Guarantor"), hereby unconditionally guarantees to IFM that Vascutech will duly and punctually pay or perform, at the place specified therefor, (i) all obligations under the Subordinated Note and the Transaction Documents (the "Obligations"), and (ii) without limitation of the foregoing, all fees, costs and expenses incurred by IFM in attempting to collect or enforce any of the foregoing (collectively the "Guaranteed Obligations"). This guaranty is an absolute, unconditional and continuing guaranty of the full and punctual payment and performance by Vascutech of the Guaranteed Obligations and not of their collectibility only and is in no way conditioned upon any requirement that IFM first attempt to collect any of the Guaranteed Obligations from Vascutech or resort to any security or other means of obtaining payment of any of the Guaranteed Obligations. Upon the occurrence of an Event of Default under (and as defined in) the Subordinated Note by Vascutech, the Guaranteed Obligations shall, at the option of IFM, become forthwith due and payable to IFM without demand or notice of any nature, all of which are expressly waived by the Guarantor. Payments by the Guarantor hereunder may be required by IFM on any number of occasions. The Guarantor further agrees, as the principal obligor and not as a guarantor only, to pay to IFM forthwith upon demand, in funds immediately available to IFM, all reasonable costs and expenses (including court costs and legal expenses) incurred or expended by IFM in connection with this guaranty and the enforcement thereof.
- E. Miscellaneous: This Agreement shall be governed by the provisions of Delaware law without regard to conflicts of laws principles thereof.

[SIGNATURES BEGIN ON NEXT PAGE]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement under seal as of the date first set forth above in multiple counterpart copies, each of which shall be deemed to be an original for all purposes.

HORIZON MEDICAL PRODUCTS, INC.

VASCUTECH ACQUISITION LLC

By: /s/ William E. Peterson, Jr.

By: /s/ David B. Roberts

Name: William E. Peterson, Jr.
Title: President

Name: David B. Roberts
Title: CFO

hereunto duly authorized

hereunto duly authorized

CONSENTED TO:

IDEAS FOR MEDICINE, INC.

By: /s/ D.A. Lee

Name: D. Ashley Lee
Title: VP - Finance and CFO
hereunto duly authorized

JOINED FOR PURPOSES OF PARAGRAPH D. ONLY:

VASCUTECH, INC.

By: /s/ David B. Roberts

Name: David B. Roberts
Title: CFO
hereunto duly authorized

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LIST OF EXHIBITS

EXHIBIT A - Excluded Assets
EXHIBIT A-1 - Ideas for Medicine Product Line

1358823v1

ASSIGNMENT OF SUBLEASE

This Assignment of Sublease (the "Assignment") is entered into this 30th day of March, 2001, by and between HORIZON MEDICAL PRODUCTS, INC., a Georgia Corporation (the "Assignor"), VASCUTECH ACQUISITION LLC, a Delaware corporation (the "Assignee"), and IDEAS FOR MEDICINE, INC., formerly known as CryoLife Acquisition Corporation, a Florida corporation (the "Sublessor").

WHEREAS, Sublessor entered into that certain Commercial Lease Agreement dated March 5, 1997, ("Master Lease") by which Sublessor leased from Secret Promise, Ltd., as successor-in-interest to J. Crayton Pruitt Family Trust u/t/a 9/17/76 ("Landlord"), certain premises ("Premises") located at 3101 37th Avenue North, St. Petersburg, Florida, as more particularly described in Exhibit A attached hereto;

WHEREAS, Assignor, as Sublessee, entered into that certain Sublease dated October 9, 2000 ("Sublease"), by which Assignor subleased the Premises from Sublessor;

WHEREAS, Assignor entered into that certain Assignment of Sublease (Sublessee's Interest) dated on or about October 9, 2000 (the "Collateral Assignment") with Bank of America ("BOA");

WHEREAS, the Master Lease provides that Sublessor may not enter into a sublease or permit any other entity to occupy the Premises without Landlord's prior written approval;

WHEREAS, the Sublease provides that Assignor may not assign its rights or interests without Sublessor's prior written approval;

WHEREAS, the Collateral Assignment provides that Assignor may not assign its rights or interests under the Sublease without the prior written consent of BOA; and

WHEREAS, Landlord and Sublessor have approved and consented to this Assignment pursuant to that certain Consent to Assignment of Sublease of even date herewith.

NOW, THEREFORE, for good and valuable consideration by each of the parties hereto to the other, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Assignor hereby assigns to Assignee all of its right, title and interest in and to the Sublease and the Premises and Assignee hereby assumes all rights, promises, covenants, conditions and duties under the Sublease to be performed by the subtenant under the Sublease which accrue after the date hereof.

2. Sublessor does hereby consent to the assignment of the Sublease as provided herein, and hereby acknowledges and agrees that Assignor will not be liable or obligated for the payment of any sums due under the Sublease or the performance of any obligations under the Sublease which accrue after the date

hereof, and Assignee will not be liable or obligated for the payment of any sums due under the Sublease or the performance of any obligations under the Sublease which accrued prior to the date hereof.

3. All notices, demands, requests, elections, consents or other communications required or permitted to be given pursuant to the terms of the Sublease shall be addressed as follows:

Sublessor: IDEAS for Medicine, Inc.
c/o CryoLife, Inc.
1655 Roberts Boulevard
Kennesaw, Georgia 30144
Attn: Vice president of Finance

with a copy to: Arnall Golden & Gregory, LLP
2800 One Atlantic Center
1201 West Peachtree Street
Atlantic, Georgia 30309-3450

Attn: Clinton D. Richardson, Esq.

Sublessee: Vascutech Acquisition LLC
164 Middlesex Turnpike
Burlington, MA 01803
Attn: Corporate Controller

4. By execution hereof the parties hereto covenant and warrant, except as herein amended and as amended by the Consent to Assignment of Sublease, the Sublease remains unchanged and is in full force and effect in accordance with the terms and provisions contained therein.

In addition, by execution hereof Assignor hereby represents and warrants to each of Assignee and Sublessor that the Collateral Assignment has been released, satisfied and terminated by BOA on or before the date hereof, and that Assignor has the full right and authority to enter into and consummate this Assignment without notice to, or the consent or approval of, BOA. As a condition precedent to the effectiveness of the release of Assignor from future obligations accruing after the date of this Assignment, Assignor agrees to provide to Assignee and Sublessor a copy of the executed written instrument of release, satisfaction or termination of the Collateral Assignment by BOA in recordable form.

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IN WITNESS WHEREOF, the parties hereto have hereunto set their hands and seals as of the day and year first above written.

Assignor :

Horizon Medical Products, Inc.
By: /s/ William E. Peterson, Jr.

Its: President

Assignee:

Vascutech Acquisition LLC
By: /s/ David B. Roberts

Its: Chief Financial Officer

Sublessor:

IDEAS for Medicine, Inc.
By: /s/ D.A. Lee

Its: VP Finance and CFO

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Guarantee of Payment and Performance

In consideration of the Sublessor's consent to this Assignment of Sublease to Assignee, the undersigned VASCUTECH, INC., a corporation organized and existing under the laws of Delaware and the 100% parent of Assignee (the "Guarantor"), hereby unconditionally guarantees to Sublessor that Assignee will duly and punctually pay or perform all obligations under the Sublease (the "Guaranteed Obligations"). This Guaranty is an absolute, unconditional and continuing guaranty of the full and punctual payment and performance by Assignee of the Guaranteed Obligations and not of their collectibility only and is in no way conditioned upon any requirement that Sublessor first attempt to collect any of the Guaranteed Obligations from Assignee or resort to any security or other means of obtaining payment of any of the Guaranteed Obligations.

The Guarantor further agrees, as the principal obligor and not as a guarantor only, to pay to Sublessor forthwith upon demand, in funds immediately

available to Sublessor, all reasonable costs and expenses (including court costs and legal expenses) incurred or expended by Sublessor in connection with this Guarantee and the enforcement thereof.

VASCUTECH, INC.

By: /s/ David B. Roberts
Name: David B. Roberts
Title: CFO

1358827v1

SECURITY AGREEMENT

THIS SECURITY AGREEMENT ("Agreement") is made as of the 30th day of March, 2001, by VASCUTECH ACQUISITION LLC, a Delaware limited liability company ("Vascutech") in favor of IDEAS FOR MEDICINE, INC., a Florida corporation (together with its successors, assigns and transferees, "IFM").

PRELIMINARY STATEMENT

This Agreement is made to secure all of the following (individually and collectively the, "Indebtedness"):

Payment of the principal balance, together with interest, costs and all other sums, to be paid according to that certain Subordinated Promissory Note dated October 9, 2000, originally made by Horizon Medical Products, Inc. ("Horizon") in favor of IFM and assigned by Horizon to Vascutech pursuant to that certain Assignment and Assumption Agreement dated as of even date herewith among Horizon, IFM and Vascutech, together with any and all extensions, renewals, modifications, amendments, restatements, substitutions or replacements thereof (the "Note"); and the performance of the covenants and obligations of Vascutech due or to become due to IFM under this Agreement and/or under any and all other documents and instruments evidencing and/or securing payment of all amounts due under the Note (collectively, the "Loan Documents"), and the repayment of all costs, expenses, advances and other sums incurred and/or expended by IFM in connection with performance of those covenants and obligations.

In consideration of the above facts and the mutual promises of the parties, and as security for the purposes stated above and elsewhere in this Agreement, the parties agree as follows:

1. Grant of Security Interest. Vascutech hereby grants IFM a security interest in the following described property (collectively, the "Collateral"):

(i) presently existing and hereafter arising accounts, contract rights, and all other forms of obligations owing to Vascutech arising out of the sale or lease of goods or the rendition of services by Vascutech, whether or not earned by performance, and any and all credit insurance, guaranties, and other security therefor, as well as all merchandise returned to or reclaimed by Vascutech relating to any of the foregoing (collectively, "Accounts");

(ii) present and future general intangibles and other personal property (including choses or things in action, goodwill, blueprints, drawings, purchase orders, customer lists, monies due or recoverable from pension funds, route lists, monies due under any royalty or licensing agreements, infringement claims, computer programs, computer discs, computer tapes, literature, reports, catalogs deposit accounts, insurance premium rebates, tax refunds, and tax refund claims) other than (A) goods and Accounts relating to any of the foregoing, or (B) patents, trade names, trademarks, servicemarks, or copyrights (collectively, "General Intangibles");

(iii) present and future letters of credit, notes, drafts, instruments, certificated and uncertificated securities, documents, leases, and chattel paper relating to any of the foregoing (collectively, "Negotiable Collateral");

(iv) present and future inventory in which Vascutech has any interest including goods held for sale or lease or to be furnished under a contract of service and all of Vascutech's present and future raw materials, work in process, finished goods, and packing and shipping materials, wherever located, and any documents of title representing any of the above, relating to any of the foregoing (collectively, "Inventory");

(v) present and hereafter acquired machinery, machine tools, motors, equipment, furniture, furnishings, fixtures, vehicles (including motor vehicles and trailers), tools, parts, dies, goods (other than consumer

goods or farm products), and any interest in any of the foregoing, and all attachments, accessories, accessions, additions, and improvements to any of the foregoing, wherever located (collectively, "Equipment");

(vi) substitutions, replacements, additions, accessions, proceeds, products to or of any of the foregoing (other than substitutions or replacements of Equipment after the date hereof), including, but not limited to, proceeds of insurance covering any of the foregoing, or any portion thereof, and any and all Accounts, General Intangibles, Negotiable Collateral, Inventory, Equipment, money, deposits, accounts, or other tangible or intangible property resulting from the sale or other disposition of the Accounts, General Intangibles, Negotiable Collateral, Inventory, Equipment, or any portion thereof or interest therein and the proceeds thereof.

Notwithstanding anything to the contrary contained herein, Vascutech's grant of a security interest is only as to (i) the Accounts, Negotiable Collateral, Inventory, and Equipment acquired pursuant to that certain Asset Purchase Agreement between Vascutech and Horizon Medical Products, Inc. of even date herewith and (ii) substitutions, replacements, additions, accessions, proceeds, products to or of any of the foregoing (other than substitutions or replacements of Equipment after the date hereof) (the "Pledged Assets"). It is understood and agreed by the parties hereto that IFM's security interest shall not attach to any property of Vascutech other than the Pledged Assets, nor any of the assets of Vascutech's 100% parent, Vascutech, Inc.

2. WARRANTIES AND REPRESENTATIONS. Vascutech warrants and covenants to IFM as follows:

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(a) Payment of Indebtedness. Vascutech will pay the Indebtedness and perform all obligations related to the Indebtedness when due, whether by maturity, acceleration or otherwise.

(b) Authority. This Agreement is the valid and binding obligation of Vascutech, enforceable in accordance with its terms except as limited by creditors' rights and equity. Vascutech is organized and validly existing and in good standing under the laws of the State of Delaware, and the execution, delivery and performance of this Agreement has been duly authorized by all necessary action of Vascutech's board of directors, and will not violate Vascutech's governing instruments or other material agreements.

(c) Name, Address; Location of Collateral. Vascutech's name and address and the location of the Collateral are accurately set forth on the signature page of this Agreement.

(d) Title to Collateral. Vascutech has good and marketable title to the Collateral. Vascutech will keep the Collateral free of all other liens, encumbrances and security interests and will defend title to the Collateral against all claims and demands of all persons at any time claiming any interest in the Collateral except for the security interest associated with (i) the indebtedness of Vascutech to Brown Brothers Harriman ("BBH") as set forth, and subject to the limitations, in that certain Subordination Agreement dated as of even date herewith, by and between BBH and IFM ("Subordination Agreement"), and any future subordination agreements entered into in connection therewith and (ii) any ordinary course equipment leases or purchase money security interests (collectively, the "Security Interest").

(e) Priority of Security Interest. The execution and delivery of this Agreement creates a valid security interest in the Collateral, and upon the filing of a UCC-1 financing statement with (i) the Secretary of State of the Commonwealth of Massachusetts and the Burlington Clerk's office and (ii) the Secretary of State of the State of Florida, IFM will have a perfected second security interest in the Collateral, subject to no other lien, encumbrance or security interest except for the Security Interest to the extent one can perfect by filing a financing statement under Article 9 of the UCC and except for rights of the landlord under the Sublease or Florida law.

(f) Financing Statements. Vascutech will execute financing statement(s) in form acceptable to IFM and will pay the cost of filing financing statement(s) in all public offices wherever filing is deemed reasonably

necessary by IFM. A carbon, photographic or other reproduction of this Agreement shall be sufficient as a financing statement under the UCC and may be filed by IFM in any filing office.

(g) Payment of Taxes and Insurance Premiums. Vascutech shall pay when due and before any interest, collection fees or penalties accrue, all taxes, expenses, assessments, liens or other charges (collectively, "Taxes") which may now or hereafter be levied or assessed against the Collateral unless Vascutech is contesting such Taxes in good faith and has maintained adequate reserves with respect to the payment thereof Vascutech shall also obtain and pay for insurance for the Collateral in an amount consistent with industry standards and/or reasonably acceptable to IFM. Vascutech shall furnish proof of payment of taxes or insurance upon request of IFM.

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(h) Maintenance of Collateral. Vascutech will maintain the Equipment in good condition and repair, ordinary wear and tear excepted. Vascutech will promptly inform IFM of any material loss or material diminution in value of the Collateral.

3. PROHIBITION ON TRANSFER OR MODIFICATION. Vascutech shall not transfer, sell, assign, lease or modify the Collateral or any interest therein, any part thereof, without the prior written consent of IFM except in the ordinary course of Vascutech's business and on customary terms and at usual prices.

4. PROHIBITION ON CHANGE OF NAME, ORGANIZATION OR LOCATION. Except as set forth at the end of this Section 4, Vascutech shall not assume a different name, conduct its business at any location other than as appears in this Agreement, nor change the location of any of the Collateral without, in each instance, obtaining the prior written consent of IFM thirty (30) days prior to any such event. Vascutech agrees to execute any amendments to financing statement(s) required in connection with this Section 4 in form acceptable to IFM, and will pay the filing fees and costs actually incurred by IFM in connection with any such amendments. The address of the head office of Vascutech is expected to be changed in April, 2001 to 26 Ray Avenue, Burlington, MA 01803, however, neither the location of the Collateral nor the name of Vascutech will change.

5. EXAMINATION OF RECORDS AND COLLATERAL. Vascutech shall keep full and accurate records related to the Collateral, and such records shall be open to inspection and duplication by IFM at all reasonable times upon reasonable prior notice. Upon reasonable notice to Vascutech and at reasonable times, IFM may enter upon any property owned by or in the possession of Vascutech to examine and inspect the Collateral. Vascutech shall provide IFM as soon as practicable with any information concerning the Collateral as IFM may reasonably request at any time.

6. REIMBURSEMENT OF EXPENSES. Vascutech shall reimburse IFM for all reasonable costs and expenses, including reasonable attorneys' fees, actually incurred by IFM in enforcing the rights of IFM under this Agreement except for inspection of records. All costs, expenses and fees of any nature for which Vascutech is obligated to reimburse or indemnify IFM are part of the Indebtedness secured by this Agreement and are payable upon demand, unless expressly provided otherwise, with interest until repaid at the highest rate charged on any of the Indebtedness (but not to exceed the maximum rate permitted by law).

7. RIGHTS AND OBLIGATIONS OF IFM. In the event that Vascutech fails to pay taxes, maintain insurance or perform any other obligation arising under this Agreement, IFM may pay or perform such obligation(s) for the account of Vascutech and the same shall be added to the Indebtedness and shall be immediately due and payable together with interest at the highest rate charged by IFM on any of the Indebtedness (but not to exceed the maximum rate permitted by law). IFM shall not be liable for any loss to the Collateral nor shall such loss reduce the balance due.

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8. INDEMNIFICATION. Vascutech shall indemnify and save IFM harmless from all claims, obligations, costs, expenses, including attorneys' fees, and causes of action or other rights asserted against IFM and relating to breach of this Agreement by Vascutech.

9. EVENTS OF DEFAULT AND REMEDIES.

(a) Events of Default. Any of the following events shall, for purposes of this Agreement, constitute an "Event of Default":

(i) Failure by Vascutech to pay any amount owing on or with respect to the Indebtedness when due, whether by maturity, acceleration or otherwise, which failure continues for ten (10) days after Vascutech receives written notice from IFM of such failure.

(ii) Any failure by Vascutech to comply with, or breach by Vascutech of, any of the non-monetary terms, provisions, warranties or covenants of the Note, this Agreement or the other Loan Documents, or the representations and warranties of Vascutech to IFM contained in that certain Assignment and Assumption Agreement of even date herewith among Horizon, Vascutech, IFM and (for the limited purpose of Paragraph D thereof only) Vascutech, Inc., which failure continues for thirty (30) days after the receipt by Vascutech (or any guarantor of the Note (a "Guarantor")) of written notice from IFM of such failure.

(iii) The insolvency of Vascutech (or any Guarantor) or the admission in writing of Vascutech's or any Guarantor's inability to pay debts as they mature.

(iv) Institution of bankruptcy, reorganization, insolvency or other similar proceedings by or against Vascutech or any Guarantor, unless the same is dismissed within sixty (60) days of filing.

(v) The issuance or filing of any judgment, attachment, levy or garnishment against the Collateral in which the amount of such judgment, attachment, levy, garnishment or the amount in controversy in any such related proceeding exceeds \$250,000, which such judgment, attachment, levy or garnishment shall continue undischarged or unstayed for 30 days.

(vi) Termination of Vascutech's existence by dissolution, merger or consolidation in which Vascutech is not the surviving entity, or otherwise.

(vii) The default by Vascutech (after giving of any required notice and expiration of any applicable cure period) under Section 11.1(a) of the Sublease Agreement by and between IFM and Vascutech (as successor interest to Horizon Medical Products, Inc.), dated as of October 9, 2000.

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(b) Remedies Upon Event of Default. Upon the occurrence of any Event of Default, IFM shall have the following rights:

(i) Declare all or part of the Indebtedness immediately due and payable.

(ii) Vascutech agrees, upon request of IFM, to assemble the Collateral and make it available to IFM at any place which is reasonably convenient for Vascutech and IFM. Vascutech grants IFM permission to enter upon any premises owned or occupied by Vascutech for the purpose of taking possession of the Collateral.

(iii) Subject to the rights of BBH under the Subordination Agreement, IFM shall have the right to take possession of the Collateral, with or without demand, and with or without process of law. Subject to the rights of BBH under the Subordination Agreement, IFM shall have the right to sell and dispose of the Collateral and to distribute the proceeds according to law. In connection with the right of IFM to take possession of the Collateral, IFM may take possession of any other items of property in or on the Collateral at the time of taking possession, and hold them for Vascutech without liability on the part of IFM. If there is any statutory requirement for notice, that requirement shall be met if IFM shall send notice to Vascutech at least ten (10) days prior to the date of sale, disposition or other event giving rise to the required notice. Vascutech shall be liable for any deficiency remaining after disposition of the Collateral.

(iv) IFM shall also have any one or more of the rights and remedies

under the UCC or at law or equity to enforce the payment of the Indebtedness.

(c) Remedies Generally.

(i) All remedies provided for in Section 9(b) shall be available to the extent not prohibited by law. Each remedy shall be cumulative and additional to any other remedy of IFM at law, in equity or by statute. No delay or omission to exercise any right or power accruing upon any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of, or acquiescence in any such default or Event of Default.

(ii) IFM may waive any Event of Default and may rescind any declaration of maturity of payments on the Indebtedness. In case of such waiver or rescission Vascutech and IFM shall be restored to their respective former positions and rights under this Agreement. Any waiver by IFM of any default or Event of Default shall be in writing and shall be limited to the particular default waived and shall not be deemed to waive any other default.

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(d) Application of Proceeds. Any proceeds received by IFM from the exercise of remedies pursuant to Section 9(b) of this Agreement shall be applied as follows:

(i) First, to pay all costs and expenses incidental to the leasing foreclosure, sale or other disposition of the Collateral. These costs and expenses shall include, without limit, any costs and expenses incurred by IFM (including, without limit, attorneys' fees and disbursements actually incurred), and any taxes and assessments or other liens and encumbrances prior to the lien of this Agreement.

(ii) Second, to all sums expended or incurred by IFM, directly or indirectly in carrying out any term, covenant or agreement under this Agreement or any related document, together with interest as provided in this Agreement.

(iii) Third, to the payment of the Indebtedness. If the proceeds are insufficient to fully pay the Indebtedness, then application shall be made first to late charges and interest accrued and unpaid, then to any applicable prepayment premiums, and then to unpaid fees and other charges, then to the outstanding principal balance.

(iv) Fourth, any surplus remaining shall be paid to Vascutech or to whomsoever may be lawfully entitled.

(e) Further Actions. Promptly upon the reasonable request of IFM, Vascutech shall execute, acknowledge and deliver any and all further documents, security agreements, financing statements and assurances, and do or cause to be done all further acts as IFM may reasonably require to confirm and protect the lien of this Agreement or otherwise to accomplish the purposes of this Agreement.

(f) Attorneys Fees. Any reference in this Agreement to attorneys' fees shall refer to reasonable fees, charges, costs and expenses of outside attorneys and paralegals actually incurred, whether or not a suit or proceeding is instituted, and whether incurred at the trial court level, on appeal, in a bankruptcy, administrative or probate proceeding, in consultation with counsel, or otherwise.

10. TERMINATION OF FINANCING STATEMENTS. IFM shall execute and deliver to Vascutech, within ten (10) business days after the written request of Vascutech, UCC termination statements with respect to the Collateral secured hereunder, provided that (a) Vascutech shall not be in default under any of the terms, covenants or conditions of any document or instrument evidencing or securing the Indebtedness; (b) the outstanding principal balance of the Note, together with interest, premiums, costs and all other sums on that amount, shall be paid in full; and (c) all termination statements shall be prepared by IFM at Vascutech's expense. Upon the filing of such termination statements in accordance with the applicable provisions of the UCC, this Agreement shall be terminated.

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11. MISCELLANEOUS.

(a) Governing Law. This Agreement shall be construed according to the laws of the State of New York.

(b) Successors and Assigns. This Agreement shall be binding upon the successors and assigns of Vascutech including, without limit, any trustee in possession or trustee in bankruptcy for Vascutech, and the rights and privileges of IFM under this Agreement shall inure to the benefit of its successors and assigns. This shall not be deemed a consent by IFM to a conveyance by Vascutech of all or any part of the Collateral or of any ownership interest in Vascutech.

(c) Notices. Notice from one party to another relating to this Agreement shall be made pursuant to the Note.

(d) Entire Agreements; Amendments. This Agreement and the Subordination Agreement state all rights and obligations of the parties and supersede all other agreements (oral or written) with respect to the security interests granted by this Agreement. Any amendment of this Agreement shall be in writing and shall require the signature of Vascutech and IFM.

(e) Partial Invalidity. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of the remaining provisions of this Agreement.

(f) Inspections. Any inspection, audit, appraisal or examination by IFM or its agents of the Collateral or of information or documents pertaining to the Collateral is for the sole purpose of protecting IFM's interest under this Agreement and is not for the benefit or protection of Vascutech or any third party.

(g) Automatic Reinstatement. Notwithstanding any prior revocation, termination, surrender or discharge of this Agreement, the effectiveness of this Agreement shall automatically continue or be reinstated, as the case may be, in the event that:

(i) Any payment received or credit given by IFM in respect of the Indebtedness is determined to be a preference, impermissible setoff, fraudulent conveyance, diversion of trust funds, or otherwise required to be returned to Vascutech or any third party under any applicable state or federal law, including, without limit, laws pertaining to bankruptcy or insolvency, in which case this Agreement shall be enforceable as if any such payment or credit had not been received or given, whether or not IFM relied upon this payment or credit or changed its position as a consequence of it.

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(ii) In the event of continuation or reinstatement of this Agreement, Vascutech agrees upon demand by IFM to execute and deliver to IFM those documents which IFM determines are appropriate to further evidence (in the public records or otherwise) this continuation or reinstatement, although the failure of Vascutech to do so shall not affect in any way the reinstatement or continuation. If Vascutech does not execute and deliver to IFM such documents upon demand, IFM and each officer of IFM is irrevocably appointed (which appointment is coupled with an interest) the true and lawful attorney of Vascutech (with full power of substitution) to execute and deliver such documents in the name and on behalf of Vascutech.

(h) Assignment. This Agreement is freely assignable, in whole or in part, by IFM. IFM agrees, however, that it shall give prompt written notice of any such assignment to Vascutech. IFM shall be fully discharged from all responsibility accruing hereunder from and after the effective date of any such assignment. IFM's assignee shall, to the extent of the assignment, be vested with all the powers and rights of IFM hereunder (including those granted under Section 10 hereof or otherwise with respect to the Collateral), and to the extent of such assignment the assignee may fully enforce such rights and powers and all references to IFM shall mean and refer to such assignee. IFM shall retain all rights and powers hereby given not so assigned, transferred and/or delivered. Vascutech hereby waives all defenses which Vascutech may be entitled to assert against IFM's assignee with respect to liability accruing hereunder prior to the effective date of any assignment of IFM's interest herein. Vascutech may not, in whole or in part, directly or indirectly, assign this

Agreement or its rights hereunder or delegate its duties hereunder without, in each instance, the prior written consent of IFM.

[THE NEXT PAGE IS THE SIGNATURE PAGE]

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Vascutech has executed this Agreement on the day and year first above written.

VASCUTECH:

VASCUTECH ACQUISITION CORP.

By: /s/ David B. Roberts

Its: Chief Financial Officer

Collateral

Vascutech's principal place of business is located in the County of Middlesex, Commonwealth of Massachusetts.

Collateral is located at: 3101 37th Avenue North, St. Petersburg, Florida.

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